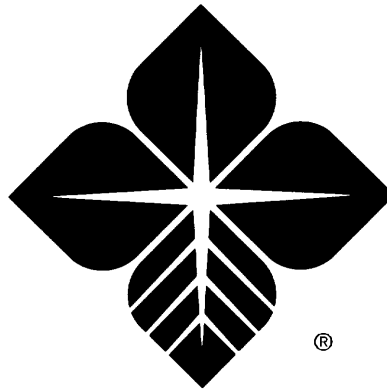


AG NEW MEXICO, FARM CREDIT SERVICES, ACA

**2021
Quarterly Report
Third Quarter**



For the Quarter Ended September 30, 2021

REPORT OF MANAGEMENT

The undersigned certify that we have reviewed this report, that it has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Brett Valentine, Chief Executive Officer

November 9, 2021



Linda Brown, Chairman, Board of Directors

November 9, 2021



Will Fisher, Chief Financial Officer

November 9, 2021

Third Quarter 2021 Financial Report

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AG NEW MEXICO, FARM CREDIT SERVICES, ACA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Ag New Mexico, Farm Credit Services, ACA (Agricultural Credit Association), referred to as the Association, for the quarter ended September 30, 2021. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2020 Annual Report to Stockholders.

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

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

Significant Events:

The United States continues to operate under a presidentially declared emergency since March 13, 2020, due to the Coronavirus Disease 2019 (also referred to as COVID-19). The Association continues during these unprecedented times to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. The Association is closely monitoring its loan portfolio overall and is particularly focused on sectors that may be pressured by COVID-19 and its related economic impacts, such as food processing, dairy, and beef cattle. The Association has maintained its strong portfolio monitoring and servicing practices and, if appropriate, will evaluate its allowance for loan losses as changes in outlook occur. Capital levels remained adequate to support any adversity or continuing loan demand.

The U.S. economy is estimated to have decelerated during the third quarter of 2021 due primarily to a surge in new COVID-19 cases and supply chain disruptions that negatively impacted performance. The U.S. Bureau of Economic Analysis estimates that real gross domestic product (GDP) increased at an annual rate of 6.7% in the second quarter of 2021, up from 6.3% during the first quarter of 2021. However, as of October 1, 2021, the Federal Reserve Bank of Atlanta estimates that real GDP growth was about 2.3% during the third quarter of 2021. According to the International Monetary Fund's latest World Economic Outlook, released on July 27, 2021, U.S. real GDP growth is estimated to be 7.0% in 2021. Inflationary pressures persisted during the third quarter of 2021. The annual inflation rate increased in July and August 2021, reaching 5.3%.

According to the USDA's September 2021 World Agricultural Supply and Demand Estimates report, average farm prices for corn, soybeans and cotton are still on track to experience double-digit growth during the 2021/22 marketing year. Steer prices are estimated to have averaged higher during the third quarter of 2021 compared to the prior quarter and are expected to continue rising during the fourth quarter of 2021. Additionally, steers, barrows and gilts, broilers, and turkey prices are also projected to experience double-digit year-over-year price growth in 2021. However, the USDA revised down by nearly 4 percentage points its estimate for the average farm price of all-milk during 2021 compared to its June 2021 estimate. The all-milk price is now projected to decline by about 0.5% year-over-year in 2021, before increasing by 1.4% during 2022. Lumber prices continued to decline this quarter but were still slightly higher year-over-year in 2021.

During the first three quarters of 2021, the New Mexico agriculture economy remained sound. Moisture and precipitation varied across the state, with most of state considered to be in a drought.

Loan Portfolio:

Total loans outstanding at September 30, 2021, including nonaccrual loans and sales contracts, were \$339,706,438 compared to \$293,066,480 at December 31, 2020, reflecting an increase of 15.9 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.6 percent at September 30, 2021, compared to 0.7 percent at December 31, 2020.

The Association did not record any recoveries or charge-offs for the quarter ended September 30, 2021, and did not record any recoveries or charge-offs for the same period in 2020. The Association's allowance for loan losses was 0.3 percent of total loans outstanding as of September 30, 2021, and December 31, 2020.

Risk Exposure:

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

	September 30, 2021		December 31, 2020	
	Amount	%	Amount	%
Nonaccrual	\$ 2,008,000	99.9%	\$ 2,097,655	95.4%
90 days past due and still accruing interest	-	0.0%	99,364	4.5%
Other property owned, net	2,775	0.1%	2,775	0.1%
Total	\$ 2,010,775	100.0%	\$ 2,199,794	100.0%

Results of Operations:

The Association had net income of \$938,218 and \$3,117,608 for the three and nine months ended September 30, 2021, as compared to net income of \$1,034,853 and \$3,054,586 for the same period in 2020, reflecting a decrease of 9.3 percent and an increase of 2.1 percent respectively. Net interest income was \$1,918,890 and \$5,483,786 for the three and nine months ended September 30, 2021, compared to \$1,563,216 and \$5,040,321 for the same period in 2020.

