
Cape Fear Farm Credit, ACA

THIRD QUARTER 2021

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2021 quarterly report of Cape Fear 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.

/s/ Nash Johnson
Chairman of the Board

/s/ Evan J. Kleinhans
Chief Executive Officer

/s/ Charles M. Hester
Chief Financial Officer

November 8, 2021

Report on Internal Control Over Financial Reporting

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

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

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

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

/s/ Evan J. Kleinhans
Chief Executive Officer

/s/ Charles M. Hester
Chief Financial Officer

November 8, 2021

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 Cape Fear Farm Credit, ACA, (Association) for the period ended September 30, 2021. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2020 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

COVID-19 OVERVIEW

In response to the COVID-19 pandemic, and without disruption to operations, the Association transitioned the vast majority of its employees to working remotely in mid-March 2020. The priority was, and continues to be, to ensure the health and safety of employees, while continuing to serve the mission of providing support for rural America and agriculture. The Association has returned to pre-pandemic working conditions but continues to allow some contingent of staff to work remotely.

The COVID-19 pandemic has disrupted businesses and the global economy since March 2020. Significant progress has been made during 2021 in mitigating the spread of COVID-19 resulting in improving macroeconomic conditions. However, the improvement has been hampered by rising inflation, supply chain disruptions and labor shortages in the United States and globally.

See further discussion of business risks associated with COVID-19 in the Association's 2020 Annual Report.

COVID-19 Support Programs

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

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

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

The previously enacted Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was amended by subsequent legislation, included the Paycheck Protection Program (PPP). The PPP provided support to small businesses to cover payroll and certain other expenses. Loans made under the PPP were fully guaranteed by the Small Business Administration (SBA), whose guarantee is backed by the full faith and credit of the United States. As of September 30, 2021, the Association had \$4,625 of these loans outstanding to approximately 386 borrowers. In addition, through September 30, 2021, the volume of such loans that have received forgiveness from the SBA since the start of the program was \$5,920.

For a detailed discussion of programs enacted in 2020, see pages 5 and 6 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 consists of agricultural commodities in our region, including swine, poultry, tobacco, and row crop operations. The Association's loan portfolio contains a concentration of swine and poultry loans. Demand for pork, chicken, turkey as well as prices of field grains affects the price of these commodities. Other factors including but not

limited to international trade policies, political risks and nuisance lawsuits could impact these industries and the Association's corresponding loan portfolio. While demand for tobacco and cotton remains weak, increasing prices for corn and soy beans have improved the outlook for many row crop producers in the Association's territory. Credit quality has improved since the fourth quarter of 2020 and remains acceptable overall.

The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory. Risk exposure is reduced by many of the borrowers in the region having diversified farming operations as well as varying farm size. This factor, along with the opportunities for non-farm income in the area, lessens the level of dependency on any single given commodity. Concentration risk is further mitigated by a portfolio of participation loans purchased or originated and sold. The Association also mitigates concentration risk through the use of USDA and Farmer Mac guarantees.

The gross loan volume of the Association at September 30, 2021 was \$1,058,510, an increase of \$32,782 or 3.20 percent as compared to \$1,025,728 at December 31, 2020. When compared to the same period in 2020, gross loan volume increased by \$45,054 or 4.45 percent from \$1,013,456. Net loans outstanding at September 30, 2021 were \$1,050,045, an increase of \$34,549 or 3.40 percent as compared to \$1,015,496 at December 31, 2020. When compared to the same period in 2020, net loans outstanding increased by \$47,624 or 4.75 percent from \$1,002,421. Net loans accounted for 96.98 percent of total assets at September 30, 2021, as compared to 96.10 percent and 95.83 percent at December 31, 2020 and September 30, 2020, respectively.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans decreased \$3,328 to \$5,822 at September 30, 2021 from \$9,150 at December 31, 2020. The contraction in nonaccrual volume was primarily attributed to several liquidations, charge off activities and pay downs of nonaccrual balances during the nine month period. 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 September 30, 2021 was \$8,465, which was less than the December 31, 2020 amount of \$10,232 by \$1,767 or 17.27 percent. The decrease in the overall allowance was primarily attributed to decreases in both the general and specific reserves.

Other investments consist of Rural America Bonds which come under the Farm Credit Administration's (FCA) Mission Related Investments. The objective of Rural America Bonds is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities

by providing a flexible flow of money to rural areas through bond financing. At September 30, 2021, the Association had \$2,605 in Rural America Bonds, which were all classified as investment securities, as compared to \$2,663 at December 31, 2020.

Effective December 31, 2016, the FCA concluded each pilot program approved as part of the Investment in Rural America program. Each institution participating in such programs may continue to hold its investment through the maturity dates for the investments, provided the institution continues to meet all approval conditions. Although the pilot programs have concluded, the FCA can consider future requests on a case-by-case basis.

