## Farm Credit Illinois, ACA

**Quarterly Report**
**September 30, 2021**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Illinois, ACA and its subsidiaries, Farm Credit Illinois, FLCA and Farm Credit Illinois, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2020 (2020 Annual Report).

Due to the nature of our financial relationship with AgriBank, FCB (AgriBank), the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of AgriBank financial reports or additional copies of our report, contact us at:


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### FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2020 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

### COVID-19 PANDEMIC

As domestic public health measures have been implemented to limit the spread of COVID-19, including the availability of vaccines, many or all restrictions have been lifted across the United States (U.S.). While the emergence of COVID-19 variants may negatively impact economic conditions, the overall economy continues to recover, and the outlook is positive for many sectors, including agriculture. Most recently, the federal government has announced a vaccine mandate for certain employers and we expect this mandate will apply to our Association. We are awaiting further guidance from the Occupational Safety and Health Administration.

The extent to which the COVID-19 pandemic continues to impact the Association will depend on future developments that are highly uncertain and cannot be predicted. However, we have weathered the significant challenges presented to date. Our business continuity response has allowed us to continue to serve our mission, and a remote work environment allowed us to continue to maintain the health of our employees and operate without loss of key functions due to illness. We have not had any significant changes to internal controls over financial reporting due to working remotely.

### AGRICULTURAL AND ECONOMIC CONDITIONS

With unseasonably warm and dry conditions in September, harvest in Illinois began at a rapid pace. As of the end of the quarter, farmers had harvested 21% of corn and 10% of soybeans. As stated in the September 27, 2021 Illinois Crop Progress and Condition report, forecasted harvested acreage of corn is well ahead of last year's pace with soybean harvest near normal. The September 10, 2021 Crop Production report from the United States Department of Agriculture indicates projected corn yield for Illinois at 214.0 bushels per acre, up from 192.0 bushels per acre last year. Soybean yield is projected at 64.0 bushels per acres, up from 59.0 bushels per acre in 2020.

The September 10, 2021, World Agricultural Supply and Demand Estimate shows market year average corn prices at $5.45 per bushel and $12.90 per bushel for soybeans. Both corn and soybean prices are the third-highest price since projections have been made. Corn prices would be the highest since 2011 and 2012 where the soybean price would only exceed those seen in 2012 and 2013. For comparison, the average prices for the 2020/2021 marketing year for corn and soybeans were $4.45 per bushel and $10.90 per bushel, respectively.

With above-trend yields and high commodity prices, 2021 farm incomes in Illinois should be very strong across the territory. Input costs have also risen rapidly along with projected farm income. Many farmers are pre-ordering seed, earlier than usual, to avoid later cost increases. Fertilizer prices have increased dramatically in 2021 as well. From July 2020 to July 2021, anhydrous ammonia increased 53% from $487 per ton to $746 per ton, reflecting the highest price since June 2014. Prices for DAP were up 83% and potash was up 71% over the same period. These levels for DAP and potash costs haven't been seen since December 2008 and November 2012, respectively.

## LOAN PORTFOLIO

### Loan Portfolio

Total loans were $4.5 billion at September 30, 2021, an increase of $15.9 million from December 31, 2020. The increase was primarily due to real estate mortgage loan activity and growth in the capital markets portfolio.

The Paycheck Protection Program (PPP) is a guaranteed loan program administered by the U.S. Small Business Administration (SBA) created in response to the COVID-19 pandemic. We obtained approval from the SBA in 2020 to participate as a lender in the PPP. Loans issued under the PPP provide for payment deferral and are eligible for forgiveness when certain requirements are fulfilled. We successfully processed $57.0 million in PPP loans for customers with primarily production and intermediate-term type loans before the program concluded on May 31, 2021. We are working with our customers gathering documentation and submitting applications for the forgiveness of the PPP loans and $53.6 million has been forgiven as of September 30, 2021. We expect most PPP loans outstanding to be forgiven by year end.

