AgSouth Farm Credit, ACA

FIRST QUARTER 2021

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2021 quarterly report of AgSouth Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Pat Calhoun
Chief Executive Officer

Bo Fennell
Chief Financial Officer

Hugh E. Weathers
Chairman of the Board

May 7, 2021

AgSouth Farm Credit, ACA

Report on Internal Control Over Financial Reporting

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

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2021. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of March 31, 2021, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2021.

Pat Calhoun
Chief Executive Officer

Bo Fennell
Chief Financial Officer

May 7, 2021

AgSouth Farm Credit, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of AgSouth Farm Credit, ACA (Association) for the period ended March 31, 2021. This information should be read in conjunction with the accompanying financial statements, notes to the financial statements, and the 2020 Annual Report of AgSouth Farm Credit, ACA. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

FORWARD LOOKING INFORMATION

This quarterly report contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

COVID-19 OVERVIEW

In response to the COVID-19 pandemic, and without disruption to operations, the Association transitioned the vast majority of its employees to working remotely in mid-March 2020. The priority was, and continues to be, to ensure the health and safety of employees, while continuing to serve the mission of providing support for rural America and agriculture. The Association is in the process of returning to pre-pandemic working conditions with some staff continuing to work remotely and continue to allow customer branch visits by appointment only.

During the first quarter of 2021, significant progress has been made in the fight against COVID-19 with the distribution of vaccines. However, it remains unclear how quickly the vaccines will be distributed nationwide and globally or when the restrictions that were imposed to slow the spread of the pandemic will be lifted entirely. In this regard, the Association will adjust its business continuity plan to maintain the most effective and efficient business operations while safeguarding the health and safety of employees. In addition, the Association continues to work with borrowers to offer appropriate solutions to meet their operating and liquidity needs.

See further discussion of business risks associated with COVID-19 in the Annual Report.

COVID-19 Support Programs

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

On March 11, 2021, Congress passed the $1.9 trillion American Rescue Plan Act of 2021 that provided an additional $1.9 trillion of economic stimulus. Among other provisions is $10.4 billion for agriculture and USDA, including $4 billion and $1 billion for debt forgiveness and outreach/support, respectively, for socially disadvantaged farmers.

The previously enacted Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was amended by subsequent legislation, included the Paycheck Protection Program (PPP). The PPP provides support to small businesses to cover payroll and certain other expenses. Loans made under the PPP are fully guaranteed by the Small Business Administration (SBA), whose guarantee is backed by the full faith and credit of the United States. As of March 31, 2021, the Association has sold or has the intent to sell 100 percent of PPP loans made to AgFirst Farm Credit Bank.

For a detailed discussion of programs enacted in 2020, see pages 6 and 7 of the 2020 Annual Report.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a wide range of agricultural commodities produced in our region, including timber, poultry (broilers, turkeys and eggs), sod, nursery and horticulture, cotton, feed grains, soybeans and hay, beef cattle, horses, peanuts, blueberries, fruits, and nuts. Loans to producers of these commodities total $1,649,162 or 85.91 percent of the Association's portfolio. Farm size varies, and many of the Association's customers have diversified farming operations. These factors, along with the numerous opportunities for non-farm income in the area, reduce to some degree the level of income dependency on any given commodity.

AGRICULTURE OVERVIEW

The first quarter of 2021 ended with heightened hope for a return to normal. After dealing with the COVID pandemic for most of 2020, there appears to be signs that a transition to a less COVID restricted economy has begun. A combination of economic stimulus programs, COVID vaccination campaigns and the Federal Reserve's stance on monetary policy is expected to be a catalyst to increased economic activity. According to The Conference Board, global consumer confidence soared to record heights in the first quarter of 2021.

In its news release dated April 16, 2021, the US Bureau of Labor Statistics shows the unemployment rate in the US was at 6.0 percent in March 2021. Georgia's unemployment rate for March 2021 was at 4.5 percent, while South Carolina's unemployment rate was at 5.1 percent.

NASS released its *2021 Prospective Plantings Report* on March 31, 2021. The US soybean crop is estimated to be 88 million acres, up 5 percent from last year. The US corn crop is estimated to be 91 million acres, up less than one percent from 2020. The US cotton crop is estimated to be 12 million acres, down less than one percent from last year. The US peanut crop is estimated to be 2 million acres, down 2 percent from 2020. Tobacco comes in at 196 thousand acres, a one percent decline from 2020.

For Georgia, corn planted is estimated at 480,000 acres, up 14 percent from 2020. If realized, this will be the largest corn acreage for Georgia since 2013. For South Carolina, corn planted is estimated at 390,000 acres, down 2 percent from prior year. Both Georgia and South Carolina indicate increased planting intentions for soybeans. Planted acres projected for cotton in 2021 indicates a one percent increase to 1 million acres for Georgia and no change for South Carolina at 190,000 acres as compared to the prior year. The peanut crop in Georgia is projected at 790,000 acres, a 2 percent decrease from the prior year. In South Carolina, the peanut crop is estimated to be 65,000 acres, down 24 percent from 2020.

As reported in the NASS *Crop Progress and Condition Report*, for week ending April 4, 2021, Georgia's planted acres for corn was 49 percent complete, while South Carolina was 27 percent complete. Other primary row crops have yet to be planted as of that date; however, producers are busy preparing fields as conditions allow. The Vidalia Onion harvest season is fast approaching with the official pack date being set for April 19, 2021. The NASS report indicates 77 percent of the crop to be good to excellent and 27 percent rated fair. Blueberry harvest in Georgia is set to begin in early May with NASS reporting 84 percent of the crop rated good to excellent and 15 percent rated fair. NASS reports the peach crop in Georgia at 88 percent good to excellent. For South Carolina, the peach crop is rated 75 percent good to excellent.

The NASS report indicates cattle condition in Georgia is rated 74 percent good to excellent with 22 percent rated fair. South Carolina cattle conditions are rated 76 percent good to excellent with 21 percent rated fair. For the week ending April 4, 2021, pasture conditions were mostly rated good to excellent, with 30 percent rated fair for Georgia and 35 percent rated fair for South Carolina.