	Nine Months Ended			
	September 30, 2021		September 30, 2020	
	Average Balance	Interest	Average Balance	Interest
Loans	\$ 319,628,653	\$ 8,826,826	\$ 266,468,037	\$ 8,884,706
Interest-bearing liabilities	283,645,551	3,343,040	234,852,874	3,844,385
Impact of capital	\$ 35,983,102		\$ 31,615,163	
Net interest income		\$ 5,483,786		\$ 5,040,321
	2021		2020	
	Average Yield		Average Yield	
Yield on loans	3.69%		4.45%	
Cost of interest-bearing liabilities	1.58%		2.19%	
Interest rate spread	2.11%		2.26%	
Net interest income as a percentage of average earning assets	2.29%		2.53%	

	Nine months ended:		
	September 30, 2021 vs. September 30, 2020		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income - loans	\$ 1,770,886	\$ (1,828,766)	\$ (57,880)
Interest expense	799,224	(1,300,569)	(501,345)
Net interest income	\$ 971,662	\$ (528,197)	\$ 443,465

Interest income for the three and nine months ended September 30, 2021, increased by \$386,457 and decreased by \$57,880, or 14.4 percent and 0.6 percent respectively, from the same period of 2020, primarily due to a decrease in yields on earning assets slightly offset by an increase in average loan volume. Interest expense for the three and nine months ended September 30, 2021, decreased by \$30,783 and \$501,345, or 2.7 percent and 13.0 percent, from the same period of 2020 due to a decrease in interest rates slightly offset by an increase in average debt volume. Average loan volume for the third quarter of 2021 was \$319,628,653, compared to \$266,468,037 in the third quarter of 2020. The average net interest rate spread on the loan portfolio for the third quarter of 2021 was 2.11 percent, compared to 2.26 percent in the third quarter of 2020.

The Association's return on average assets for the nine months ended September 30, 2021, was 1.24 percent compared to 1.44 percent for the same period in 2020. The Association's return on average equity for the nine months ended September 30, 2021, was 8.58 percent, compared to 9.00 percent for the same period in 2020.

Liquidity and Funding Sources:

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

	September 30, 2021	December 31, 2020
Note payable to the Bank	\$ 299,434,304	\$ 248,320,942
Accrued interest on note payable	372,576	362,159
Total	<u>\$ 299,806,880</u>	<u>\$ 248,683,101</u>

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2023. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$299,434,304 as of September 30, 2021, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 1.49 percent at September 30, 2021. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2020, is due to the Association's increase in loan volume. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$37,998,881 at September 30, 2021. The maximum amount the Association may borrow from the Bank as of September 30, 2021, was \$339,601,764 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2023, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

In 2017, the United Kingdom's Financial Conduct Authority, announced its intention to stop persuading or compelling the group of major banks that sustains LIBOR to submit rate quotations after 2021. As a result, it is uncertain whether LIBOR will continue to be quoted after 2021. We continue to analyze potential risks associated with the LIBOR transition, including financial, operational, legal, tax, reputational and compliance risks. At this time, we are unable to predict whether or when LIBOR will cease to be available or if Secured Overnight Financing Rate (SOFR) or any other alternative reference rate will become the benchmark to replace LIBOR. Because we engage in transactions involving financial instruments that reference LIBOR, these developments could have a material impact on the Association and our borrowers. Management has documented a LIBOR transition plan to address the phase out of LIBOR rates in the future, including any updates to processes and loan servicing technology.

Capital Resources:

The Association's capital position increased by \$3,129,071 at September 30, 2021, compared to December 31, 2020. The Association's debt as a percentage of members' equity was 6.10:1 as of September 30, 2021, compared to 5.53:1 as of December 31, 2020.

Farm Credit Administration regulations require the Association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of September 30, 2021, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements:

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

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

In December 2019, the FASB issued guidance entitled “Simplifying the Accounting for Income Taxes.” This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition, and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements, and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted, and the Association adopted this guidance on January 1, 2020. The adoption of this guidance did not materially impact the Association’s financial condition or results of operations; nor did the guidance impact the presentation of taxes for prior periods in the year 2020 interim or year-end financial statements.

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

In June 2016, the FASB issued guidance entitled “Measurement of Credit Losses on Financial Instruments.” The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those institutions qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association’s financial condition and its results of operations.