Other property owned (OPO) at September 30, 2021 was \$282, as compared to \$0 at December 31, 2020. The Association is actively marketing all properties classified as other property owned for resale.

RESULTS OF OPERATIONS

For the three months ended September 30, 2021

Net income for the three months ended September 30, 2021 totaled \$5,538 as compared to \$5,084 for the same period in 2020, an increase of \$454 or 8.93 percent.

For the three months ended September 30, 2021, net interest income increased \$326 or 4.70 percent as compared to the same period in 2020. Interest income on loans decreased by \$33 and interest income from investment securities decreased by \$6. Interest expense decreased by \$365 compared to the same period last year. Provision for loan losses decreased by \$359 in comparison to the same period in 2020. There was a provision for loan losses of \$132 for the three months ended September 30, 2021, as compared to \$491 for the same period in 2020. Nonaccrual income was \$99 for the three months ended September 30, 2021, as compared to \$50 for the same period in 2020 which is an increase of \$49.

Noninterest income for the three months ended September 30, 2021 totaled \$3,051 as compared to \$2,630 for the same period in 2020, an increase of \$421 or 16.01 percent. Positive variances for the period included a \$443 increase in patronage refunds from other Farm Credit institutions, a \$14 increase in gains on sales of rural home loans, and an \$8 increase in fees for financially related services. The overall increase was offset by a \$40 decrease in loan fee income and a \$4 decrease in other gains.

Noninterest expense for the three months ended September 30, 2021 totaled \$4,624 as compared to \$4,074 for the same period in 2020, an increase of \$550 or 13.50 percent. Items contributing to the increase included a \$281 increase in salaries and employee benefits, a \$165 increase in other operating expenses, a \$109 increase in insurance fund premiums, and a

\$13 increase in losses on OPO. The overall increase was offset by an \$18 decrease in occupancy and equipment.

For the nine months ended September 30, 2021

Net income for the nine months ended September 30, 2021 totaled \$19,595 as compared to \$15,902 for the same period in 2020, an increase of \$3,693 or 23.22 percent.

For the nine months ended September 30, 2021, net interest income increased \$862 or 4.20 percent compared to the same period in 2020. Interest income on loans decreased by \$1,567 and interest income from investment securities decreased by \$15. Interest expense decreased by \$2,444 compared to the same period last year. Provision for loan losses decreased by \$2,232 in comparison to the same period in 2020. There was a reversal of allowance for loan losses of \$1,173 for the nine months ended September 30, 2021, as compared to a provision for loan losses of \$1,059 for the same period in 2020. Nonaccrual income was \$459 for the nine months ended September 30, 2021, as compared to \$161 for the same period in 2020 which is an increase of \$298.

Noninterest income for the nine months ended September 30, 2021 totaled \$10,529 as compared to \$8,454 for the same period in 2020, an increase of \$2,075 or 24.54 percent. Positive variances for the period included a \$1,371 increase in patronage refunds from other Farm Credit institutions, an \$818 increase in loan fee income, a \$39 increase in gains on sales of premises and equipment, a \$14 increase in fees for financially related services, a \$10 increase in other gains, and a \$5 increase in gains on sales of rural home loans. The overall increase was offset by a \$182 decrease in insurance fund refunds.

Noninterest expense for the nine months ended September 30, 2021 totaled \$13,456 as compared to \$12,094 for the same period in 2020, an increase of \$1,362 or 11.26 percent. Items contributing to the increase included a \$744 increase in salaries and employee benefits, a \$427 increase in insurance fund premiums, a \$141 increase in other operating expenses, and a \$69 increase in losses on OPO. The overall increase was offset by a \$19 decrease in occupancy and equipment.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with 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 funds are advanced by the Bank 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 September 30, 2021 was \$834,533 as compared to \$801,307 at December 31, 2020.

See Note 5 in the Notes to the Consolidated Financial Statements for information on the status of compliance with covenants under the General Financing Agreement.

CAPITAL RESOURCES

Total members' equity at September 30, 2021 increased to \$240,761 from the December 31, 2020 total of \$221,105. The increase is primarily due to recognition of net income retained through the third quarter.

FCA regulations require all Farm Credit institutions to maintain minimum common equity tier 1 (CET1), tier 1 capital, total capital, and permanent capital risk-based capital ratios, along with tier 1 leverage and unallocated retained earnings equivalents leverage ratios. As of September 30, 2021, all ratios were well above the regulatory minimums.

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of September 30, 2021
Risk-adjusted ratios:				
CET1 Capital	4.5%	2.5%	7.0%	20.00%
Tier 1 Capital	6.0%	2.5%	8.5%	20.00%
Total Capital	8.0%	2.5%	10.5%	20.75%
Permanent Capital Ratio	7.0%	0.0%	7.0%	20.15%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	20.96%
UREE Leverage Ratio	1.5%	0.0%	1.5%	21.14%

* Includes fully phased-in capital conservation buffer which became effective January 1, 2020.