The NASS *Cattle Inventory Report*, released January 29, 2021, showed all cattle and calves in the United States, as of January 1, 2021, totaled 93.6 million head, which is down slightly from the 93.8 million head a year ago. Georgia herd inventories were down 2 percent from a year ago while South Carolina was down 6 percent from 2020.

On February 23, 2021, NASS released the *Milk Production Report* for January 2021. US milk production in the 24 major states during January totaled 18 billion pounds, up 2 percent from January 2020. Total number of milk cows in the 24 major states was 9 million, 92,000 more than January 2020, and 6,000 more than December 2020. Licensed dairy herds in Georgia totaled 130 at the end of 2020, a 7 percent decrease from 2019 at 140. South Carolina's dairy herd ended at 35 for 2020, a 22 percent drop from year end 2019 at 45.

Domestic broiler growers placed 188 million chicks for meat production during the week ending March 27, 2021, down 2 percent from the comparable week a year earlier. Total placements from the week ending January 9, 2021 through March 27, 2021 for the US were 2 billion, again down 2 percent for the same period a year earlier. For the week ending March 27, 2021, Georgia broiler chicks placed were at 27 million and South Carolina chick placements were at 5 million.

According to the *Quarterly Market Bulletin - 1st Quarter 2021* by TimberMart-South, timber prices increased in the first Quarter of 2021. Steady demand with wet weather affecting supply drove prices up. Stumpage prices across the South increased in four of the five major products categories. Hardwood sawtimber was down quarter over quarter. This price movement was in line with the seasonal trend in the first quarter of the year. According to the US Census, US housing starts year to date through February 2021 totaled 212,000 units,

down 13,000 units compared to the same period in 2020. The US Census reported residential remodeling activity totaled $33 billion through February 2021, up 21 percent over the same time period in 2020.

ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of March 31, 2021 was $1,919,654, a decrease of $1,968 or less than one percent compared to $1,921,622 at December 31, 2020. Net loans outstanding at March 31, 2021 were $1,902,304 as compared to $1,904,265 at December 31, 2020. Net loans accounted for 96.27 percent of total assets at March 31, 2021, as compared to 94.84 percent of total assets at December 31, 2020.

The decrease in gross loan volume during the reporting period is attributed to payments and payoffs on operating lines of credit and term loans. Advances on most operating lines are now being processed and growth in the portfolio is anticipated in the second quarter of 2021. Competition for good quality loans remains strong from some commercial banks, but the Association has remained competitive in a difficult rate environment.

The Association typically structures loans to meet the needs of the borrower. Many term loans are made for ten years or less allowing the borrower to build equity faster and thus reducing the risk in the loan portfolio.

At December 31, 2020 the Association held Investments in debt securities totaling $3,950. These investments are Rural America Bonds made under the authority for Mission Related Investments granted by the Farm Credit Administration (FCA). At March 31, 2021 Investments in debt securities totaled $3,902, a decrease of $48 from December 31, 2020. The 1.22 percent decrease is from payments received in 2021.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality is at an acceptable level and credit administration remains satisfactory. Nonaccrual loans decreased from $15,280 at December 31, 2020 to $14,107 at March 31, 2021. The balance of nonaccrual loans is decreased by liquidations, loans returning to accrual status, or transfer of assets to other property owned offset by transfers to nonaccrual status. Association staff is working diligently to work out all nonaccrual debt situations.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2021 was $17,350 compared to $17,357 at December 31, 2020 and was considered by management to be adequate to cover possible losses. Although management has not recognized any direct decline in credit quality, an adjustment to the qualitative factors seemed prudent given the financial climate. The reserve set aside for unfunded commitments is $750 which is an increase of $7 compared to the total at December 31, 2020 of $743. The reserve for unfunded commitments is included in Other liabilities. The Asset/Liability Committee (ALCO) of the Association, which is comprised of members of executive management and staff assigned to special assets management, met in March 2021 to review the allowance account. The ALCO determines the composition between the allowance for loan losses on the outstanding portfolio and the reserve required for unfunded commitments. The ALCO considered the general economic conditions, the potential for deterioration in the existing portfolio, the loan growth in the portfolio, and the amount of outstanding loan commitments in determining the level of allowance.

As of the end of the first quarter of 2021, the Association had originated $68,620 in loans for the secondary market. Originations for the same period 2020 were $50,293. The 36.44 percent increase is due to increased volume as the market continues to remain strong for both refinancing and new home purchases given the declining rate environment. As of March 31, 2021 the Association held $2,749 in qualifying Loans held for sale. At December 31, 2020 loans held for sale totaled $3,274.

Accrued interest receivable decreased $1,568 or 9.38 percent from $16,711 as of December 31, 2020 to $15,143 as of March 31, 2021. The decrease is related to the lower loan volume balance at March 31, 2021 compared to December 31, 2020.

Equity investments in other Farm Credit institutions increased from $22,469 at December 31, 2020 to $22,560 at March 31, 2021. The increase of $91, or less than one percent, is the result of a slightly higher balance of investment in other Farm Credit institutions, which varies based on participations sold on a patronage basis.

Premises and equipment, net increased $304 from $21,309 at December 31, 2020 to $21,613 at March 31, 2021. The primary reasons for the increase of 1.43 percent is the result of the purchase of computer equipment to accommodate remote work and the purchase of Association vehicles.

Other property owned increased to $1,245 at March 31, 2021 from $1,170 at December 31, 2020. The increase of $75 or 6.41 percent in Other property owned is the result of the acquisition of Other property owned exceeding sales and write-downs of existing Other property owned during the reporting period.

Accounts receivable decreased $28,604 from $32,421 at December 31, 2020 to $3,817 at March 31, 2021. The decrease is the result of the patronage distribution receivable at December 31, 2020 from AgFirst and other Farm Credit institutions, which totaled $14,227 in regular distribution and $17,505 in a special distribution. As of March 31, 2021 this line item included one quarter of patronage accrual from AgFirst and other Farm Credit institutions totaling $3,325.