### Portfolio Credit Quality

The credit quality of our portfolio improved from December 31, 2020. Adversely classified loans decreased slightly to 1.8% of the portfolio at September 30, 2021, from 1.9% of the portfolio at December 31, 2020. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

### Risk Assets

**Components of Risk Assets**

| (dollars in thousands)<br>As of: | **September 30, 2021** | December 31, 2020 |
|---|---|---|
| Loans: | | |
| Nonaccrual | **$ 3,096** | $ 3,841 |
| Accruing restructured | **--** | 36 |
| Accruing loans 90 days or more past due | **1,317** | 1,345 |
| Total risk loans | **4,413** | 5,222 |
| Other property owned | **--** | -- |
| Total risk assets | **$ 4,413** | $ 5,222 |
| Total risk loans as a percentage of total loans | **0.1%** | 0.1% |
| Nonaccrual loans as a percentage of total loans | **0.1%** | 0.1% |
| Current nonaccrual loans as a percentage of total nonaccrual loans | **86.1%** | 86.1% |
| Total delinquencies as a percentage of total loans | **0.1%** | 0.2% |

Note: Accruing loans include accrued interest receivable.

Our risk assets have decreased from December 31, 2020 and total risk loans as a percentage of total loans were well within our established risk management guidelines. Our accounting policy requires loans past due 90 days or more to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, accruing loans 90 days or more past due were eligible to remain in accruing status.

### Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans inherent in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

**Allowance Coverage Ratios**

| As of: | **September 30, 2021** | December 31, 2020 |
|---|---|---|
| Allowance as a percentage of: | | |
| Loans | **0.1%** | 0.1% |
| Nonaccrual loans | **204.3%** | 162.4% |
| Total risk loans | **143.3%** | 119.4% |

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2021.

## RESULTS OF OPERATIONS

**Profitability Information**

| (dollars in thousands)<br>For the nine months ended September 30 | | **2021** | | 2020 |
|---|---|---|---|---|
| Net income | **$** | **66,654** | $ | 67,380 |
| Return on average assets | | **1.9%** | | 2.0% |
| Return on average members' equity | | **8.1%** | | 8.6% |

Changes presented in the profitability information chart relate directly to:

- Changes in income discussed in this section
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Funding, Liquidity, and Capital section

**Changes in Significant Components of Net Income**

| (in thousands)<br>For the nine months ended September 30 | | **2021** | | 2020 | | **Increase (decrease) in net income** |
|---|---|---|---|---|---|---|
| Net interest income | **$** | **77,684** | $ | 75,998 | **$** | **1,686** |
| Provision for (reversal of) loan losses | | **92** | | (805) | | **(897)** |
| Non-interest income | | **39,227** | | 32,743 | | **6,484** |
| Non-interest expense | | **50,168** | | 45,365 | | **(4,803)** |
| Benefit from income taxes | | **(3)** | | (3,199) | | **(3,196)** |
| Net income | **$** | **66,654** | $ | 67,380 | **$** | **(726)** |

### Net Interest Income

**Changes in Net Interest Income**

| (in thousands)<br>For the nine months ended September 30 | | **2021 vs 2020** |
|---|---|---|
| Changes in volume | **$** | **940** |
| Changes in interest rates | | **1,028** |
| Changes in nonaccrual income and other | | **(282)** |
| Net change | **$** | **1,686** |

### Non-Interest Income

The change in non-interest income was primarily due to an increase in fee income. The fee income increase was primarily due to fees collected from the SBA for originating PPP loans. During the first nine months of 2021, SBA PPP fees totaled $5.5 million, as compared to $165 thousand during the same period of 2020. The SBA PPP fees in 2021 are related to a special loan program and are expected to be non-recurring.

### Non-Interest Expense

The change in non-interest expense was primarily related to an increase in other operating expense, specifically Farm Credit System insurance expense and loan servicing expenses.