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.

There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

REGULATORY MATTERS

On September 9, 2021, the FCA adopted a final rule that amended certain sections of the FCA's regulations to provide technical corrections, amendments, and clarification to certain provisions in the FCA's tier 1/tier 2 capital framework for the Farm Credit System. The rule incorporates guidance previously provided by the FCA related to its tier 1/tier 2 capital framework as well as ensures that the FCA's capital requirements continue to be comparable to the standardized approach that the other federal banking regulatory agencies have adopted. The final rule will become effective on January 1, 2022, or 30 days after publication in the Federal Register during which either house of Congress is in session, whichever is later.

On August 26, 2021, the FCA issued a proposed rule to revise its regulatory capital requirements to define and establish risk-weightings for High Volatility Commercial Real Estate (HVCRE) by assigning a 150 percent risk-weighting to such exposures, instead of the current 100 percent. The proposed rule would ensure that the FCA's rule remains comparable with the capital rule of other federal banking regulatory agencies and recognizes the increased risk posed by HVCRE exposures. The public comment period is open until January 24, 2022.

On June 30, 2021, the FCA issued an advance notice of proposed rulemaking (ANPRM) that seeks public comments on whether to amend or restructure the System bank liquidity regulations. The purpose of this advance notice is to evaluate the applicability of the Basel III framework to the Farm Credit System and gather input to ensure that System banks have the liquidity to withstand crises that adversely impact liquidity and threaten their viability. The public comment period is open until November 27, 2021.

On September 23, 2019, the FCA issued a proposed rule that would ensure the System's capital requirements, including certain regulatory disclosures, reflect the current expected credit losses methodology, which revises the accounting for credit losses under U.S. generally accepted accounting principles. The proposed rule identifies which credit loss allowances under the Current Expected Credit Losses (CECL) methodology in the Financial Accounting Standards Board's "Measurement of Credit Losses on Financial Instruments" are eligible for inclusion in a System institution's regulatory

capital. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-maturity debt securities would be included in a System institution's Tier 2 capital up to 1.25 percent of the System institution's total risk weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not be eligible for inclusion in a System institution's Tier 2 capital. In addition, the proposed regulation does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution's regulatory capital ratios. The public comment period ended on November 22, 2019.

FUTURE OF LIBOR

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

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

The Association has exposure to LIBOR arising from loans made to customers and the note payable to AgFirst Farm Credit Bank. Alternative reference rates that replace LIBOR may not yield the same or similar economic results over the lives of the financial instruments, which could adversely affect the value of, and return on, instruments held.

The FCA has issued guidelines with similar guidance as the US prudential regulators but applicable for System institutions to follow as they prepare for the expected phase-out of LIBOR. The guidelines direct each System institution to develop a LIBOR transition plan designed to provide an orderly roadmap of actions that will reduce LIBOR exposure, stop the inflow of new LIBOR volume, and adjust operating processes to implement alternative reference rates.

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

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

On October 20, 2021, the U.S. prudential regulators issued a joint statement emphasizing the expectation that supervised institutions with LIBOR exposure continue to progress toward an orderly transition away from LIBOR, reiterating that supervised institutions should, with limited exceptions, cease entering into new contracts that use US dollar LIBOR as a

reference rate as soon as practicable, but no later than December 31, 2021. They further stated that entering into new contracts, including derivatives, after that date would create safety and soundness risks. The joint statement clarified that entering into such new contracts would include an agreement that (1) creates additional LIBOR disclosure or (2) extends the term of an existing LIBOR contract, but that a draw on an existing agreement that is legally enforceable, e.g., a committed credit facility, would not be a new contract. The joint statement also provided considerations when assessing the appropriateness of alternative reference rates used in lieu of LIBOR and the regulator expectation that new or updated LIBOR contracts include strong and clearly defined fallback rates for when the initial reference rate is discontinued.

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	
<ul style="list-style-type: none"> Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the entire remaining life of the financial assets. Changes the present incurred loss impairment guidance for loans to an expected loss model. Modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit quality. Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted. 	<ul style="list-style-type: none"> Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. The new guidance is expected to result in a change in allowance for credit losses due to several factors, including: <ol style="list-style-type: none"> 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, An allowance will be established for estimated credit losses on any debt securities, 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 1-800-368-5819 ext. 3262, or writing Charles M. Hester, Cape Fear Farm Credit, P. O. Box 2405, Fayetteville, NC 28302, or accessing the website, www.capefearfarmcredit.com. The Association prepares a 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 Association.