Other assets increased from $2,129 at December 31, 2020 to $2,528 at March 31, 2021. The majority of other assets is made up of prepaid retirement expense which totaled $1,282 as of March 31, 2021.

On the liability side of the balance sheet, Notes payable to AgFirst Farm Credit Bank decreased from $1,538,795 at December 31, 2020 to $1,498,893 at March 31, 2021. The $39,902 or 2.59 percent decrease is tied to the decrease in loans outstanding.

Accrued interest payable decreased $148, or 4.40 percent, from $3,363 at December 31, 2020 to $3,215 at March 31, 2021. The decrease is tied to the decrease in the direct note rate on the notes payable balance outstanding.

Patronage refunds payable decreased $11,357 from $12,501 at December 31, 2020 to $1,144 at March 31, 2021. The decrease is the result of the cash portion of the 2020 Patronage distribution on the Association's records at December 31, 2020 moving from Patronage refund payable to Other liabilities. This amount totaled $12,000 at December 31, 2020. At March 31, 2021 no patronage distribution for 2021 has been declared.

Accounts payable decreased $799 from $1,873 at December 31, 2020 to $1,074 at March 31, 2021. The 42.66 percent decrease is due to the payable established to pay the insurance premiums on loans to the Farm Credit System Insurance Corporation (FCSIC). At December 31, 2020 the payable related to the FCSIC totaled $1,306, and at March 31, 2021 the payable was $548.

Other liabilities increased $26,441 from $14,798 at December 31, 2020 to $41,239 at March 31, 2021. The 178.68 percent increase is due to a payable established for the 2015 Allocated Surplus distribution and the cash portion for the 2020 Patronage distribution. These liabilities will decrease as checks are presented for payment at the commercial bank.

Capital stock and participation certificates increased from $10,626 at December 31, 2020 to $10,743 at March 31, 2021. The increase of $117 or 1.10 percent is due to new borrowers purchasing stock during the reporting period in excess of liquidations of stock when loans pay out.

Allocated surplus decreased from $139,757 at December 31, 2020 to $121,139 at March 31, 2021. This is a decrease of $18,618 or 13.32 percent. The reduction is from the decision made by the Board of Directors to revolve the 2015 series of Allocated Surplus in January 2021. This revolvement totaled $18,351. The checks and notices for this revolvement were generated and mailed in February 2021.

Unallocated surplus increased $12,355 or 4.31 percent from the December 31, 2020 balance of $286,811. The balance of $299,166 at March 31, 2021 includes the retention of a portion of 2020 fiscal year end earnings and earnings year to date in 2021.

Accumulated other comprehensive loss decreased $6 or less than one percent from the December 31, 2020 balance of $693. At March 31, 2021 there was a balance of $687.

RESULTS OF OPERATIONS

For the three months ended March 31, 2021

Net income for the three months ended March 31, 2021 totaled $12,105 as compared to $11,038 for the same period in 2020. This is an increase of $1,067 or 9.67 percent. Comprehensive income for the three months ended March 31, 2021 was $12,111 compared to $11,042 for the same period in 2020. Employee benefit plans adjustments are responsible for the difference between comprehensive income and net income. The following commentary explains the variance.

At March 31, 2021 interest income on loans decreased $872 from $27,038 at March 31, 2020 to $26,166 at March 31, 2021. This decrease of 3.23 percent is primarily due a decrease in portfolio loan yield between the two reporting periods.

For the three months ended March 31, 2021 interest income on investments totaled $67 compared to $83 for the three months ended March 31, 2020. Investment income declined $16 or 19.28 percent due to the lower outstanding balance of investments between the two reporting periods.

Interest expense for the three months ended March 31, 2021 decreased $1,883 from $11,387 at March 31, 2020 to $9,504 at March 31, 2021. The variance of 16.54 percent is tied to the weighted average direct note rate between the two reporting periods.

Net interest income before the reversal of allowance for loan loss increased $995 for the three months ended March 31, 2021 as compared to the same period in 2020. The increase is due primarily to the lower interest expense between the two reporting periods.

Net interest income after the reversal of allowance for loan losses increased $1,313 during the quarter ending March 31, 2021 compared to March 31, 2020. A net reversal of allowance for loan losses of $62 was made in the quarter ending March 31, 2021. The reversal of allowance entry represents an adjustment between the general provision and the unfunded commitments provision which is booked to Other liabilities.

Noninterest income increased $835 over the same period last year. The commentary that follows will detail the aggregate difference.

Loan fees increased $606, or 55.49 percent, due to an increase in secondary mortgage market origination fee income and miscellaneous fee income earned during the quarter compared to the same period in 2020.

Fees for financially related services increased $177 from $370 at March 31, 2020 to $547 at March 31, 2021. The increase of 47.84 percent is due to the increase in crop insurance income and leasing income earned during the reporting period.

Patronage refunds from other Farm Credit institutions increased $43 from $3,442 at March 31, 2020 to $3,485 at March 31, 2021. The increase of 1.25 percent is related to an increase in loans sold to AgFirst and other Farm Credit Institutions. See *Note 2* for more information.

Gains on the sale of rural home loans increased $74 from $600 at March 31, 2020 compared to $674 at March 31, 2021. An increase in secondary mortgage market loans sold contributed to the increase in gains.

Gains on the sale of premises and equipment, net for the period ending March 31, 2021 totaled $0 compared to $22 for the period ending March 31, 2020. The Association did not have any sales of premises and equipment during the first quarter of 2021.

Gains on other transactions totaled $66 at March 31, 2021 compared to a Loss on other transactions of $227 at March 31, 2020. The difference of $293 or 129.07 percent is primarily related to the lower provision for unfunded commitments and the gain on Rabbi Trust compared to last year.

Insurance Fund refunds for the period ending March 31, 2021 totaled $0 compared to $339 for the period ending March 31, 2020. The FCSIC has not declared a refund to Farm Credit System Associations.

Other noninterest income was $62 during the three months ended March 31, 2021 compared to $59 for the three months ending March 31, 2020. The $3 or 5.08 percent increase is due to the recovery of income on nonaccrual accounts.