The Farm Credit System insurance expense increased in 2021 primarily due to a higher premium rate charged by Farm Credit System Insurance Corporation (FCSIC) on accrual loans. The premium rate, which is primarily impacted by System growth, was 16 basis points for the nine months ended September 30, 2021, compared to a premium rate of 8 basis points for the first half of 2020 and 11 basis points for the third quarter of 2020. The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time.

The increase in loan servicing expenses in 2021 was due primarily to a higher tax recovery estimate on our share of certain capital markets transactions.

### Benefit from Income Taxes

The change in benefit from income taxes was primarily related to the adjustments to reduce the valuation allowance against deferred tax assets as a result of pandemic related tax law changes that allows for certain carryback of net operating losses.

## FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable was scheduled to mature on July 31, 2022. However, it was renewed early for $5.0 billion with a maturity date of July 31, 2024. We intend to renegotiate the note payable no later than the maturity date. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from unallocated surplus. At September 30, 2021, gross loans are funded 81.0% by the direct note and 19.0% by unallocated surplus.

The components of cost of funds associated with our note payable include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity, and bank profit
- A risk premium component, if applicable

We were not subject to a risk premium at September 30, 2021, or December 31, 2020.

Total members' equity increased $66.8 million from December 31, 2020, primarily due to net income for the period.

The Farm Credit Administration (FCA) Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 7 in our 2020 Annual Report for a more complete description of these ratios.

**Regulatory Capital Requirements and Ratios**

| As of: | **September 30, 2021** | December 31, 2020 | Regulatory Minimums | Capital Conservation Buffer | Total |
|---|---|---|---|---|---|
| Risk-adjusted: | | | | | |
| Common equity tier 1 ratio | **19.8%** | 20.0% | 4.5% | 2.5% | 7.0% |
| Tier 1 capital ratio | **19.8%** | 20.0% | 6.0% | 2.5% | 8.5% |
| Total capital ratio | **19.9%** | 20.1% | 8.0% | 2.5% | 10.5% |
| Permanent capital ratio | **19.8%** | 20.0% | 7.0% | N/A | 7.0% |
| Non-risk-adjusted: | | | | | |
| Tier 1 leverage ratio | **21.4%** | 21.3% | 4.0% | 1.0% | 5.0% |
| Unallocated retained earnings and equivalents leverage ratio | **23.3%** | 23.3% | 1.5% | N/A | 1.5% |

Capital ratios are directly impacted by the changes in capital, as more fully explained in this section, the changes in assets, as discussed in the Loan Portfolio section, and off-balance sheet commitments, as disclosed in Note 11 in our 2020 Annual Report.

## CERTIFICATION

The undersigned have reviewed the September 30, 2021, Quarterly Report of Farm Credit Illinois, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Eric J. Mosbey

