ArborOne, ACA

THIRD QUARTER 2021

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2021 quarterly report of **ArborOne, ACA**, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Bryant Sansbury
President and Chief Executive Officer

Tammy G. Smith
Chief Financial Officer and Treasurer

William Dupree Atkinson
Chairman of the Board

November 8, 2021

ArborOne, ACA

Report on Internal Control Over Financial Reporting

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

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

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

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

Bryant Sansbury

Bryant Sansbury
President and Chief Executive Officer

Tammy G. Smith

Tammy G. Smith
Chief Financial Officer and Treasurer

November 8, 2021

ArborOne, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of **ArborOne, ACA**, (the Association) for the period ended September 30, 2021. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2020 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

COVID-19 OVERVIEW

In response to the COVID-19 pandemic, and without disruption to operations, the Association transitioned the vast majority of its employees to working remotely in mid-March 2020. The priority was, and continues to be, to ensure the health and safety of employees, while continuing to serve the mission of providing support for rural America and agriculture. The Association has returned to ordinary business operations and has on-going safety measures in place that adjust as the current situation changes to limit health risk at the office in order to keep employees and customers safe. The Association continues to stay current with the Centers for Disease Control and Prevention (CDC) recommendations along with local agencies and adjust safety measures if needed.

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

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

COVID-19 Support Programs

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

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

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

The previously enacted Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was amended by subsequent legislation, included the Paycheck Protection Program (PPP). The PPP provided support to small businesses to cover payroll and certain other expenses. Loans made under the PPP were fully guaranteed by the Small Business Administration (SBA), whose guarantee is backed by the full faith and credit of the United States.

For a detailed discussion of programs enacted in 2020, see page 8 of the 2020 Annual Report.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including cash grains, cotton, forestry, poultry, and tobacco. Farm size varies and many of the borrowers in the region have diversified farming operations. These factors, along with the numerous opportunities for non-farm income in the area, somewhat impact the level of dependency on a given commodity. Approximately 33 percent of the portfolio has significant outside income to diversify dependence on agriculture, consisting of lifestyle loans and loans to less than full-time farmers with retirement income, salaried income and non-agricultural business income. Further, approximately 15 percent of the assets carry federal guarantees as a risk management tool.

The gross loan volume of the Association as of September 30, 2021, was $579,193, an increase of $42,465 as compared to $536,728 at December 31, 2020. Net loans outstanding at September 30, 2021, were $566,795 as compared to $524,938 at December 31, 2020. The Association had investment securities classified as held-to-maturity in the amount of $7,838. Net loans and investments accounted for 96.12 percent of total assets at September 30, 2021, as compared to 94.77 percent of total assets at December 31, 2020.

Net loans increased by $41,857 during the reporting period. This increase was mainly due to an increase in originated loan volume of $59,547. This increase was partially offset by an increase in participations sold loan volume of $8,148, a decrease in participations purchased loan volume of $7,823, a decrease in nonaccrual loan volume of $1,049, an increase in allowance for loan losses of $608, and a decrease in notes receivable of $62.

The increase in originated loan volume resulted primarily from an increase in real estate loans and operating loans. The increase in participations sold loan volume was the result of advances on an existing account. The decrease in participations purchased loan volume was attributed mainly to paydowns on existing volume. The decrease in nonaccrual loan volume was the result of liquidations and repayments, chargeoffs, reinstatements to accrual status, and the transfer of several nonaccrual core loans to other property owned (OPO).

The increase in allowance for loan losses was mainly due to an increase in general reserves resulting from increased loan volume. The Association also has a reserve for unfunded commitments in the amount of $530, which resides in other liabilities.

Investment securities held-to-maturity (HTM) consist of mission related investments (Rural America Bonds). The investments were transferred in 2014 to HTM from available-for-sale (AFS) at fair value with unrealized gains and losses recognized in Other Comprehensive Income (OCI). These OCI amounts will be amortized or accreted to interest income ratably over the remaining life of each individual security in accordance with generally accepted accounting principles (GAAP). The amortization of an unrealized holding gain or loss reported in OCI will offset or mitigate the effect on interest income of the amortization of any premium or discount recorded on the transfer to held-to-maturity for each security.

The HTM investment securities decreased by $59 when compared to December 31, 2020. This decrease was mainly due to normal payments in the amount of $45 and the amortization of the net unrealized loss from the transfer to HTM in the amount of $14.