Noninterest expense for the three months ended March 31, 2021 totaled $11,220 and increased $1,083 or 10.68 percent when compared to $10,137 for the same period of 2020. Salaries and employee benefits expense is the largest portion of noninterest expense and totaled $8,440 for the three months ended March 31, 2021. Salaries and employee benefits increased $1,302 between the two reporting periods. There is an 18.24 percent variance between the two reporting periods due to the increase in secondary market mortgage commission paid tied to the increase in originations.

Occupancy and equipment expense at March 31, 2021 was $735 compared to $672 for the same period in 2020. This is an increase of $63 or 9.38 percent. The increase is tied to the purchase of computer peripherals to accommodate the work from home structure and an increase in property insurance for the quarter.

The Insurance Fund premiums at March 31, 2021 were $548 and at March 31, 2020 were $264. The $284 or 107.58 percent increase is due to the higher premium assessment rate in 2021. In the three months ending March 31, 2021 the Association experienced Gains on the sale of Other property owned in the amount of $31. During the same period of 2020, the Association booked Losses on the sale of Other property owned of $170. The gain is the result of properties sold during the first quarter.

Other operating expenses decreased $365 from $1,893 at March 31, 2020 compared to $1,528 at March 31, 2021. The decrease of 19.28 percent is primarily attributed to a decrease in marketing activities, travel, and training due to the restrictions of COVID-19.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2021 was $1,498,893 as compared to $1,538,795 at December 31, 2020. The $39,902 decrease, or 2.59 percent, is directly tied to the decrease in loan volume.

CAPITAL RESOURCES

Total members' equity at December 31, 2020 totaled $436,501. At March 31, 2021 total members' equity had decreased by $6,140 to $430,361. The decrease in total members' equity is due to the increase in Unallocated retained earnings offset by a decrease in Allocated retained earnings between the two reporting periods. At December 31, 2020 Allocated retained earnings totaled $139,757 compared to $121,139 at March 31, 2021. The decrease is due to the revolvement of the 2015 series of allocated surplus in the first quarter of 2021. At December 31, 2020 Unallocated retained earnings totaled $286,811 and increased to $299,166. The increase in Unallocated retained earnings is due to the decision to retain a portion of the 2020 earnings for capital purposes and year to date 2021 earnings.

Total Capital stock and participation certificates were $10,743 on March 31, 2021 compared to $10,626 on December 31, 2020. The increase is attributed to the purchase of new stock and participation certificates for new borrowing entities offset by the retirement of stock and participation certificates on loans liquidated in the normal course of business.

The Association's capital ratios are calculated in accordance with FCA regulations, as follows:

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

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

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

Ratio	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of March 31, 2021
Risk-adjusted ratios:		
CET1 Capital	7.00%	14.99%
Tier 1 Capital	8.50%	14.99%
Total Capital	10.50%	23.03%
Permanent Capital Ratio	7.00%	22.27%
Non-risk-adjusted:		
Tier 1 Leverage Ratio	5.0%	14.49%
UREE Leverage Ratio	1.5%	14.26%

REGULATORY MATTERS

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

Future of LIBOR

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

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

nonrepresentative as of either: (a) immediately after December 31, 2021 or (b) immediately after June 30, 2023.

The Association has exposure to LIBOR arising from loans made to customer and Systemwide Debt Securities that are issued by the Funding Corporation on the Bank's and Association's behalf. Alternative reference rates that replace LIBOR may not yield the same or similar economic results over the lives of the financial instruments, which could adversely affect the value of, and return on, instruments held. The LIBOR transition could result in paying higher interest rates on current LIBOR-indexed Systemwide Debt Securities, adversely affect the yield on, and fair value of, loans and investments held that reference LIBOR, and increase the costs of or affect the ability to effectively use derivative instruments to manage interest rate risk. In addition, there could be other ramifications including those that may arise as a result of the need to redeem or terminate such instruments.

The FCA has issued guidelines for System institutions to follow as they prepare for the expected phase-out of LIBOR. The guidelines direct each System institution to develop a LIBOR transition plan designed to provide an orderly roadmap of actions that will reduce LIBOR exposure over time. The FCA identified the following as important considerations in the development of each entity's transition plan:

- a governance structure to manage the transition;
- an assessment of exposures to LIBOR;
- an assessment of the fallback provisions in contracts and the impact of a LIBOR phase-out under those provisions;
- the establishment of strategies for reducing each type of LIBOR exposure;
- an assessment of the operational processes that need to be changed;
- a communication strategy for customers and shareholders;
- the establishment of a process to stay abreast of industry developments and best practices;
- the establishment of a process to ensure a coordinated approach, to the extent possible, across the District; and
- a timeframe and action steps for completing key objectives.

The Association has established and is in the process of implementing LIBOR transition plans, including implementing fallback language into variable-rate financial instruments which provides the ability to move these instruments to another index if the LIBOR market is no longer viable, and continues to analyze potential risks associated with the LIBOR transition, including, but not limited to, financial, market, accounting, operational, legal, tax, reputational, and compliance risks.

At this time, it is not known when LIBOR will cease to be available or will become unrepresentative, or which benchmark will replace LIBOR. Because the Bank and Associations engage in transactions involving financial instruments that reference LIBOR, these developments could have a material impact on financial results, borrowers, investors, and counterparties.