Relationship With the Farm Credit Bank of Texas:

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

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

The Association’s quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Ag New Mexico, Farm Credit Services, ACA, 4501 N. Prince St., Clovis, New Mexico, 88101 or calling (575) 762-3828. The annual and quarterly stockholder reports for the Association are also available on its website at www.agnewmexico.com. Copies of the Association’s quarterly stockholder reports can also be requested by e-mailing will.fisher@farmcreditbank.com.

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED BALANCE SHEET

	September 30, 2021 (unaudited)	December 31, 2020
<u>ASSETS</u>		
Loans	\$ 339,706,438	\$ 293,066,480
Less: allowance for loan losses	984,561	891,494
Net loans	<u>338,721,877</u>	<u>292,174,986</u>
Accrued interest receivable	4,038,214	3,008,000
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	6,603,950	6,917,190
Other	2,559,724	784,507
Deferred taxes, net	389,277	389,277
Other property owned, net	2,775	2,775
Premises and equipment, net	2,562,266	2,581,927
Other assets	663,978	619,773
Total assets	<u><u>\$ 355,542,061</u></u>	<u><u>\$ 306,478,435</u></u>
<u>LIABILITIES</u>		
Note payable to the Farm Credit Bank of Texas	\$ 299,434,304	\$ 248,320,942
Advance conditional payments	2,543,996	361,872
Accrued interest payable	372,576	362,159
Drafts outstanding	23,122	5,496
Patronage distributions payable	-	650,000
Other liabilities	3,106,559	9,845,533
Total liabilities	<u><u>305,480,557</u></u>	<u><u>259,546,002</u></u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	441,805	447,640
Unallocated retained earnings	50,081,454	46,963,846
Accumulated other comprehensive loss	(461,755)	(479,053)
Total members' equity	<u><u>50,061,504</u></u>	<u><u>46,932,433</u></u>
Total liabilities and members' equity	<u><u>\$ 355,542,061</u></u>	<u><u>\$ 306,478,435</u></u>

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

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<u>INTEREST INCOME</u>				
Loans	\$ 3,061,406	\$ 2,674,949	\$ 8,826,826	\$ 8,884,706
<u>INTEREST EXPENSE</u>				
Note payable to the Farm Credit Bank of Texas	1,142,516	1,111,733	3,343,040	3,844,385
Net interest income	1,918,890	1,563,216	5,483,786	5,040,321
<u>PROVISION FOR LOAN LOSSES</u>				
	60,994	73,760	78,003	204,546
Net interest income after provision for loan losses	1,857,896	1,489,456	5,405,783	4,835,775
<u>NONINTEREST INCOME</u>				
Income from the Farm Credit Bank of Texas:				
Patronage income	718,002	625,908	2,110,506	1,909,194
Loan fees	42,047	17,350	116,429	168,707
Financially related services income	19,416	507	20,074	21,972
Gain (loss) on sale of premises and equipment, net	-	63,300	88,791	(77,141)
Other noninterest income	142,970	197,588	229,825	326,331
Total noninterest income	922,435	904,653	2,565,625	2,349,063
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	1,118,133	842,461	2,894,943	2,658,075
Directors' expense	43,161	36,103	116,123	102,111
Purchased services	123,529	93,669	303,953	356,613
Travel	69,045	44,411	190,847	132,040
Occupancy and equipment	207,607	112,882	552,831	310,778
Communications	17,221	22,626	56,896	66,136
Advertising	9,293	11,348	20,021	24,216
Public and member relations	44,861	28,407	56,445	40,281
Supervisory and exam expense	24,217	22,954	83,605	77,864
Insurance Fund premiums	124,850	72,775	347,154	181,577
Loss on other property owned, net	133	658	1,794	16,261
Other noninterest expense	59,963	67,342	229,088	166,310
Total noninterest expenses	1,842,013	1,355,636	4,853,700	4,132,262
Income before income taxes	938,318	1,038,473	3,117,708	3,052,576
Provision for (benefit from) income taxes	100	3,620	100	(2,010)
NET INCOME	938,218	1,034,853	3,117,608	3,054,586
Other comprehensive income:				
Change in postretirement benefit plans	5,766	4,170	17,298	12,510
COMPREHENSIVE INCOME	\$ 943,984	\$ 1,039,023	\$ 3,134,906	\$ 3,067,096