Eric J. Mosbey
Chairperson of the Board
Farm Credit Illinois, ACA

Aaron S. Johnson

Aaron S. Johnson
President and Chief Executive Officer
Farm Credit Illinois, ACA

Kelly D. Hunt

Kelly D. Hunt
Chief Financial Officer
Farm Credit Illinois, ACA

November 8, 2021

# CONSOLIDATED STATEMENTS OF CONDITION

*Farm Credit Illinois, ACA*
*(in thousands)*
*(Unaudited)*

| As of: | | September 30, 2021 | | December 31, 2020 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Loans | **$** | **4,464,499** | $ | 4,448,568 |
| Allowance for loan losses | | **6,326** | | 6,237 |
| Net loans | | **4,458,173** | | 4,442,331 |
| Investment in AgriBank, FCB | | **136,171** | | 137,515 |
| Investment securities | | **43,522** | | 49,840 |
| Accrued interest receivable | | **53,030** | | 49,424 |
| Deferred tax assets, net | | **1,241** | | 1,241 |
| Other assets | | **79,285** | | 68,550 |
| Total assets | **$** | **4,771,422** | $ | 4,748,901 |
| **LIABILITIES** | | | | |
| Note payable to AgriBank, FCB | **$** | **3,616,208** | $ | 3,616,253 |
| Accrued interest payable | | **11,044** | | 10,676 |
| Patronage distribution payable | | **--** | | 42,670 |
| Other liabilities | | **14,159** | | 16,068 |
| Total liabilities | | **3,641,411** | | 3,685,667 |
| Contingencies and commitments (Note 4) | | | | |
| **MEMBERS' EQUITY** | | | | |
| Capital stock and participation certificates | | **7,796** | | 7,656 |
| Unallocated surplus | | **1,123,475** | | 1,056,955 |
| Accumulated other comprehensive loss | | **(1,260)** | | (1,377) |
| Total members' equity | | **1,130,011** | | 1,063,234 |
| Total liabilities and members' equity | **$** | **4,771,422** | $ | 4,748,901 |

*The accompanying notes are an integral part of these Consolidated Financial Statements.*

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

*Farm Credit Illinois, ACA*
*(in thousands)*
*(Unaudited)*

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| *For the period ended September 30* | **2021** | 2020 | **2021** | 2020 |
| **Interest income** | **$ 37,556** | $ 39,157 | **$ 110,437** | $ 125,665 |
| **Interest expense** | **11,044** | 12,452 | **32,753** | 49,667 |
| Net interest income | **26,512** | 26,705 | **77,684** | 75,998 |
| **(Reversal of) provision for loan losses** | **(259)** | (844) | **92** | (805) |
| Net interest income after provision for loan losses | **26,771** | 27,549 | **77,592** | 76,803 |
| **Non-interest income** | | | | |
| Patronage income | **7,514** | 8,182 | **22,728** | 22,152 |
| Financially related services income | **2,228** | 2,166 | **6,339** | 6,086 |
| Fee income | **1,186** | 551 | **8,525** | 2,749 |
| Allocated Insurance Reserve Accounts distribution | **--** | -- | **--** | 835 |
| Other non-interest income | **372** | 427 | **1,635** | 921 |
| Total non-interest income | **11,300** | 11,326 | **39,227** | 32,743 |
| **Non-interest expense** | | | | |
| Salaries and employee benefits | **9,154** | 8,919 | **26,947** | 26,370 |
| Other operating expense | **8,281** | 6,459 | **23,221** | 18,995 |
| Total non-interest expense | **17,435** | 15,378 | **50,168** | 45,365 |
| Income before income taxes | **20,636** | 23,497 | **66,651** | 64,181 |
| **Benefit from income taxes** | **--** | (25) | **(3)** | (3,199) |
| Net income | **$ 20,636** | $ 23,522 | **$ 66,654** | $ 67,380 |
| **Other comprehensive income** | | | | |
| Employee benefit plans activity | **$ 39** | $ 28 | **$ 117** | $ 101 |
| Total other comprehensive income | **39** | 28 | **117** | 101 |
| Comprehensive income | **$ 20,675** | $ 23,550 | **$ 66,771** | $ 67,481 |

*The accompanying notes are an integral part of these Consolidated Financial Statements.*

# CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

*Farm Credit Illinois, ACA*

*(in thousands)*

*(Unaudited)*

| | Capital Stock and Participation Certificates | Unallocated Surplus | Accumulated Other Comprehensive Loss | Total Members' Equity |
|---|---|---|---|---|
| Balance at December 31, 2019 | $ 7,489 | $ 1,011,847 | $ (1,122) | $ 1,018,214 |
| Net income | -- | 67,380 | -- | 67,380 |
| Other comprehensive income | -- | -- | 101 | 101 |
| Unallocated surplus designated for patronage distributions | -- | (334) | -- | (334) |
| Capital stock and participation certificates issued | 511 | -- | -- | 511 |
| Capital stock and participation certificates retired | (428) | -- | -- | (428) |
| Balance at September 30, 2020 | $ 7,572 | $ 1,078,893 | $ (1,021) | $ 1,085,444 |
| Balance at December 31, 2020 | $ 7,656 | $ 1,056,955 | $ (1,377) | $ 1,063,234 |
| Net income | **--** | **66,654** | **--** | **66,654** |
| Other comprehensive income | **--** | **--** | **117** | **117** |
| Unallocated surplus designated for patronage distributions | **--** | **(134)** | **--** | **(134)** |
| Capital stock and participation certificates issued | **568** | **--** | **--** | **568** |
| Capital stock and participation certificates retired | **(428)** | **--** | **--** | **(428)** |
| **Balance at September 30, 2021** | **$ 7,796** | **$ 1,123,475** | **$ (1,260)** | **$ 1,130,011** |