For example, on April 6, 2021, the New York Governor signed into law the New York State Legislature's Senate Bill 297B/Assembly Bill 164B (the New York LIBOR Legislation). The New York LIBOR Legislation amends the New York General Obligations Law by adding new Article 18-c and mirrors a legislative proposal drafted by the Alternative Reference Rates Committee (the ARRC) aimed at ensuring legal clarity for legacy instruments governed by New York law during the US dollar LIBOR transition. The ARRC is an industry-working group convened by the Federal Reserve Board and the New York Fed to lead the LIBOR transition, which, among other work, has developed industry-specific fallback language that may be used by market participants to address the cessation of US dollar LIBOR. The New York LIBOR Legislation applies to US dollar LIBOR-based contracts, securities, and instruments governed under New York law that (i) do not have any US dollar LIBOR fallback provisions in place, (ii) have US dollar LIBOR fallback provisions that result in replacement rates that are in some way based on US dollar LIBOR, or (iii) have US dollar LIBOR fallback provisions that allow or require one of the parties or an outsider to select a replacement rate for US dollar LIBOR. The New York LIBOR Legislation (a) provides in respect of (i) and (ii) above, upon the occurrence of a "LIBOR Discontinuance Event" and the related "LIBOR Replacement Date" (each as defined in the New York LIBOR Legislation), that the then-current US dollar LIBOR based benchmark, by operation of law, be replaced by a "Recommended Benchmark Replacement" (as defined in the New York LIBOR Legislation) based on the Secured Overnight Financing Rate (SOFR), or, (b) in respect of (iii), encourages the replacement of LIBOR with the "Recommended Benchmark Replacement" by providing a safe harbor from legal challenges under New York law.

The New York LIBOR Legislation may apply to certain of the System institutions' LIBOR-based instruments. For example, to the extent there is an absence of controlling federal law or unless otherwise provided under the terms and conditions of a particular issue of Systemwide Debt Securities, the Systemwide Debt Securities are governed by and construed in accordance with the laws of the State of New York, including the New York General Obligations Law.

At present, there is no specific federal law akin to the New York LIBOR Legislation addressing the US dollar LIBOR transition. However, United States Congress began working on a draft version of federal legislation in October of 2020 that would provide a statutory substitute benchmark rate for contracts that use US dollar LIBOR as a benchmark and that do not have any sufficient fallback clauses in place. While similar to the New York LIBOR Legislation, there are differences in the current draft of the federal legislation, which was discussed

at the House of Representative Subcommittee on Investor Protection, Entrepreneurship and Capital Markets on April 15, 2021. These include, perhaps most significantly, that the draft bill specifically provides for the preemption of state law, which would include the New York LIBOR Legislation. At this time, it is uncertain as to whether, when and in what form such federal legislation would be adopted.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the entire remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to an expected loss model. • Modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit quality. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted.	• Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. • The new guidance is expected to result in a change in allowance for credit losses due to several factors, including: 1. The allowance related to loans and commitments will most likely change because it will then cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on any debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of allowance change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts, at the adoption date. • The guidance is expected to be adopted January 1, 2023.

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, ***www.agfirst.com***. Copies of the Association's Annual and Quarterly reports are also available upon request free of charge by calling 1-800-633-9091, ext. 2674, writing Bo Fennell, CFO, AgSouth Farm Credit, ACA, P.O. Box 718, Statesboro, GA 30459, or accessing the Association's website ***www.agsouthfc.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual report to Shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Reports of suspected or actual wrongdoings involving the Association, its employees and/or Directors, can be made anonymously and confidentially through the Association's Whistleblower Hotline (SpeakUp) at 1-844-850-6496 or *www.convercent.com/report*.

AgSouth Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	March 31, 2021	December 31, 2020
	(unaudited)	*(audited)*
Assets		
Cash	**$ 65**	$ 133
Investments in debt securities:		
Held to maturity (fair value of $4,257 and $4,448, respectively)	**3,902**	3,950
Loans	**1,919,654**	1,921,622
Allowance for loan losses	**(17,350)**	(17,357)
Net loans	**1,902,304**	1,904,265
Loans held for sale	**2,749**	3,274
Accrued interest receivable	**15,143**	16,711
Equity investments in other Farm Credit institutions	**22,560**	22,469
Premises and equipment, net	**21,613**	21,309
Other property owned	**1,245**	1,170
Accounts receivable	**3,817**	32,421
Other assets	**2,528**	2,129
Total assets	**$ 1,975,926**	$ 2,007,831
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 1,498,893**	$ 1,538,795
Accrued interest payable	**3,215**	3,363
Patronage refunds payable	**1,144**	12,501
Accounts payable	**1,074**	1,873
Other liabilities	**41,239**	14,798
Total liabilities	**1,545,565**	1,571,330
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	**10,743**	10,626
Retained earnings		
Allocated	**121,139**	139,757
Unallocated	**299,166**	286,811
Accumulated other comprehensive income (loss)	**(687)**	(693)
Total members' equity	**430,361**	436,501
Total liabilities and members' equity	**$ 1,975,926**	$ 2,007,831

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

AgSouth Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended March 31, 2021	2020
Interest Income		
Loans	**$ 26,166**	$ 27,038
Investments	**67**	83
Total interest income	**26,233**	27,121
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	**9,504**	11,387
Total interest expense	**9,504**	11,387
Net interest income	**16,729**	15,734
Provision for (reversal of allowance for) loan losses	**(62)**	256
Net interest income after provision for (reversal of allowance for) loan losses	**16,791**	15,478
Noninterest Income		
Loan fees	**1,698**	1,092
Fees for financially related services	**547**	370
Patronage refunds from other Farm Credit institutions	**3,485**	3,442
Gains (losses) on sales of rural home loans, net	**674**	600
Gains (losses) on sales of premises and equipment, net	**—**	22
Gains (losses) on other transactions	**66**	(227)
Insurance Fund refunds	**—**	339
Other noninterest income	**62**	59
Total noninterest income	**6,532**	5,697
Noninterest Expense		
Salaries and employee benefits	**8,440**	7,138
Occupancy and equipment	**735**	672
Insurance Fund premiums	**548**	264
(Gains) losses on other property owned, net	**(31)**	170
Other operating expenses	**1,528**	1,893
Total noninterest expense	**11,220**	10,137
Income before income taxes	**12,103**	11,038
Provision (benefit) for income taxes	**(2)**	—
Net income	**$ 12,105**	$ 11,038
Other comprehensive income net of tax		
Employee benefit plans adjustments	**6**	4
Comprehensive income	**$ 12,111**	$ 11,042