Cape Fear Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2021 <i>(unaudited)</i>	December 31, 2020 <i>(audited)</i>
Assets		
Cash	\$ 146	\$ 1
Investments in debt securities:		
Held to maturity (fair value of \$2,719 and \$2,888, respectively)	2,605	2,663
Loans	1,058,510	1,025,728
Allowance for loan losses	(8,465)	(10,232)
Net loans	1,050,045	1,015,496
Loans held for sale	—	140
Accrued interest receivable	8,928	7,623
Equity investments in other Farm Credit institutions	10,182	10,168
Premises and equipment, net	2,542	2,372
Other property owned	282	—
Accounts receivable	7,838	17,845
Other assets	177	362
Total assets	\$ 1,082,745	\$ 1,056,670
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 834,533	\$ 801,307
Accrued interest payable	1,408	1,421
Patronage refunds payable	51	25,532
Accounts payable	2,083	972
Other liabilities	3,909	6,333
Total liabilities	841,984	835,565
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	2,564	2,512
Retained earnings		
Allocated	116,694	116,377
Unallocated	121,780	102,507
Accumulated other comprehensive income (loss)	(277)	(291)
Total members' equity	240,761	221,105
Total liabilities and members' equity	\$ 1,082,745	\$ 1,056,670

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

Cape Fear Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Interest Income				
Loans	\$ 11,519	\$ 11,552	\$ 33,691	\$ 35,258
Investments	38	44	117	132
Total interest income	11,557	11,596	33,808	35,390
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	4,296	4,661	12,404	14,848
Net interest income	7,261	6,935	21,404	20,542
Provision for (reversal of allowance for) loan losses	132	491	(1,173)	1,059
Net interest income after provision for (reversal of allowance for) loan losses	7,129	6,444	22,577	19,483
Noninterest Income				
Loan fees	429	469	2,465	1,647
Fees for financially related services	10	2	20	6
Patronage refunds from other Farm Credit institutions	2,592	2,149	7,949	6,578
Gains (losses) on sales of rural home loans, net	16	2	22	17
Gains (losses) on sales of premises and equipment, net	—	—	61	22
Gains (losses) on other transactions	4	8	12	2
Insurance Fund refunds	—	—	—	182
Total noninterest income	3,051	2,630	10,529	8,454
Noninterest Expense				
Salaries and employee benefits	2,958	2,677	8,884	8,140
Occupancy and equipment	223	241	643	662
Insurance Fund premiums	324	215	939	512
(Gains) losses on other property owned, net	11	(2)	61	(8)
Other operating expenses	1,108	943	2,929	2,788
Total noninterest expense	4,624	4,074	13,456	12,094
Income before income taxes	5,556	5,000	19,650	15,843
Provision (benefit) for income taxes	18	(84)	55	(59)
Net income	\$ 5,538	\$ 5,084	\$ 19,595	\$ 15,902
Other comprehensive income net of tax				
Employee benefit plans adjustments	5	4	14	13
Comprehensive income	\$ 5,543	\$ 5,088	\$ 19,609	\$ 15,915

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

Cape Fear Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

<i>(dollars in thousands)</i>	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2019	\$ 3	\$ 2,450	\$ 112,361	\$ 99,950	\$ (288)	\$ 214,476
Comprehensive income				15,902	13	15,915
Protected borrower stock issued/(retired), net	(3)					(3)
Capital stock/participation certificates issued/(retired), net		30				30
Patronage distribution adjustment			60	(60)		—
Balance at September 30, 2020	\$ —	\$ 2,480	\$ 112,421	\$ 115,792	\$ (275)	\$ 230,418
Balance at December 31, 2020	\$ —	\$ 2,512	\$ 116,377	\$ 102,507	\$ (291)	\$ 221,105
Comprehensive income				19,595	14	19,609
Capital stock/participation certificates issued/(retired), net		52				52
Patronage distribution adjustment			317	(322)		(5)
Balance at September 30, 2021	\$ —	\$ 2,564	\$ 116,694	\$ 121,780	\$ (277)	\$ 240,761

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

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

Basis of Presentation

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

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

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

Significant Accounting Policies

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

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and

other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

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

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

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

ASUs Pending Effective Date

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

Potential effects of ASUs issued in previous periods:

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

Accounting Standards Effective During the Period

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

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

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

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

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

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

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

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

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

	September 30, 2021	December 31, 2020
Real estate mortgage	\$ 773,769	\$ 770,944
Production and intermediate-term	205,900	189,799
Loans to cooperatives	19,478	7,266
Processing and marketing	26,358	29,014
Farm-related business	13,626	13,706
Communication	4,367	4,251
Rural residential real estate	6,503	5,523
International	3,597	3,596
Lease receivables	4,912	1,629
Total loans	\$ 1,058,510	\$ 1,025,728

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

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

September 30, 2021								
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 19,663	\$ 262,064	\$ —	\$ 7,824	\$ 39,431	\$ —	\$ 59,094	\$ 269,888
Production and intermediate-term	15,139	191,099	—	10,999	96	—	15,235	202,098
Loans to cooperatives	10,408	—	9,097	—	—	—	19,505	—
Processing and marketing	23,207	11,351	—	—	—	—	23,207	11,351
Farm-related business	—	950	—	4,115	—	—	—	5,065
Communication	4,387	—	—	—	—	—	4,387	—
International	3,600	—	—	—	—	—	3,600	—
Lease receivables	—	—	4,913	—	—	—	4,913	—
Total	\$ 76,404	\$ 465,464	\$ 14,010	\$ 22,938	\$ 39,527	\$ —	\$ 129,941	\$ 488,402