*The accompanying notes are an integral part of these Consolidated Financial Statements.*

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim financial information and conform to generally accepted accounting principles in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the nine months ended September 30, 2021, are not necessarily indicative of the results to be expected for the year ending December 31, 2021. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2020 (2020 Annual Report).

The Consolidated Financial Statements present the consolidated financial results of Farm Credit Illinois, ACA and its subsidiaries Farm Credit Illinois, FLCA and Farm Credit Illinois, PCA. All material intercompany transactions and balances have been eliminated in consolidation.

#### Significant Accounting Policies

Effective March 2021, a change in accounting policy was elected to use the fair value method for calculating the market-related value of assets for the fixed-income pension assets. This change in accounting principle did not have a material impact on the financial statements.

There have been no other changes in our accounting policies as disclosed in our 2020 Annual Report, except as described in the Recently Issued or Adopted Accounting Pronouncements.

#### Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business. While we are a nonpublic entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements in alignment with other System institutions.

| Standard and effective date | Description | Adoption status and financial statement impact |
|---|---|---|
| In March 2020, the FASB issued Accounting Standards Update (ASU) 2020-04 "Reference Rate Reform, Topic 848." In January 2021, the FASB issued ASU 2021-01 further amending Topic 848. This guidance may be elected and applied prospectively over time from March 12, 2020, through December 31, 2022, as reference rate reform activities occur. | The guidance provides optional expedients and exceptions for applying GAAP to contracts and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contract terms related to the replacement of the reference rate. | During March 2021, we adopted this standard. To date, the adoption of this standard has not had a material impact on our financial condition, results of operations, cash flows, and financial statement disclosures. |
| In June 2016, the FASB issued ASU 2016-13 "Financial Instruments - Credit Losses." The guidance was originally effective for non-U.S. Securities Exchange Commission filers for our first quarter of 2021. In November 2019, the FASB issued ASU 2019-10 which amended the mandatory effective date for this guidance for certain institutions. We have determined we qualify for the deferral of the mandatory effective date. As a result of the change, the standard is effective for our first quarter of 2023 and early adoption is permitted. | The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. | We expect to adopt the standard as of January 1, 2023. We are currently assessing the impact this guidance will have on our financial statements upon adoption, which will be impacted by the composition of our portfolio and asset quality at the adoption date, as well as economic conditions and forecasts at the time of adoption. We have reviewed the accounting standard, selected and substantially completed development and testing of our system, and are in the process of drafting disclosures. Significant implementation matters yet to be addressed include drafting of accounting policies and designing processes and controls. We are currently unable to estimate the impact on our financial statements. |

## NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

**Loans by Type**

| (dollars in thousands) As of: | September 30, 2021 Amount | % | December 31, 2020 Amount | % |
|---|---|---|---|---|
| Real estate mortgage | **$ 2,537,186** | **56.9%** | $ 2,468,119 | 55.5% |
| Production and intermediate-term | **649,207** | **14.5%** | 742,873 | 16.7% |
| Agribusiness | **932,578** | **20.9%** | 932,399 | 21.0% |
| Other | **345,528** | **7.7%** | 305,177 | 6.8% |
| Total | **$ 4,464,499** | **100.0%** | $ 4,448,568 | 100.0% |

The other category is primarily composed of rural infrastructure and agricultural export finance related loans and certain assets originated under the mission related investment authority.