As of September 30, 2021, approximately 87 percent of the Association's HTM Rural America Bonds were guaranteed; therefore the risk of credit loss to the Association was reduced. In June of 2021, the one ineligible security rated as other assets especially mentioned (OAEM), was upgraded to an acceptable rating, which moved the bond back into an eligible investment status. There were no unrealized credit impairments on the HTM investment portfolio as of December 31, 2020 and none were taken during the first nine months of 2021.

There is an inherent risk in the extension of any type of credit. However, portfolio credit quality continues to be maintained at an acceptable level, and credit administration remains satisfactory. Nonaccrual loans decreased from $11,428 at December 31, 2020, to $10,379 at September 30, 2021. This was mainly due to liquidations and repayments, chargeoffs, reinstatements to accruing status, and the transfer of several nonaccrual core loans to OPO. These decreases were partially offset by the transfer of several core agricultural loans into nonaccrual status.

As of September 30, 2021, the Association had three properties classed as OPO totaling $246, a decrease of $223 as compared to $469 at December 31, 2020. The decrease was mainly due to partial writedowns and total sales of several core accounts. This decrease was partially offset by the transfer of a core nonaccrual agricultural loan into OPO. Three other nonaccrual core loans moved into OPO during 2021, but were subsequently sold. Association staff is working diligently to market the OPO properties.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on credit quality, credit history, current conditions, and expected future conditions.

The allowance for loan losses at September 30, 2021, was $12,398, compared to $11,790 at December 31, 2020. The allowance for loan losses consisted of $11,458 in general reserves and $940 in specific reserves for several core agricultural loans and a Rural America Bond. Charge-offs for the nine months ended September 30, 2021 were $1,852, on several nonaccrual core agricultural loans. There were recoveries of $420 for the nine months ended September 30, 2021 attributed to several core agricultural loans. The Association has a reserve for unfunded commitments in the amount of $530, which resides in other liabilities. The allowance for loan losses for the period ending September 30, 2021 was considered by management to be adequate to cover any future possible losses.

RESULTS OF OPERATIONS

For the three months ended September 30, 2021

Net income for the three months ended September 30, 2021, totaled $2,732 an increase of $118, as compared to $2,614 for the same period in 2020. This increase was mainly due to an increase in net interest income of $551, an increase in noninterest income of $155, and a decrease in noninterest expense of $143. This increase was partially offset by an increase in provision of $731.

Interest income on accruing loans increased by $216 for the three months ended September 30, 2021 as compared to the same period in 2020, as a result of the increase in originated loan volume. Nonaccrual interest income increased by $322 as compared to the same period in 2020, which was mainly due to the payments on one nonaccrual core account, and the reinstatement of one nonaccrual core account to accruing status. Interest income on investment securities was $103 compared to $113 for the same period in 2020. The decrease in investment interest income was due to the reduction in volume as a result of repayments in the normal course of business.

Interest expense decreased $23 for the three months ended September 30, 2021, as compared to the comparable period of 2020. The interest expense decrease was primarily due to the decrease in interest rates along with the reduction in the HTM investment securities and nonaccrual loans.

The Association recorded a provision for loan losses of $1,268 as compared to $537 for the comparable period of 2020. The increase in provision for the quarter ended September 30, 2021 as compared to the same period in 2020, resulted mainly from increases in specific reserves as well as an increase in general reserves, which was partially offset by a decrease in chargeoffs and an increase in recoveries for the period.

Noninterest income for the three months ended September 30, 2021, totaled $1,975 as compared to $1,820 for the same period of 2020, an increase of $155. This increase was mainly due to an increase in gains on other transactions of $145 resulting from the reduction to reserves for unfunded commitments due to higher utilization of revolving lines of credit, an increase in loan fees of $93, an increase in patronage refunds from other Farm Credit institutions of $53, and a decrease in losses on sales of premises and equipment of $2. These increases were partially offset by a decrease in fees for financially related services of $138.

Noninterest expense for the three months ended September 30, 2021, decreased $143 compared to the same period of 2020. This decrease was mainly the result from a decrease in other operating expenses of $102 relating to nonaccruals, a decrease in losses on other property owned of $54, a decrease in salaries and employee benefits of $22, and a decrease in occupancy and equipment of $20. These decreases were partially offset by an increase in insurance fund premiums of $55.

The Association recorded no provision for income taxes for the three months ended September 30, 2021, and for the same period in 2020.

For the nine months ended September 30, 2021

Net income for the nine months ended September 30, 2021, totaled $7,679, as compared to $7,003 for the same period in 2020. The increase was mainly due to an increase in net interest income of $1,152 and an increase in noninterest income of $101. This increase was partially offset by an increase in provision of $472 and an increase in noninterest expense of $105.