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

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	<u>Capital Stock/ Participation Certificates</u>	<u>Unallocated Retained Earnings</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total Members' Equity</u>
Balance at December 31, 2019	\$ 449,660	\$ 43,552,293	\$ (326,340)	\$ 43,675,613
Comprehensive income	-	3,054,586	12,510	3,067,096
Capital stock/participation certificates and allocated retained earnings issued	42,220	-	-	42,220
Capital stock/participation certificates and allocated retained earnings retired	(43,385)	-	-	(43,385)
Balance at September 30, 2020	<u>\$ 448,495</u>	<u>\$ 46,606,879</u>	<u>\$ (313,830)</u>	<u>\$ 46,741,544</u>
Balance at December 31, 2020	\$ 447,640	\$ 46,963,846	\$ (479,053)	\$ 46,932,433
Comprehensive income	-	3,117,608	17,298	3,134,906
Capital stock/participation certificates and allocated retained earnings issued	35,370	-	-	35,370
Capital stock/participation certificates and allocated retained earnings retired	(41,205)	-	-	(41,205)
Balance at September 30, 2021	<u>\$ 441,805</u>	<u>\$ 50,081,454</u>	<u>\$ (461,755)</u>	<u>\$ 50,061,504</u>

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

AG NEW MEXICO, FARM CREDIT SERVICES, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Ag New Mexico, Farm Credit Services, ACA (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves all counties in the state of New Mexico with the exception of San Juan County and the portion of Rio Arriba County lying west of the Continental Divide. The PCA and FLCA subsidiaries are also authorized to operate in Cochran County, Texas. In addition, the Association and Farm Credit Services of New Mexico, ACA have entered into an agreement that allows the Association to make mortgage loans in New Mexico, on a statewide basis, without obtaining territorial approval. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

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

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

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

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

In December 2019, the FASB issued guidance entitled "Simplifying the Accounting for Income Taxes." This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition, and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements, and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted, and the Association adopted this guidance on January 1, 2020. The adoption of this guidance did not materially impact the Association's financial condition or results of operations; nor did the guidance impact the presentation of taxes for prior periods in the year 2020 interim or year-end financial statements.

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

In June 2016, the FASB issued guidance entitled “Measurement of Credit Losses on Financial Instruments.” The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those institutions qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association’s financial condition and its results of operations.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management’s estimates. The results for the quarter ended September 30, 2021, are not necessarily indicative of the results to be expected for the year ended December 31, 2021. Certain amounts in the prior period’s financial statements may have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	September 30, 2021	December 31, 2020
Production agriculture:		
Real estate mortgage	\$ 178,240,055	\$ 127,731,209
Production and intermediate term	63,973,125	73,334,998
Agribusiness:		
Processing and marketing	41,989,637	46,594,131
Farm-related business	19,731,947	17,831,009
Loans to cooperatives	9,033,514	4,462,937
Energy	9,231,262	5,052,291
Communication	5,607,551	8,039,201
Rural residential real estate	4,074,398	4,991,761
Water and waste water	3,308,468	3,038,933
International	2,697,121	-
Lease receivables	1,819,360	1,990,010
Total	\$ 339,706,438	\$ 293,066,480

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at September 30, 2021:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Agribusiness	\$ 49,728,548	\$ 19,899,540	\$ -	\$ -	\$ 49,728,548	\$ 19,899,540
Real estate mortgage	17,187,463	22,618,895	-	1,794,275	17,187,463	24,413,170
Production and intermediate term	14,828,051	35,257,684	-	-	14,828,051	35,257,684
Energy	9,231,262	-	-	-	9,231,262	-
Communication	5,607,551	-	-	-	5,607,551	-
Water and waste water	3,308,468	-	-	-	3,308,468	-
International	2,697,121	-	-	-	2,697,121	-
Lease receivables	1,819,360	-	-	-	1,819,360	-
Rural residential real estate	-	3,850,130	-	-	-	3,850,130
Total	<u>\$ 104,407,824</u>	<u>\$ 81,626,249</u>	<u>\$ -</u>	<u>\$ 1,794,275</u>	<u>\$ 104,407,824</u>	<u>\$ 83,420,524</u>

The Association is authorized under the Farm Credit Act to accept “advance conditional payments” (ACPs) from borrowers. To the extent the borrower’s access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower’s related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest may be paid by the Association on such balances. Balances of ACPs were \$2,543,996 and \$361,872 at September 30, 2021, and December 31, 2020, respectively.