### Delinquency

**Aging Analysis of Loans**

| (in thousands) **As of September 30, 2021** | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less than 30 Days Past Due | Total | Accruing Loans 90 Days or More Past Due |
|---|---|---|---|---|---|---|
| Real estate mortgage | **$ 889** | **$ 1,740** | **$ 2,629** | **$ 2,575,443** | **$ 2,578,072** | **$ 1,317** |
| Production and intermediate-term | **3,850** | **6** | **3,856** | **654,521** | **658,377** | **--** |
| Agribusiness | **--** | **--** | **--** | **934,932** | **934,932** | **--** |
| Other | **--** | **--** | **--** | **345,909** | **345,909** | **--** |
| Total | **$ 4,739** | **$ 1,746** | **$ 6,485** | **$ 4,510,805** | **$ 4,517,290** | **$ 1,317** |

| As of December 31, 2020 | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less than 30 Days Past Due | Total | Accruing Loans 90 Days or More Past Due |
|---|---|---|---|---|---|---|
| Real estate mortgage | $ 7,650 | $ 1,768 | $ 9,418 | $ 2,493,306 | $ 2,502,724 | $ 1,345 |
| Production and intermediate-term | 639 | 109 | 748 | 753,432 | 754,180 | -- |
| Agribusiness | -- | -- | -- | 935,399 | 935,399 | -- |
| Other | -- | -- | -- | 305,412 | 305,412 | -- |
| Total | $ 8,289 | $ 1,877 | $ 10,166 | $ 4,487,549 | $ 4,497,715 | $ 1,345 |

Note: Accruing loans include accrued interest receivable.

### Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

**Risk Loan Information**

| (in thousands) As of: | **September 30, 2021** | December 31, 2020 |
|---|---|---|
| Volume with specific allowance | **$ 428** | $ 532 |
| Volume without specific allowance | **3,985** | 4,690 |
| Total risk loans | **$ 4,413** | $ 5,222 |
| Total specific allowance | **$ 117** | $ 220 |
| For the nine months ended September 30 | **2021** | 2020 |
| Income on accrual risk loans | **$ 69** | $ 45 |
| Income on nonaccrual loans | **119** | 402 |
| Total income on risk loans | **$ 188** | $ 447 |
| Average risk loans | **$ 5,421** | $ 5,115 |

Note: Accruing loans include accrued interest receivable.

We had no commitments to lend additional money to borrowers whose loans were classified as risk loans at September 30, 2021.

## Troubled Debt Restructurings (TDRs)

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a TDR, also known as a formally restructured loan for regulatory purposes. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

**TDR Activity**

(in thousands)

| Nine months ended September 30 | **2021** | | 2020 | |
|---|---|---|---|---|
| | Pre-modification | Post-modification | Pre-modification | Post-modification |
| Real estate mortgage | **$ --** | **$ --** | $ 95 | $ 95 |
| Production and intermediate-term | **--** | **--** | 47 | 47 |
| Total | **$ --** | **$ --** | $ 142 | $ 142 |

Pre-modification represents the outstanding recorded investment of the loan just prior to restructuring and post-modification represents the outstanding recorded investment of the loan immediately following the restructuring. The recorded investment is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment.

The primary type of modification was payment deferrals.

There were no TDRs that defaulted during the nine months ended September 30, 2021, or 2020 in which the modification was within twelve months of the respective reporting period.

**TDRs Outstanding**

| (in thousands)<br>As of: | **September 30, 2021** | December 31, 2020 |
|---|---|---|
| Accrual status: | | |
| Real estate mortgage | **$ --** | $ -- |
| Production and intermediate-term | **--** | 36 |
| Total TDRs in accrual status | **$ --** | $ 36 |
| Nonaccrual status: | | |
| Real estate mortgage | **$ 507** | $ 512 |
| Production and intermediate-term | **22** | 40 |
| Total TDRs in nonaccrual status | **$ 529** | $ 552 |
| Total TDRs: | | |
| Real estate mortgage | **$ 507** | $ 512 |
| Production and intermediate-term | **22** | 76 |
| Total TDRs | **$ 529** | $ 588 |

There were no commitments to lend to borrowers whose loans have been modified in a TDR at September 30, 2021.