Interest income on accruing loans decreased by $849, which was primarily a result of the decrease in rates. Nonaccrual interest income increased by $650 as compared to the same period in 2020. This increase was mainly due to payments on one nonaccrual core account, the liquidation of several nonaccrual core accounts, along with the reinstatement to accruing status of several core nonaccrual accounts during 2021. Interest income on investment securities decreased by $21 primarily due to the reduction in volume as a result of repayments in the normal course of business.

Interest expense decreased by $1,372 compared to the same period of 2020. This decrease was primarily due to the decrease in interest rates along with the reduction in HTM investment securities and nonaccrual loans.

The Association recorded a provision for loan losses of $2,040 for the nine months ended September 30, 2021, as compared to a provision for loan losses of $1,568 for the same period in 2020. This increase was mainly due to an increase in general reserves, as well as specific reserves and chargeoffs, for the nine months ended September 30, 2021 from the same period in 2020. These increases in provision were partially offset by an increase in recoveries for the period.

Noninterest income for the nine months ended September 30, 2021, totaled $4,646 as compared to $4,545 for the same period of 2020, an increase of $101. The increase was mainly due to an increase in loan fees of $274, an increase in gains on sales of other transactions of $204 resulting from the reduction to reserves for unfunded commitments, and an increase in patronage refunds from other Farm Credit institutions of $6. The increase was partially offset by a decrease in fees for financially related services of $273, a decrease in insurance fund refunds of $96, a decrease in gains on sales of premises and equipment of $12, and a decrease in lease income of $2.

Noninterest expense for the nine months ended September 30, 2021, increased $105 compared to the same period of 2020. This increase was mainly due to an increase in insurance fund premiums of $200 and an increase in salaries and employee benefits of $112. The increase in noninterest expense was partially offset by a decrease in other operating expenses of $181, a decrease in losses on other property owned of $24, and a decrease in occupancy and equipment of $2.

The Association recorded no provision for income taxes for the nine months ended September 30, 2021, and for the same period in 2020.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (AgFirst or Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2021, was $489,202 as compared to $451,350 at December 31, 2020. The increase during the period was a result of an increase in loan volume.

Future of LIBOR

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

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

The Association has exposure to LIBOR arising from loans made to customers, Systemwide Debt Securities issued by the Funding Corporation on the Bank's behalf, and preferred stock issued by the Bank. Alternative reference rates that replace LIBOR may not yield the same or similar economic results over the lives of the financial instruments, which could adversely affect the value of, and return on, instruments held.

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

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

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

On October 20, 2021, the U.S. prudential regulators issued a joint statement emphasizing the expectation that supervised institutions with LIBOR exposure continue to progress toward an orderly transition away from LIBOR, reiterating that supervised institutions should, with limited exceptions, cease entering into new contracts that use US dollar LIBOR as a reference rate as soon as practicable, but no later than December 31, 2021. They further stated that entering into new contracts, including derivatives, after that date would create safety and soundness risks. The joint statement clarified that entering into such new contracts would include an agreement that (1) creates additional LIBOR disclosure or (2) extends the term of an existing LIBOR contract, but that a draw on an existing agreement that is legally enforceable, e.g., a committed credit facility, would not be a new contract. The joint statement also provided considerations when assessing the appropriateness of alternative reference rates used in lieu of LIBOR and the regulator expectation that new or updated LIBOR contracts include strong and clearly defined fallback rates for when the initial reference rate is discontinued.

CAPITAL RESOURCES

Total members' equity increased by $7,336 from $94,257 at December 31, 2020 to $101,593 at September 30, 2021, primarily due to an increase in retained earnings. Total capital stock and participation certificates were $1,839 on September 30, 2021, compared to $1,761 on December 31, 2020. This increase was attributed to the purchases of capital stock and participation certificates on loans in the normal course of business.

The Association reports other comprehensive income (loss) (OCI) in its Consolidated Statements of Changes in Members' Equity. The Association has an unrealized gain of $12 as of September 30, 2021, as compared to an unrealized loss of $31 as of December 31, 2020 for FAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The Association has an unrealized net loss of $14 as of September 30, 2021 as compared to an unrealized net loss of $18 as of December 31, 2020 on the HTM investment securities. The resulting effect was a net loss of $2 to Accumulated Other Comprehensive Income for the nine months ending September 30, 2021.