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	\$ 17,696	\$ 250,616	\$ —	\$ —	\$ 43,301	\$ —	\$ 60,997	\$ 250,616
Production and intermediate-term	16,025	276,870	—	10,999	26,274	—	42,299	287,869
Loans to cooperatives	4,803	—	2,473	—	—	—	7,276	—
Processing and marketing	23,032	36,865	—	—	—	—	23,032	36,865
Farm-related business	—	1,156	—	4,954	—	—	—	6,110
Communication	4,261	—	—	—	—	—	4,261	—
International	3,600	—	—	—	—	—	3,600	—
Lease receivables	—	—	1,632	—	—	—	1,632	—
Total	\$ 69,417	\$ 565,507	\$ 4,105	\$ 15,953	\$ 69,575	\$ —	\$ 143,097	\$ 581,460

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

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

	September 30, 2021	December 31, 2020		September 30, 2021	December 31, 2020
Real estate mortgage:			Communication:		
Acceptable	95.51%	93.78%	Acceptable	100.00%	100.00%
OAEM	4.05	5.46	OAEM	—	—
Substandard/doubtful/loss	0.44	0.76	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Rural residential real estate:		
Acceptable	94.90%	91.72%	Acceptable	95.38%	93.98%
OAEM	3.43	6.72	OAEM	3.40	4.12
Substandard/doubtful/loss	1.67	1.56	Substandard/doubtful/loss	1.22	1.90
	100.00%	100.00%		100.00%	100.00%
Loans to cooperatives:			International:		
Acceptable	100.00%	100.00%	Acceptable	100.00%	100.00%
OAEM	—	—	OAEM	—	—
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
Processing and marketing:			Lease receivables:		
Acceptable	100.00%	100.00%	Acceptable	96.03%	85.61%
OAEM	—	—	OAEM	2.05	6.77
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	1.92	7.62
	100.00%	100.00%		100.00%	100.00%
Farm-related business:			Total loans:		
Acceptable	58.00%	55.93%	Acceptable	95.14%	93.15%
OAEM	41.48	43.47	OAEM	4.19	5.96
Substandard/doubtful/loss	0.52	0.60	Substandard/doubtful/loss	0.67	0.89
	100.00%	100.00%		100.00%	100.00%

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

	September 30, 2021				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	\$ 3,026	\$ 1,079	\$ 4,105	\$ 775,507	\$ 779,612
Production and intermediate-term	950	1,401	2,351	206,389	208,740
Loans to cooperatives	—	—	—	19,500	19,500
Processing and marketing	—	—	—	26,394	26,394
Farm-related business	79	71	150	13,601	13,751
Communication	—	—	—	4,367	4,367
Rural residential real estate	102	49	151	6,382	6,533
International	—	—	—	3,603	3,603
Lease receivables	—	—	—	4,925	4,925
Total	\$ 4,157	\$ 2,600	\$ 6,757	\$ 1,060,668	\$ 1,067,425

	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	\$ 937	\$ 2,640	\$ 3,577	\$ 772,429	\$ 776,006
Production and intermediate-term	1,406	2,706	4,112	188,079	192,191
Loans to cooperatives	—	—	—	7,269	7,269
Processing and marketing	—	—	—	29,062	29,062
Farm-related business	82	—	82	13,682	13,764
Communication	—	—	—	4,251	4,251
Rural residential real estate	93	58	151	5,393	5,544
International	—	—	—	3,603	3,603
Lease receivables	207	—	207	1,442	1,649
Total	\$ 2,725	\$ 5,404	\$ 8,129	\$ 1,025,210	\$ 1,033,339

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

	September 30, 2021	December 31, 2020
Nonaccrual loans:		
Real estate mortgage	\$ 3,266	\$ 4,899
Production and intermediate-term	2,331	3,960
Farm-related business	71	82
Rural residential real estate	60	83
Lease receivables	94	126
Total	\$ 5,822	\$ 9,150
Accruing restructured loans:		
Real estate mortgage	\$ 1,590	\$ 1,849
Production and intermediate-term	2,761	3,417
Rural residential real estate	7	10
Total	\$ 4,358	\$ 5,276
Accruing loans 90 days or more past due:		
Real estate mortgage	\$ 88	\$ —
Total	\$ 88	\$ —
Total nonperforming loans	\$ 10,268	\$ 14,426
Other property owned	282	—
Total nonperforming assets	\$ 10,550	\$ 14,426
Nonaccrual loans as a percentage of total loans	0.55%	0.89%
Nonperforming assets as a percentage of total loans and other property owned	1.00%	1.41%
Nonperforming assets as a percentage of capital	4.38%	6.52%