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

	September 30, 2021	December 31, 2020
Nonaccrual loans:		
Production and intermediate term	\$ 1,041,715	\$ 1,024,083
Real estate mortgage	750,214	845,459
Rural residential real estate	216,071	228,113
Total nonaccrual loans	<u>2,008,000</u>	<u>2,097,655</u>
Accruing loans 90 days or more past due:		
Production and intermediate term	-	-
Real estate mortgage	-	-
Rural residential real estate	-	99,364
Total accruing loans 90 days or more past due	<u>-</u>	<u>99,364</u>
Total nonperforming loans	<u>2,008,000</u>	<u>2,197,019</u>
Other property owned	<u>2,775</u>	<u>2,775</u>
Total nonperforming assets	<u>\$ 2,010,775</u>	<u>\$ 2,199,794</u>

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

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

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

	September 30, 2021		December 31, 2020	
Real estate mortgage				
Acceptable	98	%	98	%
OAEM	1		1	
Substandard/doubtful	1		1	
	100		100	
Production and intermediate term				
Acceptable	97		93	
OAEM	1		5	
Substandard/doubtful	2		2	
	100		100	
Process and marketing				
Acceptable	93		90	
OAEM	-		10	
Substandard/doubtful	7		-	
	100		100	
Farm-related business				
Acceptable	100		100	
OAEM	-		-	
Substandard/doubtful	-		-	
	100		100	
Loans to cooperatives				
Acceptable	100		100	
OAEM	-		-	
Substandard/doubtful	-		-	
	100		100	
Energy				
Acceptable	79		100	
OAEM	-		-	
Substandard/doubtful	21		-	
	100		100	
Communication				
Acceptable	100		100	
OAEM	-		-	
Substandard/doubtful	-		-	
	100		100	
Rural residential real estate				
Acceptable	95		95	
OAEM	-		-	
Substandard/doubtful	5		5	
	100		100	
Water and waste water				
Acceptable	100		100	
OAEM	-		-	
Substandard/doubtful	-		-	
	100		100	
International				
Acceptable	100		-	
OAEM	-		-	
Substandard/doubtful	-		-	
	100		-	
Lease receivables				
Acceptable	100		100	
OAEM	-		-	
Substandard/doubtful	-		-	
	100		100	
Total loans				
Acceptable	97		96	
OAEM	1		3	
Substandard/doubtful	2		1	
	100	%	100	%

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

September 30, 2021	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 1,763,261	\$ 141,515	\$ 1,904,776	\$ 179,213,690	\$ 181,118,466	\$ -
Production and intermediate term	11,849	18,612	30,461	64,682,316	64,712,777	-
Processing and marketing	-	-	-	42,222,223	42,222,223	-
Farm-related business	-	-	-	19,810,215	19,810,215	-
Loans to cooperatives	-	-	-	9,093,266	9,093,266	-
Energy	-	-	-	9,239,236	9,239,236	-
Communication	-	-	-	5,607,862	5,607,862	-
Rural residential real estate	98,406	216,071	314,477	3,774,966	4,089,443	-
Water and waste water	-	-	-	3,319,160	3,319,160	-
International	-	-	-	2,701,285	2,701,285	-
Lease receivables	-	-	-	1,830,719	1,830,719	-
Total	\$ 1,873,516	\$ 376,198	\$ 2,249,714	\$ 341,494,938	\$ 343,744,652	\$ -

December 31, 2020	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 305,701	\$ 169,436	\$ 475,137	\$ 129,207,733	\$ 129,682,870	\$ -
Production and intermediate term	44,340	-	44,340	73,965,172	74,009,512	-
Processing and marketing	-	-	-	46,830,792	46,830,792	-
Farm-related business	-	-	-	17,896,730	17,896,730	-
Loans to cooperatives	-	-	-	4,465,388	4,465,388	-
Energy	-	-	-	5,060,539	5,060,539	-
Communication	-	-	-	8,039,650	8,039,650	-
Rural residential real estate	487,504	327,477	814,981	4,196,350	5,011,331	99,364
Water and waste water	-	-	-	3,069,217	3,069,217	-
International	-	-	-	-	-	-
Lease receivables	-	-	-	2,008,451	2,008,451	-
Total	\$ 837,545	\$ 496,913	\$ 1,334,458	\$ 294,740,022	\$ 296,074,480	\$ 99,364

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

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

The predominant form of concession granted for troubled debt restructuring includes extensions of terms. Other types of modifications include principal or accrued interest reductions, interest rate decreases and delayed payments, among others. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case the Association assesses all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

As of September 30, 2021, the total recorded investment of troubled debt restructured loans was \$160,127, including \$18,612 classified as nonaccrual with no specific allowance and \$141,515 classified as nonaccrual, with specific allowance for loan losses of \$11,264. Commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were \$442,016 as of September 30, 2021, and as of December 31, 2020.