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

AgSouth Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2019	$ 10,012	$ 131,801	$ 269,553	$ (532)	$ 410,834
Comprehensive income			11,038	4	11,042
Capital stock/participation certificates issued/(retired), net	95				95
Retained earnings retired		(20,875)			(20,875)
Patronage distribution adjustment		1,190	(1,700)		(510)
Balance at March 31, 2020	$ 10,107	$ 112,116	$ 278,891	$ (528)	$ 400,586
Balance at December 31, 2020	**$ 10,626**	**$ 139,757**	**$ 286,811**	**$ (693)**	**$ 436,501**
Comprehensive income			**12,105**	**6**	**12,111**
Capital stock/participation certificates issued/(retired), net	**117**				**117**
Retained earnings retired		**(18,351)**			**(18,351)**
Patronage distribution adjustment		**(267)**	**250**		**(17)**
Balance at March 31, 2021	**$ 10,743**	**$ 121,139**	**$ 299,166**	**$ (687)**	**$ 430,361**

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

AgSouth Farm Credit, ACA

Notes to the Consolidated Financial Statements

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

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

Organization

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

Basis of Presentation

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

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

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

Significant Accounting Policies

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

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

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

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

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

ASUs Pending Effective Date

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

Potential effects of ASUs issued in previous periods:

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

Accounting Standards Effective During the Period

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

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

- In October 2020, the FASB issued ASU 2020-10 Codification Improvements. The amendments represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to

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

- In January 2020, the FASB issued ASU 2020-01 Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815. The amendments clarify certain interactions between the guidance on accounting for certain equity securities under Topic 321, the guidance on accounting for investments under the equity method in Topic 323, and the guidance in Topic 815. The Update could change how an entity accounts for an equity security under the measurement alternative or a forward contract or purchased option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method of accounting or the fair value option in accordance with Topic 825, Financial Instruments. The amendments are intended to improve current GAAP by reducing diversity in practice and increasing comparability of the accounting for these interactions. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Adoption of this guidance had no effect on the statements of financial condition and results of operations.

- In December 2019, the FASB issued ASU 2019-12 Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The amendments simplify the accounting for income taxes by removing the following exceptions:
  - Exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items (for example, discontinued operations or other comprehensive income),
  - Exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment,
  - Exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary, and
  - Exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year.

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

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

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

	March 31, 2021	December 31, 2020
Real estate mortgage	$ 1,483,203	$ 1,457,592
Production and intermediate-term	299,327	326,901
Processing and marketing	23,174	24,636
Farm-related business	22,670	24,650
Rural residential real estate	91,103	87,663
Other (including Mission Related)	177	180
Total loans	$ 1,919,654	$ 1,921,622

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

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

	March 31, 2021							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 9,863	$ 147,715	$ 359	$ 8,590	$ –	$ –	$ 10,222	$ 156,305
Production and intermediate-term	1,150	55,699	1,420	–	2,769	–	5,339	55,699
Processing and marketing	–	103,820	181	25,777	–	–	181	129,597
Farm-related business	1,065	4,696	–	–	–	–	1,065	4,696
Total	$ 12,078	$ 311,930	$ 1,960	$ 34,367	$ 2,769	$ –	$ 16,807	$ 346,297

	December 31, 2020							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 9,908	$ 143,574	$ 365	$ 8,590	$ –	$ –	$ 10,273	$ 152,164
Production and intermediate-term	1,402	157,857	1,417	–	2,907	–	5,726	157,857
Processing and marketing	–	104,354	251	26,056	–	–	251	130,410
Farm-related business	1,143	10,709	–	–	–	–	1,143	10,709
Total	$ 12,453	$ 416,494	$ 2,033	$ 34,646	$ 2,907	$ –	$ 17,393	$ 451,140

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

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

	March 31, 2021	December 31, 2020
Real estate mortgage:		
Acceptable	97.73%	97.59%
OAEM	1.38	1.43
Substandard/doubtful/loss	0.89	0.98
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	95.89%	96.16%
OAEM	2.38	2.28
Substandard/doubtful/loss	1.73	1.56
	100.00%	100.00%
Processing and marketing:		
Acceptable	94.16%	94.04%
OAEM	–	–
Substandard/doubtful/loss	5.84	5.96
	100.00%	100.00%
Farm-related business:		
Acceptable	86.75%	86.91%
OAEM	7.08	6.96
Substandard/doubtful/loss	6.17	6.13
	100.00%	100.00%

	March 31, 2021	December 31, 2020
Rural residential real estate:		
Acceptable	98.42%	98.45%
OAEM	1.05	0.92
Substandard/doubtful/loss	0.53	0.63
	100.00%	100.00%
Other (including Mission Related):		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	97.31%	97.20%
OAEM	1.57	1.61
Substandard/doubtful/loss	1.12	1.19
	100.00%	100.00%

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

	March 31, 2021				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 9,217	$ 2,092	$ 11,309	$ 1,483,037	$ 1,494,346
Production and intermediate-term	2,731	2,632	5,363	297,213	302,576
Processing and marketing	806	–	806	22,553	23,359
Farm-related business	282	1,144	1,426	21,430	22,856
Rural residential real estate	796	76	872	90,587	91,459
Other (including Mission Related)	–	–	–	178	178
Total	$ 13,832	$ 5,944	$ 19,776	$ 1,914,998	$ 1,934,774

	December 31, 2020				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 9,385	$ 3,069	$ 12,454	$ 1,456,362	$ 1,468,816
Production and intermediate-term	1,214	2,757	3,971	327,676	331,647
Processing and marketing	421	–	421	24,467	24,888
Farm-related business	507	822	1,329	23,513	24,842
Rural residential real estate	774	69	843	87,092	87,935
Other (including Mission Related)	–	–	–	181	181
Total	$ 12,301	$ 6,717	$ 19,018	$ 1,919,291	$ 1,938,309