## Allowance for Loan Losses

**Changes in Allowance for Loan Losses**

| (in thousands)<br>Nine months ended September 30 | **2021** | 2020 |
|---|---|---|
| Balance at beginning of period | **$ 6,237** | $ 8,699 |
| Provision for (reversal of) loan losses | **92** | (805) |
| Loan recoveries | **10** | 141 |
| Loan charge-offs | **(13)** | (349) |
| Balance at end of period | **$ 6,326** | $ 7,686 |

## NOTE 3: INVESTMENT SECURITIES

We held investment securities of $43.5 million at September 30, 2021, and $49.8 million at December 31, 2020. Our investment securities consisted of securities containing loans guaranteed by the Small Business Administration (SBA). All of our investment securities were fully guaranteed by the SBA at September 30, 2021, and December 31, 2020.

The investment securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. No investments within the portfolio were impaired at September 30, 2021, or December 31, 2020.

Our investments are asset-backed securities, which are generally shorter-term investments.

**Additional Investment Securities Information**

| (dollars in thousands) As of: | | **September 30, 2021** | | December 31, 2020 |
|---|---|---|---|---|
| Amortized cost | **$** | **43,522** | $ | 49,840 |
| Unrealized gains | | **132** | | 482 |
| Unrealized losses | | **(299)** | | (35) |
| Fair value | **$** | **43,355** | $ | 50,287 |
| Weighted average yield | | **1.5%** | | 1.8% |

Investment income is recorded in "Interest income" in the Consolidated Statements of Comprehensive Income and totaled $517 thousand and $614 thousand for the nine months ended September 30, 2021, and 2020, respectively. Premiums paid to purchase the investment are not guaranteed and are amortized as a reduction of interest income.

**Contractual Maturities of Investment Securities**

| (in thousands) **As of September 30, 2021** | | Amortized Cost |
|---|---|---|
| Five to ten years | | **28,036** |
| More than ten years | | **15,486** |
| Total | **$** | **43,522** |

Actual maturity of the investment securities may be less than contractual maturity due to prepayments.

## NOTE 4: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

We and other Farm Credit Institutions are among the limited partners for Rural Business Investment Companies (RBICs). As of September 30, 2021, our total commitment was $14.0 million of which $9.9 million was unfunded, with varying commitment end dates through December 2030. Certain commitments may have an option to extend under certain circumstances.

## NOTE 5: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 in our 2020 Annual Report for a more complete description of the three input levels.

We did not have any material assets or liabilities measured at fair value on a recurring basis at September 30, 2021, or December 31, 2020.

### Non-Recurring Basis

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

**Assets Measured at Fair Value on a Non-Recurring Basis**

| (in thousands) **As of September 30, 2021** | Fair Value Measurement Using | | | | | | Total Fair | |
|---|---|---|---|---|---|---|---|---|
| | | Level 1 | | Level 2 | | Level 3 | | Value |
| Impaired loans | **$** | **--** | **$** | **--** | **$** | **327** | **$** | **327** |

| As of December 31, 2020 | Fair Value Measurement Using | | | | | | Total Fair | |
|---|---|---|---|---|---|---|---|---|
| | | Level 1 | | Level 2 | | Level 3 | | Value |
| Impaired loans | $ | -- | $ | -- | $ | 327 | $ | 327 |

### Valuation Techniques

**Impaired Loans:** Represents the carrying amount of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as Level 3.

## NOTE 6: SUBSEQUENT EVENTS

We have evaluated subsequent events through November 8, 2021, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.