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
Real estate mortgage	\$ 141,515	\$ 169,436	\$ 141,515	\$ 169,436
Production and intermediate term	18,612	-	18,612	-
Total	\$ 160,127	\$ 169,436	\$ 160,127	\$ 169,436

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

Additional impaired loan information is as follows:

	September 30, 2021			December 31, 2020		
	Recorded Investment	Unpaid Principal Balance ^a	Related Allowance	Recorded Investment	Unpaid Principal Balance ^a	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	\$ 141,515	\$ 141,515	\$ 11,264	\$ -	\$ -	\$ -
Production and intermediate term	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-
Total	\$ 141,515	\$ 141,515	\$ 11,264	\$ -	\$ -	\$ -
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$ 608,699	\$ 608,699	\$ -	\$ 845,459	\$ 845,459	\$ -
Production and intermediate term	1,041,715	1,053,615	-	1,024,083	1,054,593	-
Rural residential real estate	216,071	216,071	-	327,477	327,477	-
Total	\$ 1,866,485	\$ 1,878,385	\$ -	\$ 2,197,019	\$ 2,227,529	\$ -
Total impaired loans:						
Real estate mortgage	\$ 750,214	\$ 750,214	\$ 11,264	\$ 845,459	\$ 845,459	\$ -
Production and intermediate term	1,041,715	1,053,615	-	1,024,083	1,054,593	-
Rural residential real estate	216,071	216,071	-	327,477	327,477	-
Total	\$ 2,008,000	\$ 2,019,900	\$ 11,264	\$ 2,197,019	\$ 2,227,529	\$ -

^a Unpaid principal balance represents the recorded principal balance of the loan.

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2021		September 30, 2020		September 30, 2021		September 30, 2020	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	\$ 150,251	\$ -	\$ -	\$ -	\$ 159,533	\$ -	\$ -	\$ -
Production and intermediate term	-	-	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-	-	-
Total	\$ 150,251	\$ -	\$ -	\$ -	\$ 159,533	\$ -	\$ -	\$ -
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	\$ 630,850	\$ -	\$ 3,144,981	\$ -	\$ 643,975	\$ 2,535	\$ 3,762,265	\$ 10,588
Production and intermediate term	1,028,732	-	2,634,742	7,537	1,025,000	-	1,790,959	39,593
Rural residential real estate	216,508	-	306,517	645	219,546	-	192,693	4,191
Total	\$ 1,876,090	\$ -	\$ 6,086,240	\$ 8,182	\$ 1,888,521	\$ 2,535	\$ 5,745,917	\$ 54,372
Total impaired loans:								
Real estate mortgage	\$ 781,101	\$ -	\$ 3,144,981	\$ -	\$ 803,508	\$ 2,535	\$ 3,762,265	\$ 10,588
Production and intermediate term	1,028,732	-	2,634,742	7,537	1,025,000	-	1,790,959	39,593
Rural residential real estate	216,508	-	306,517	645	219,546	-	192,693	4,191
Total	\$ 2,026,341	\$ -	\$ 6,086,240	\$ 8,182	\$ 2,048,054	\$ 2,535	\$ 5,745,917	\$ 54,372