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

	March 31, 2021	December 31, 2020
Nonaccrual loans:		
Real estate mortgage	$ 6,922	$ 8,659
Production and intermediate-term	4,732	5,119
Processing and marketing	986	–
Farm-related business	1,173	1,292
Rural residential real estate	294	210
Total	$ 14,107	$ 15,280
Accruing restructured loans:		
Real estate mortgage	$ 6,094	$ 4,142
Production and intermediate-term	1,129	853
Rural residential real estate	141	141
Total	$ 7,364	$ 5,136
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 21,471	$ 20,416
Other property owned	1,245	1,170
Total nonperforming assets	$ 22,716	$ 21,586
Nonaccrual loans as a percentage of total loans	0.73%	0.80%
Nonperforming assets as a percentage of total loans and other property owned	1.18%	1.12%
Nonperforming assets as a percentage of capital	5.28%	4.95%

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

	March 31, 2021	December 31, 2020
Impaired nonaccrual loans:		
Current as to principal and interest	$ 5,592	$ 6,510
Past due	8,515	8,770
Total	$ 14,107	$ 15,280
Impaired accrual loans:		
Restructured	$ 7,364	$ 5,136
90 days or more past due	–	–
Total	$ 7,364	$ 5,136
Total impaired loans	$ 21,471	$ 20,416
Additional commitments to lend	$ 20	$ –

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

Impaired loans:	March 31, 2021 Recorded Investment	March 31, 2021 Unpaid Principal Balance	March 31, 2021 Related Allowance	Three Months Ended March 31, 2021 Average Impaired Loans	Three Months Ended March 31, 2021 Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 169	$ 172	$ 7	$ 172	$ 5
Production and intermediate-term	556	557	84	568	15
Processing and marketing	–	–	–	–	–
Farm-related business	372	380	86	380	10
Rural residential real estate	–	–	–	–	–
Total	$ 1,097	$ 1,109	$ 177	$ 1,120	$ 30
With no related allowance for credit losses:					
Real estate mortgage	$ 12,847	$ 15,181	$ –	$ 13,107	$ 351
Production and intermediate-term	5,305	7,036	–	5,411	145
Processing and marketing	986	963	–	1,006	27
Farm-related business	801	1,113	–	816	22
Rural residential real estate	435	509	–	443	12
Total	$ 20,374	$ 24,802	$ –	$ 20,783	$ 557
Total impaired loans:					
Real estate mortgage	$ 13,016	$ 15,353	$ 7	$ 13,279	$ 356
Production and intermediate-term	5,861	7,593	84	5,979	160
Processing and marketing	986	963	–	1,006	27
Farm-related business	1,173	1,493	86	1,196	32
Rural residential real estate	435	509	–	443	12
Total	$ 21,471	$ 25,911	$ 177	$ 21,903	$ 587

Impaired loans:	December 31, 2020 Recorded Investment	December 31, 2020 Unpaid Principal Balance	December 31, 2020 Related Allowance	Year Ended December 31, 2020 Average Impaired Loans	Year Ended December 31, 2020 Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 169	$ 172	$ 10	$ 177	$ 12
Production and intermediate-term	556	555	79	583	39
Farm-related business	436	443	97	457	30
Rural residential real estate	–	–	–	–	–
Total	$ 1,161	$ 1,170	$ 186	$ 1,217	$ 81
With no related allowance for credit losses:					
Real estate mortgage	$ 12,632	$ 15,164	$ –	$ 13,250	$ 885
Production and intermediate-term	5,416	7,122	–	5,682	380
Farm-related business	856	1,101	–	898	60
Rural residential real estate	351	414	–	368	25
Total	$ 19,255	$ 23,801	$ –	$ 20,198	$ 1,350
Total impaired loans:					
Real estate mortgage	$ 12,801	$ 15,336	$ 10	$ 13,427	$ 897
Production and intermediate-term	5,972	7,677	79	6,265	419
Farm-related business	1,292	1,544	97	1,355	90
Rural residential real estate	351	414	–	368	25
Total	$ 20,416	$ 24,971	$ 186	$ 21,415	$ 1,431

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Rural Residential Real Estate	Other (including Mission Related)	Total
Activity related to the allowance for credit losses:						
Balance at December 31, 2020	$ 13,021	$ 3,017	$ 538	$ 779	$ 2	$ 17,357
Charge-offs	–	(41)	(72)	(7)	–	(120)
Recoveries	80	92	1	2	–	175
Provision for loan losses	169	(299)	30	38	–	(62)
Balance at March 31, 2021	$ 13,270	$ 2,769	$ 497	$ 812	$ 2	$ 17,350
Balance at December 31, 2019	$ 11,485	$ 3,868	$ 400	$ 604	$ 4	$ 16,361
Charge-offs	–	(170)	(1)	–	–	(171)
Recoveries	128	18	–	4	–	150
Provision for loan losses	487	(412)	166	15	–	256
Balance at March 31, 2020	$ 12,100	$ 3,304	$ 565	$ 623	$ 4	$ 16,596
Allowance on loans evaluated for impairment:						
Individually	$ 7	$ 84	$ 86	$ –	$ –	$ 177
Collectively	13,263	2,685	411	812	2	17,173
Balance at March 31, 2021	$ 13,270	$ 2,769	$ 497	$ 812	$ 2	$ 17,350
Individually	$ 10	$ 79	$ 97	$ –	$ –	$ 186
Collectively	13,011	2,938	441	779	2	17,171
Balance at December 31, 2020	$ 13,021	$ 3,017	$ 538	$ 779	$ 2	$ 17,357
Recorded investment in loans evaluated for impairment:						
Individually	$ 13,016	$ 5,861	$ 2,159	$ 435	$ –	$ 21,471
Collectively	1,481,330	296,715	44,056	91,024	178	1,913,303
Balance at March 31, 2021	$ 1,494,346	$ 302,576	$ 46,215	$ 91,459	$ 178	$ 1,934,774
Individually	$ 12,873	$ 5,972	$ 1,292	$ 351	$ –	$ 20,488
Collectively	1,455,943	325,675	48,438	87,584	181	1,917,821
Balance at December 31, 2020	$ 1,468,816	$ 331,647	$ 49,730	$ 87,935	$ 181	$ 1,938,309