FCA sets minimum regulatory capital requirements for System Banks and Associations. The System's capital requirements are compatible with the Basel III framework and the standardized approach of federal banking regulatory agencies.

The ratios are calculated using three-month average daily balances, in accordance with FCA regulations. Refer to Note 7, *Members' Equity*, of the Association's 2020 Annual Report for additional information.

The following sets forth the regulatory capital ratios, which were effective January 1, 2017:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of September 30, 2021
Risk-adjusted ratios:				
CET1 Capital	4.5%	2.5%	7.0%	17.07%
Tier 1 Capital	6.0%	2.5%	8.5%	17.07%
Total Capital	8.0%	2.5%	10.5%	18.33%
Permanent Capital Ratio	7.0%	0.0%	7.0%	17.26%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	15.98%
UREE Leverage Ratio	1.5%	0.0%	1.5%	9.66%

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

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

For the period presented, the Association exceeded minimum regulatory standards for all the ratios.

REGULATORY MATTERS

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

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

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

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

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

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, ***www.agfirst.com***. Copies of the Association's Annual and Quarterly reports are also available upon request free of charge by calling 1-800-741-7332, writing Sarah Jackson, Corporate Secretary, ArborOne, ACA, P.O. Box 3699, Florence, SC 29502, or accessing the website, ***www.arborone.com***. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

ArborOne, ACA

Consolidated Balance Sheets

(dollars in thousands)	September 30, 2021	December 31, 2020
	(unaudited)	*(audited)*
Assets		
Cash	**$ 2**	$ 2
Investments in debt securities:		
Held to maturity (fair value of $8,711 and $9,153, respectively)	**7,838**	7,897
Loans	**579,193**	536,728
Allowance for loan losses	**(12,398)**	(11,790)
Net loans	**566,795**	524,938
Accrued interest receivable	**8,654**	8,461
Equity investments in other Farm Credit institutions	**6,081**	6,074
Premises and equipment, net	**3,693**	3,675
Other property owned	**246**	469
Accounts receivable	**2,988**	9,149
Other assets	**1,561**	1,578
Total assets	**$ 597,858**	$ 562,243
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 489,202**	$ 451,350
Accrued interest payable	**884**	832
Patronage refunds payable	**611**	6,726
Accounts payable	**1,145**	1,036
Other liabilities	**4,423**	8,042
Total liabilities	**496,265**	467,986
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	**1,839**	1,761
Retained earnings		
Allocated	**63,443**	63,700
Unallocated	**36,381**	28,864
Accumulated other comprehensive income (loss)	**(70)**	(68)
Total members' equity	**101,593**	94,257
Total liabilities and members' equity	**$ 597,858**	$ 562,243

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

ArborOne, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended September 30, 2021	For the Three Months Ended September 30, 2020	For the Nine Months Ended September 30, 2021	For the Nine Months Ended September 30, 2020
Interest Income				
Loans	**$ 7,033**	$ 6,495	**$ 19,949**	$ 20,148
Investments	**103**	113	**322**	343
Total interest income	**7,136**	6,608	**20,271**	20,491
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**2,674**	2,697	**7,623**	8,995
Net interest income	**4,462**	3,911	**12,648**	11,496
Provision for loan losses	**1,268**	537	**2,040**	1,568
Net interest income after provision for loan losses	**3,194**	3,374	**10,608**	9,928
Noninterest Income				
Loan fees	**245**	152	**1,042**	768
Fees for financially related services	**591**	729	**631**	904
Lease income	**—**	—	**—**	2
Patronage refunds from other Farm Credit institutions	**978**	925	**2,792**	2,786
Gains (losses) on sales of premises and equipment, net	**—**	(2)	**—**	12
Gains (losses) on other transactions	**161**	16	**181**	(23)
Insurance Fund refunds	**—**	—	**—**	96
Total noninterest income	**1,975**	1,820	**4,646**	4,545
Noninterest Expense				
Salaries and employee benefits	**1,655**	1,677	**5,063**	4,951
Occupancy and equipment	**85**	105	**307**	309
Insurance Fund premiums	**163**	108	**462**	262
(Gains) losses on other property owned, net	**45**	99	**95**	119
Other operating expenses	**489**	591	**1,648**	1,829
Total noninterest expense	**2,437**	2,580	**7,575**	7,470
Income before income taxes	**2,732**	2,614	**7,679**	7,003
Provision for income taxes	**—**	—	**—**	—
Net income	**$ 2,732**	$ 2,614	**$ 7,679**	$ 7,003
Other comprehensive income net of tax				
Unrealized gains (losses) on investments	**(5)**	(5)	**(14)**	(14)
Employee benefit plans adjustments	**5**	3	**12**	9
Other comprehensive income (loss) (Note 5)	**—**	(2)	**(2)**	(5)
Comprehensive income	**$ 2,732**	$ 2,612	**$ 7,677**	$ 6,998