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Energy	Communication	Rural Residential Real Estate	Water and Waste Water	International	Lease Receivables	Total
Allowance for Credit Losses:										
Balance at June 30, 2021	\$ 185,164	\$ 178,665	\$ 398,673	\$ 132,870	\$ 6,307	\$ 12,731	\$ 3,842	\$ 3,963	\$ 1,064	\$ 923,279
Charge-offs	-	-	-	-	-	-	-	-	-	-
Provision for loan losses	(5,024)	(74,359)	25,874	119,021	(2,113)	(1,319)	(321)	(200)	(565)	60,994
Other	50	31	125	76	1	3	1	1	-	288
Balance at September 30, 2021	\$ 180,190	\$ 104,337	\$ 424,672	\$ 251,967	\$ 4,195	\$ 11,415	\$ 3,522	\$ 3,764	\$ 499	\$ 984,561
Balance at December 31, 2020	\$ 131,980	\$ 281,178	\$ 437,180	\$ 10,189	\$ 8,477	\$ 16,386	\$ 4,812	\$ -	\$ 1,292	\$ 891,494
Charge-offs	-	-	-	-	-	-	-	-	-	-
Provision for loan losses	45,477	(180,158)	(19,573)	240,349	(4,466)	(5,192)	(1,361)	3,738	(811)	78,003
Other	2,733	3,317	7,065	1,429	184	221	71	26	18	15,064
Balance at September 30, 2021	\$ 180,190	\$ 104,337	\$ 424,672	\$ 251,967	\$ 4,195	\$ 11,415	\$ 3,522	\$ 3,764	\$ 499	\$ 984,561
Ending Balance:										
Individually evaluated for impairment	\$ 11,264	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,264
Collectively evaluated for impairment	168,926	104,337	424,672	251,967	4,195	11,415	3,522	3,764	499	973,297
Balance at September 30, 2021	\$ 180,190	\$ 104,337	\$ 424,672	\$ 251,967	\$ 4,195	\$ 11,415	\$ 3,522	\$ 3,764	\$ 499	\$ 984,561
Balance at June 30, 2020	\$ 133,573	\$ 270,042	\$ 304,658	\$ 49,713	\$ 8,014	\$ 23,943	\$ 5,732	\$ -	\$ 1,634	\$ 797,309
Charge-offs	-	-	-	-	-	-	-	-	-	-
Provision for loan losses	(11,766)	40,313	88,674	(38,077)	97	(5,310)	27	-	(198)	73,760
Other	(1,172)	(2,990)	(3,791)	(112)	(78)	(179)	(55)	-	(14)	(8,391)
Balance at September 30, 2020	\$ 120,635	\$ 307,365	\$ 389,541	\$ 11,524	\$ 8,033	\$ 18,454	\$ 5,704	\$ -	\$ 1,422	\$ 862,678
Balance at December 31, 2019	\$ 106,416	\$ 271,389	\$ 226,982	\$ 40,050	\$ 6,278	\$ 21,253	\$ 2,786	\$ -	\$ 1,272	\$ 676,426
Charge-offs	(12,030)	-	-	-	-	-	-	-	-	(12,030)
Provision for loan losses	27,066	38,246	165,536	(28,546)	1,811	(2,684)	2,957	-	160	204,546
Other	(817)	(2,270)	(2,977)	20	(56)	(115)	(39)	-	(10)	(6,264)
Balance at September 30, 2020	\$ 120,635	\$ 307,365	\$ 389,541	\$ 11,524	\$ 8,033	\$ 18,454	\$ 5,704	\$ -	\$ 1,422	\$ 862,678
Ending Balance:										
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	120,635	307,365	389,541	11,524	8,033	18,454	5,704	-	1,422	862,678
Balance at September 30, 2020	\$ 120,635	\$ 307,365	\$ 389,541	\$ 11,524	\$ 8,033	\$ 18,454	\$ 5,704	\$ -	\$ 1,422	\$ 862,678
Recorded Investments in Loans Outstanding:										
Ending Balance at										
September 30, 2021	\$ 181,118,466	\$ 64,712,777	\$ 71,125,704	\$ 9,239,236	\$ 5,607,862	\$ 4,089,443	\$ 3,319,160	\$ 2,701,285	\$ 1,830,719	\$ 343,744,652
Individually evaluated for impairment	\$ 750,214	\$ 1,041,715	\$ -	\$ -	\$ -	\$ 216,071	\$ -	\$ -	\$ -	\$ 2,008,000
Collectively evaluated for impairment	\$ 180,368,252	\$ 63,671,062	\$ 71,125,704	\$ 9,239,236	\$ 5,607,862	\$ 3,873,372	\$ 3,319,160	\$ 2,701,285	\$ 1,830,719	\$ 341,736,652
Ending Balance at										
September 30, 2020	\$ 124,673,150	\$ 72,026,245	\$ 67,598,515	\$ 5,051,576	\$ 6,580,187	\$ 5,361,286	\$ 3,172,767	\$ -	\$ 2,036,503	\$ 286,500,229
Individually evaluated for impairment	\$ 3,137,757	\$ 2,637,794	\$ -	\$ -	\$ -	\$ 345,208	\$ -	\$ -	\$ -	\$ 6,120,759
Collectively evaluated for impairment	\$ 121,535,393	\$ 69,388,451	\$ 67,598,515	\$ 5,051,576	\$ 6,580,187	\$ 5,016,078	\$ 3,172,767	\$ -	\$ 2,036,503	\$ 280,379,470

NOTE 3 —LEASES:

The components of lease expense were as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Operating lease cost	\$ 33,822	\$ 33,568	\$ 101,467	\$ 95,697
Net lease cost	\$ 33,822	\$ 33,568	\$ 101,467	\$ 95,697

Other information related to leases was as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	\$ 33,822	\$ 33,568	\$ 101,467	\$ 95,697
Right-of-use assets obtained in exchange for lease obligations:				
Operating leases	32,274	31,396	96,157	89,466

Lease term and discount rate are as follows:

	September 30, 2021	December 31, 2020
Weighted average remaining lease term in years		
Operating leases	1.7	2.4
Weighted average discount rate		
Operating leases	3.22%	3.87%

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

	Operating Leases
2021 (excluding the nine months ended 9/30/21)	\$ 23,733
2022	95,195
2023	80,872
2024	28,553
2025	-
Thereafter	-
Total	\$ 228,353

NOTE 4 — CAPITAL:

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the Association's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements, and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Requirements Including Capital Conservation Buffers	As of September 30, 2021
Common equity tier 1 ratio	7.00%	12.26%
Tier 1 capital ratio	8.50%	12.26%
Total capital ratio	10.50%	12.55%
Permanent capital ratio	7.00%	12.30%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.00%	12.06%
UREE leverage ratio	1.50%	13.17%