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

	September 30, 2021	December 31, 2020
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 3,005	\$ 3,181
Past due	2,817	5,969
Total	\$ 5,822	\$ 9,150
Impaired accrual loans:		
Restructured	\$ 4,358	\$ 5,276
90 days or more past due	88	—
Total	\$ 4,446	\$ 5,276
Total impaired loans	\$ 10,268	\$ 14,426
Additional commitments to lend	\$ —	\$ —

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

	September 30, 2021			Three Months Ended September 30, 2021		Nine Months Ended September 30, 2021	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans:							
With a related allowance for credit losses:							
Real estate mortgage	\$ 694	\$ 847	\$ 87	\$ 731	\$ 10	\$ 826	\$ 41
Production and intermediate-term	1,494	1,442	285	1,575	23	1,780	89
Farm-related business	—	—	—	—	—	—	—
Rural residential real estate	—	—	—	—	—	—	—
Lease receivables	—	—	—	—	—	—	—
Total	\$ 2,188	\$ 2,289	\$ 372	\$ 2,306	\$ 33	\$ 2,606	\$ 130
With no related allowance for credit losses:							
Real estate mortgage	\$ 4,250	\$ 4,957	\$ —	\$ 4,478	\$ 65	\$ 5,061	\$ 253
Production and intermediate-term	3,598	3,896	—	3,791	54	4,284	214
Farm-related business	71	76	—	75	1	85	4
Rural residential real estate	67	154	—	71	1	80	4
Lease receivables	94	95	—	100	2	112	6
Total	\$ 8,080	\$ 9,178	\$ —	\$ 8,515	\$ 123	\$ 9,622	\$ 481
Total impaired loans:							
Real estate mortgage	\$ 4,944	\$ 5,804	\$ 87	\$ 5,209	\$ 75	\$ 5,887	\$ 294
Production and intermediate-term	5,092	5,338	285	5,366	77	6,064	303
Farm-related business	71	76	—	75	1	85	4
Rural residential real estate	67	154	—	71	1	80	4
Lease receivables	94	95	—	100	2	112	6
Total	\$ 10,268	\$ 11,467	\$ 372	\$ 10,821	\$ 156	\$ 12,228	\$ 611

	December 31, 2020			Year Ended December 31, 2020	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans:					
With a related allowance for credit losses:					
Real estate mortgage	\$ 1,634	\$ 1,863	\$ 359	\$ 2,113	\$ 189
Production and intermediate-term	1,860	2,006	428	2,406	215
Farm-related business	—	—	—	—	—
Rural residential real estate	—	—	—	—	—
Lease receivables	126	126	58	162	15
Total	\$ 3,620	\$ 3,995	\$ 845	\$ 4,681	\$ 419
With no related allowance for credit losses:					
Real estate mortgage	\$ 5,114	\$ 5,629	\$ —	\$ 6,613	\$ 592
Production and intermediate-term	5,517	5,566	—	7,134	639
Farm-related business	82	85	—	106	9
Rural residential real estate	93	176	—	121	11
Lease receivables	—	—	—	—	—
Total	\$ 10,806	\$ 11,456	\$ —	\$ 13,974	\$ 1,251
Total impaired loans:					
Real estate mortgage	\$ 6,748	\$ 7,492	\$ 359	\$ 8,726	\$ 781
Production and intermediate-term	7,377	7,572	428	9,540	854
Farm-related business	82	85	—	106	9
Rural residential real estate	93	176	—	121	11
Lease receivables	126	126	58	162	15
Total	\$ 14,426	\$ 15,451	\$ 845	\$ 18,655	\$ 1,670