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

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

	Three Months Ended March 31, 2021				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 347	$ 2,140	$ –	$ 2,487	
Production and intermediate-term	–	281	–	281	
Total	$ 347	$ 2,421	$ –	$ 2,768	
Post-modification:					
Real estate mortgage	$ 352	$ 2,140	$ –	$ 2,492	$ –
Production and intermediate-term	–	281	–	281	–
Total	$ 352	$ 2,421	$ –	$ 2,773	$ –

	Three Months Ended March 31, 2020				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 289	$ –	$ –	$ 289	
Production and intermediate-term	–	430	–	430	
Total	$ 289	$ 430	$ –	$ 719	
Post-modification:					
Real estate mortgage	$ 290	$ –	$ –	$ 290	$ –
Production and intermediate-term	–	467	–	467	(27)
Total	$ 290	$ 467	$ –	$ 757	$ (27)

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

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

	Three Months Ended March 31,	
	2021	2020
Real estate mortgage	$ 597	$ 282
Production and intermediate-term	30	165
Total	$ 627	$ 447

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

	Total TDRs		Nonaccrual TDRs	
	March 31, 2021	December 31, 2020	March 31, 2021	December 31, 2020
Real estate mortgage	$ 9,394	$ 7,939	$ 3,300	$ 3,797
Production and intermediate-term	1,843	1,753	714	900
Farm-related business	3	3	3	3
Rural residential real estate	141	141	–	–
Total loans	$ 11,381	$ 9,836	$ 4,017	$ 4,700
Additional commitments to lend	$ 20	$ –		

Note 3 — Investments

Investments in Debt Securities

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have different eligibility requirements. At March 31, 2021 the Association held no RABs whose credit quality had deteriorated beyond the program limits.

A summary of the amortized cost and fair value of investment securities held-to-maturity follows:

	March 31, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 3,902	$ 355	$ –	$ 4,257	6.79%

	December 31, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 3,950	$ 498	$ –	$ 4,448	6.67%

A summary of the contractual maturity, amortized cost and estimated fair value of investment securities held-to-maturity follows:

	March 31, 2021		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	–	–	–
After five years through ten years	–	–	–
After ten years	3,902	4,257	6.79
Total	$ 3,902	$ 4,257	6.79%

All of these investments have contractual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified. The Association had no investments that were in a continuous unrealized loss position for the periods presented.

The recording of an impairment is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment

loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio.

The Association has not recognized any credit losses as any impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

Equity Investments in Other Farm Credit System Institutions

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

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 6.88 percent of the issued stock of the Bank as of March 31, 2021 net of any reciprocal investment. As of that date, the Bank's assets totaled $36.0 billion and shareholders' equity totaled $2.5 billion. The Bank's earnings were $124 million for the first three months of 2021. In addition, the Association held investments of $4,025 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

	Changes in Accumulated Other Comprehensive Income by Component *(a)*	
	Three Months Ended March 31,	
	2021	2020
Employee Benefit Plans:		
Balance at beginning of period	$ (693)	$ (532)
Other comprehensive income before reclassifications	–	–
Amounts reclassified from AOCI	6	4
Net current period other comprehensive income	6	4
Balance at end of period	$ (687)	$ (528)

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*		
	Three Months Ended March 31,		
	2021	2020	Income Statement Line Item
Defined Benefit Pension Plans:			
Periodic pension costs	$ (6)	$ (4)	See Note 7.
Net amounts reclassified	$ (6)	$ (4)	

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

Note 6 — Fair Value Measurement

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

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs

to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

	March 31, 2021				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 1,953	$ 1,953	$ –	$ –	$ 1,953
Recurring Assets	$ 1,953	$ 1,953	$ –	$ –	$ 1,953
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 920	$ –	$ –	$ 920	$ 920
Other property owned	1,245	–	–	1,457	1,457
Nonrecurring Assets	$ 2,165	$ –	$ –	$ 2,377	$ 2,377
Other Financial Instruments					
Assets:					
Cash	$ 65	$ 65	$ –	$ –	$ 65
Investment securities, held-to-maturity	3,902	–	–	4,257	4,257
Loans	1,904,133	–	–	1,929,024	1,929,024
Other Financial Assets	$ 1,908,100	$ 65	$ –	$ 1,933,281	$ 1,933,346
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,498,893	$ –	$ –	$ 1,505,449	$ 1,505,449
Other Financial Liabilities	$ 1,498,893	$ –	$ –	$ 1,505,449	$ 1,505,449

	December 31, 2020				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 1,909	$ 1,909	$ –	$ –	$ 1,909
Recurring Assets	$ 1,909	$ 1,909	$ –	$ –	$ 1,909
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 975	$ –	$ –	$ 975	$ 975
Other property owned	1,170	–	–	1,369	1,369
Nonrecurring Assets	$ 2,145	$ –	$ –	$ 2,344	$ 2,344
Other Financial Instruments					
Assets:					
Cash	$ 133	$ 133	$ –	$ –	$ 133
Investment securities, held-to-maturity	3,950	–	–	4,448	4,448
Loans	1,906,564	–	–	1,933,290	1,933,290
Other Financial Assets	$ 1,910,647	$ 133	$ –	$ 1,937,738	$ 1,937,871
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,538,795	$ –	$ –	$ 1,553,370	$ 1,553,370
Other Financial Liabilities	$ 1,538,795	$ –	$ –	$ 1,553,370	$ 1,553,370

Uncertainty in Measurements of Fair Value

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

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

Investment Securities

The fair values of predominantly all Level 3 investment securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these Level 3 assets.

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 2,377	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Investment securities, held-to-maturity	Discounted cash flow	Prepayment rates
		Risk-adjusted discount rate
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity

Note 7 — Employee Benefit Plans

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

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Pension	$ 1,250	$ 1,024
401(k)	414	350
Other postretirement benefits	227	227
Total	$ 1,891	$ 1,601

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

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

Note 8 — Commitments and Contingent Liabilities

From time to time, legal actions are pending against the Association in which claims for monetary damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association.

Note 9 — Subsequent Events

The Association evaluated subsequent events and determined there were none requiring disclosure through May 7, 2021, which was the date the financial statements were issued.