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

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	48,134,418	48,134,418	48,134,418	48,134,418
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	450,747	450,747	450,747	450,747
Allowance for loan losses and reserve for credit losses subject to certain limitations			970,762	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(6,710,579)	(6,710,579)	(6,710,579)	(6,710,579)
	<u>41,874,586</u>	<u>41,874,586</u>	<u>42,845,348</u>	<u>41,874,586</u>
Denominator:				
Risk-adjusted assets excluding allowance	348,199,138	348,199,138	348,199,138	348,199,138
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(6,710,579)	(6,710,579)	(6,710,579)	(6,710,579)
Allowance for loan losses				(924,641)
	<u>341,488,559</u>	<u>341,488,559</u>	<u>341,488,559</u>	<u>340,563,918</u>
			Tier 1	UREE
			leverage ratio	leverage ratio
Numerator:				
Unallocated retained earnings			48,134,418	48,134,418
Common Cooperative Equities:				
Statutory minimum purchased borrower stock			450,747	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions			(6,710,579)	(2,409,200)
			<u>41,874,586</u>	<u>45,725,218</u>
Denominator:				
Total Assets			355,584,210	355,584,210
Regulatory Adjustments and Deductions:				
Regulatory deductions included in tier 1 capital			(8,291,629)	(8,291,629)
			<u>347,292,581</u>	<u>347,292,581</u>

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

September 30, 2021	Accumulated Other Comprehensive Loss
Nonpension postretirement benefits	<u>\$ (461,755)</u>
Total	<u><u>\$ (461,755)</u></u>
September 30, 2020	Accumulated Other Comprehensive Loss
Nonpension postretirement benefits	<u>\$ (313,830)</u>
Total	<u><u>\$ (313,830)</u></u>

The Association's accumulated other comprehensive loss relates entirely to its nonpension other postretirement benefits. Amortization of prior service credits and of actuarial loss are reflected in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive loss for the nine months ended September 30:

	<u>2021</u>	<u>2020</u>
Accumulated other comprehensive loss at January 1	\$ (479,053)	\$ (326,340)
Amortization of prior service credit included in salaries and employee benefits	(3,363)	(3,360)
Amortization of actuarial loss included in salaries and employee benefits	<u>20,661</u>	<u>15,870</u>
Other comprehensive income, net of tax	<u>17,298</u>	<u>12,510</u>
Accumulated other comprehensive loss at September 30	<u><u>\$ (461,755)</u></u>	<u><u>\$ (313,830)</u></u>

NOTE 5 — INCOME TAXES:

Ag New Mexico, Farm Credit Services, ACA conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Ag New Mexico, Farm Credit Services, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Ag New Mexico, Farm Credit Services, ACA can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized.

NOTE 6 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 14 to the 2020 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

<u>September 30, 2021</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Other property owned	\$ -	\$ -	\$ 2,775	\$ 2,775
<u>December 31, 2020</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Other property owned	\$ -	\$ -	\$ 2,775	\$ 2,775

Valuation Techniques

As more fully discussed in Note 14 to the 2020 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see Notes to the 2020 Annual Report to Stockholders.

Loans Evaluated for Impairment

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

Other Property Owned

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

NOTE 7 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three and nine months ended September 30:

Three months ended September 30:

	Other Benefits	
	<u>2021</u>	<u>2020</u>
Service cost	\$ 6,322	\$ 3,250
Interest cost	11,384	12,243
Amortization of prior service credits	(1,121)	(1,120)
Amortization of net actuarial loss	6,887	5,290
Net periodic benefit cost	<u>\$ 23,472</u>	<u>\$ 19,663</u>

Nine months ended September 30:

	Other Benefits	
	<u>2021</u>	<u>2020</u>
Service cost	\$ 18,967	\$ 9,751
Interest cost	34,154	36,729
Amortization of prior service credits	(3,363)	(3,360)
Amortization of net actuarial loss	20,661	15,870
Net periodic benefit cost	<u>\$ 70,419</u>	<u>\$ 58,990</u>

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2021, was \$1,666,462 and is included in other liabilities on the balance sheet.

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

The structure of the District's defined benefit pension plan is characterized as multiemployer since the assets, liabilities, and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The Association previously disclosed in its financial statements for the year ended December 31, 2020, that it expected to contribute \$57,439 to the District's defined benefit pension plan in 2021. As of September 30, 2021, the full contribution has been made. The Association presently does not anticipate additional contributions to fund the defined benefit pension plan in 2021.

NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:

The Association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

NOTE 9 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through November 9, 2021, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of November 9, 2021.