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivables	Total
Activity related to the allowance for credit losses:									
Balance at June 30, 2021	\$ 5,119	\$ 2,975	\$ 267	\$ 30	\$ 2	\$ 44	\$ 29	\$ 30	\$ 8,496
Charge-offs	(253)	(1)	(1)	—	—	—	—	—	(255)
Recoveries	2	90	—	—	—	—	—	—	92
Provision for loan losses	188	(62)	4	—	1	—	1	—	132
Balance at September 30, 2021	\$ 5,056	\$ 3,002	\$ 270	\$ 30	\$ 3	\$ 44	\$ 30	\$ 30	\$ 8,465
Balance at December 31, 2020	\$ 6,122	\$ 3,581	\$ 313	\$ 35	\$ 3	\$ 52	\$ 34	\$ 92	\$ 10,232
Charge-offs	(278)	(644)	(3)	—	—	—	—	—	(925)
Recoveries	18	161	152	—	—	—	—	—	331
Provision for loan losses	(806)	(96)	(192)	(5)	—	(8)	(4)	(62)	(1,173)
Balance at September 30, 2021	\$ 5,056	\$ 3,002	\$ 270	\$ 30	\$ 3	\$ 44	\$ 30	\$ 30	\$ 8,465
Balance at June 30, 2020	\$ 5,736	\$ 3,934	\$ 665	\$ 33	\$ 3	\$ 48	\$ 32	\$ 90	\$ 10,541
Charge-offs	(5)	—	—	—	—	—	—	—	(5)
Recoveries	—	8	—	—	—	—	—	—	8
Provision for loan losses	200	318	(35)	2	—	3	2	1	491
Balance at September 30, 2020	\$ 5,931	\$ 4,260	\$ 630	\$ 35	\$ 3	\$ 51	\$ 34	\$ 91	\$ 11,035
Balance at December 31, 2019	\$ 5,635	\$ 3,823	\$ 274	\$ 31	\$ 3	\$ 45	\$ 30	\$ 113	\$ 9,954
Charge-offs	(22)	—	—	—	—	—	—	—	(22)
Recoveries	—	44	—	—	—	—	—	—	44
Provision for loan losses	318	393	356	4	—	6	4	(22)	1,059
Balance at September 30, 2020	\$ 5,931	\$ 4,260	\$ 630	\$ 35	\$ 3	\$ 51	\$ 34	\$ 91	\$ 11,035
Allowance on loans evaluated for impairment:									
Individually	\$ 87	\$ 285	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 372
Collectively	4,969	2,717	270	30	3	44	30	30	8,093
Balance at September 30, 2021	\$ 5,056	\$ 3,002	\$ 270	\$ 30	\$ 3	\$ 44	\$ 30	\$ 30	\$ 8,465
Individually	\$ 359	\$ 428	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 58	\$ 845
Collectively	5,763	3,153	313	35	3	52	34	34	9,387
Balance at December 31, 2020	\$ 6,122	\$ 3,581	\$ 313	\$ 35	\$ 3	\$ 52	\$ 34	\$ 92	\$ 10,232
Recorded investment in loans evaluated for impairment:									
Individually	\$ 4,946	\$ 5,133	\$ 71	\$ —	\$ —	\$ 67	\$ —	\$ 95	\$ 10,312
Collectively	774,666	203,607	59,574	4,367	—	6,466	3,603	4,830	1,057,113
Balance at September 30, 2021	\$ 779,612	\$ 208,740	\$ 59,645	\$ 4,367	\$ —	\$ 6,533	\$ 3,603	\$ 4,925	\$ 1,067,425
Individually	\$ 7,007	\$ 6,354	\$ 184	\$ —	\$ —	\$ 93	\$ —	\$ 219	\$ 13,857
Collectively	768,999	185,837	49,911	4,251	—	5,451	3,603	1,430	1,019,482
Balance at December 31, 2020	\$ 776,006	\$ 192,191	\$ 50,095	\$ 4,251	\$ —	\$ 5,544	\$ 3,603	\$ 1,649	\$ 1,033,339

*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. There were no new TDRs that occurred during the three months ended September 30, 2021.

Nine Months Ended September 30, 2021					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ —	\$ 31	\$ —	\$ 31	
Total	\$ —	\$ 31	\$ —	\$ 31	
Post-modification:					
Real estate mortgage	\$ —	\$ 19	\$ —	\$ 19	\$ (12)
Total	\$ —	\$ 19	\$ —	\$ 19	\$ (12)

Three Months Ended September 30, 2020					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ —	\$ 90	\$ —	\$ 90	
Total	\$ —	\$ 90	\$ —	\$ 90	
Post-modification:					
Real estate mortgage	\$ —	\$ 103	\$ —	\$ 103	\$ —
Total	\$ —	\$ 103	\$ —	\$ 103	\$ —

Nine Months Ended September 30, 2020					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ —	\$ 90	\$ 7	\$ 97	
Total	\$ —	\$ 90	\$ 7	\$ 97	
Post-modification:					
Real estate mortgage	\$ —	\$ 103	\$ 7	\$ 110	\$ —
Total	\$ —	\$ 103	\$ 7	\$ 110	\$ —

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.

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the periods presented. Payment default is defined as a payment that was thirty days or more past due.

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

	Total TDRs		Nonaccrual TDRs	
	September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
Real estate mortgage	\$ 2,685	\$ 2,849	\$ 1,095	\$ 1,000
Production and intermediate-term	3,947	4,252	1,186	835
Rural residential real estate	9	19	2	9
Total loans	\$ 6,641	\$ 7,120	\$ 2,283	\$ 1,844
Additional commitments to lend	\$ —	\$ —		

Note 3 — Investments

Investments in Debt Securities

The Association's investments consist 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 September 30, 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:

September 30, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
RABs	\$ 2605	\$ 114	\$ —	\$ 2,719
				5.95%

December 31, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
RABs	\$ 2,663	\$ 225	\$ —	\$ 2,888
				5.95%

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

September 30, 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	2,605	2,719	5.95
Total	\$ 2,605	\$ 2,719	5.95%

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 at September 30, 2021 and December 31, 2020.

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 3.56 percent of the issued stock of the Bank as of September 30, 2021 net of any reciprocal investment. As of that date, the Bank's assets totaled \$37.9 billion and shareholders' equity totaled \$2.7 billion. The Bank's earnings were \$357 million for the first nine months of 2021. In addition, the Association held \$596 in investments related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

	Changes in Accumulated Other Comprehensive Income by Component (a)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Employee Benefit Plans:				
Balance at beginning of period	\$ (282)	\$ (279)	\$ (291)	\$ (288)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	5	4	14	13
Net current period other comprehensive income	5	4	14	13
Balance at end of period	\$ (277)	\$ (275)	\$ (277)	\$ (275)

	Reclassifications Out of Accumulated Other Comprehensive Income (b)				
	Three Months Ended September 30,		Nine Months Ended September 30,		Income Statement Line Item
	2021	2020	2021	2020	
Defined Benefit Pension Plans:					
Periodic pension costs	\$ (5)	\$ (4)	\$ (14)	\$ (13)	See Note 7.
Net amounts reclassified	\$ (5)	\$ (4)	\$ (14)	\$ (13)	

(a) Amounts in parentheses indicate debits to AOCI.

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

Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

		September 30, 2021								
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value				
<u>Recurring Measurements</u>										
Assets:										
Assets held in trust funds	\$	77	\$	77	\$	–	\$	–	\$	77
Recurring Assets	\$	77	\$	77	\$	–	\$	–	\$	77
Liabilities:										
Recurring Liabilities	\$	–	\$	–	\$	–	\$	–	\$	–
<u>Nonrecurring Measurements</u>										
Assets:										
Impaired loans	\$	1,816	\$	–	\$	–	\$	1,816	\$	1,816
Other property owned		282		–		–		336		336
Nonrecurring Assets	\$	2,098	\$	–	\$	–	\$	2,152	\$	2,152
<u>Other Financial Instruments</u>										
Assets:										
Cash	\$	146	\$	146	\$	–	\$	–	\$	146
Investments in debt securities, held-to-maturity		2,605		–		–		2,719		2,719
Loans		1,048,229		–		–		1,041,939		1,041,939
Other Financial Assets	\$	1,050,980	\$	146	\$	–	\$	1,044,658	\$	1,044,804
Liabilities:										
Notes payable to AgFirst Farm Credit Bank	\$	834,533	\$	–	\$	–	\$	829,092	\$	829,092
Other Financial Liabilities	\$	834,533	\$	–	\$	–	\$	829,092	\$	829,092

		December 31, 2020								
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value				
<u>Recurring Measurements</u>										
Assets:										
Assets held in trust funds	\$	79	\$	79	\$	–	\$	–	\$	79
Recurring Assets	\$	79	\$	79	\$	–	\$	–	\$	79
Liabilities:										
Recurring Liabilities	\$	–	\$	–	\$	–	\$	–	\$	–
<u>Nonrecurring Measurements</u>										
Assets:										
Impaired loans	\$	2,775	\$	–	\$	–	\$	2,775	\$	2,775
Other property owned		–		–		–		–		–
Nonrecurring Assets	\$	2,775	\$	–	\$	–	\$	2,775	\$	2,775
<u>Other Financial Instruments</u>										
Assets:										
Cash	\$	1	\$	1	\$	–	\$	–	\$	1
Investments in debt securities, held-to-maturity		2,663		–		–		2,888		2,888
Loans		1,012,861		–		–		1,018,023		1,018,023
Other Financial Assets	\$	1,015,525	\$	1	\$	–	\$	1,020,911	\$	1,020,912
Liabilities:										
Notes payable to AgFirst Farm Credit Bank	\$	801,307	\$	–	\$	–	\$	806,808	\$	806,808
Other Financial Liabilities	\$	801,307	\$	–	\$	–	\$	806,808	\$	806,808

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.

Investments in Debt Securities

The fair values of predominantly all Level 3 investments in debt 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	\$ 2,152	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

Note 7 — Employee Benefit Plans

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Pension	\$ 378	\$ 288	\$ 1,133	\$ 863
401(k)	123	113	419	381
Other postretirement benefits	85	83	257	247
Total	\$ 586	\$ 484	\$ 1,809	\$ 1,491

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

assets which could change contributions necessary before the next plan measurement date of December 31, 2021.

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

Note 8 — Commitments and Contingent Liabilities

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

material in relation to the financial position of the Association. Because it is remote that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

Note 9 — Subsequent Events

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

On October 18, 2021, AgFirst's Board of Directors indicated an intention to declare, in December 2021, a special patronage distribution. The Association will receive between approximately \$9,876 and \$10,287 which will be recorded as patronage refunds from other Farm Credit institutions.