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

ArborOne, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2019	$ 52	$ 1,620	$ 59,046	$ 28,416	$ (19)	$ 89,115
Comprehensive income				7,003	(5)	6,998
Protected borrower stock issued/(retired), net	(52)					(52)
Capital stock/participation certificates issued/(retired), net		88				88
Patronage distribution adjustment			236	(232)		4
Balance at September 30, 2020	$ —	$ 1,708	$ 59,282	$ 35,187	$ (24)	$ 96,153
Balance at December 31, 2020	**$ —**	**$ 1,761**	**$ 63,700**	**$ 28,864**	**$ (68)**	**$ 94,257**
Comprehensive income				**7,679**	**(2)**	**7,677**
Capital stock/participation certificates issued/(retired), net		**78**				**78**
Retained earnings retired			**(412)**			**(412)**
Patronage distribution adjustment			**155**	**(162)**		**(7)**
Balance at September 30, 2021	**$ —**	**$ 1,839**	**$ 63,443**	**$ 36,381**	**$ (70)**	**$ 101,593**

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

ArborOne, ACA

Notes to the Consolidated Financial Statements

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

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

Organization

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

Basis of Presentation

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

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

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

Significant Accounting Policies

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

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

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

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

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

ASUs Pending Effective Date

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

Potential effects of ASUs issued in previous periods:

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

Accounting Standards Effective During the Period

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

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

- In October 2020, the FASB issued ASU 2020-10 Codification Improvements. The amendments represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The Update moves or references several disclosure requirements from Section 45 - Other Presentation Matters to Section 50 - Disclosures. It also includes minor changes to other guidance such as Cash Balance Plans, Unusual or Infrequent Items, Transfers and Servicing, Guarantees, Income Taxes, Foreign Currency, Imputation of Interest, Not For Profits and Real Estate Projects. The amendments had no impact on the statements of financial condition and results of operations.

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

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

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

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

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

	September 30, 2021	December 31, 2020
Real estate mortgage	$ 333,647	$ 304,848
Production and intermediate-term	200,449	187,711
Loans to cooperatives	2,110	4,727
Processing and marketing	19,909	21,579
Farm-related business	12,852	10,563
Power and water/waste disposal	684	–
Rural residential real estate	8,591	6,332
International	945	944
Lease receivables	6	24
Total loans	$ 579,193	$ 536,728

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

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

	September 30, 2021							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 11,552	$ 5,171	$ –	$ –	$ –	$ –	$ 11,552	$ 5,171
Production and intermediate-term	11,883	1,063	–	–	–	–	11,883	1,063
Loans to cooperatives	2,120	–	–	–	–	–	2,120	–
Processing and marketing	11,309	25,024	–	–	–	–	11,309	25,024
Farm-related business	152	–	–	–	–	–	152	–
Power and water/waste disposal	686	–	–	–	–	–	686	–
International	946	–	–	–	–	–	946	–
Total	$ 38,648	$ 31,258	$ –	$ –	$ –	$ –	$ 38,648	$ 31,258

	December 31, 2020							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 13,220	$ 6,651	$ –	$ –	$ –	$ –	$ 13,220	$ 6,651
Production and intermediate-term	14,097	1,503	–	–	–	–	14,097	1,503
Loans to cooperatives	4,734	–	–	–	–	–	4,734	–
Processing and marketing	13,296	14,990	–	–	–	–	13,296	14,990
Farm-related business	185	–	–	–	–	–	185	–
International	946	–	–	–	–	–	946	–
Total	$ 46,478	$ 23,144	$ –	$ –	$ –	$ –	$ 46,478	$ 23,144

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

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

	September 30, 2021	December 31, 2020
Real estate mortgage:		
Acceptable	94.04%	93.39%
OAEM	3.64	4.68
Substandard/doubtful/loss	2.32	1.93
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	88.55%	86.57%
OAEM	6.46	6.86
Substandard/doubtful/loss	4.99	6.57
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	94.53%
OAEM	–	5.47
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	59.92%	58.53%
OAEM	15.71	24.49
Substandard/doubtful/loss	24.37	16.98
	100.00%	100.00%

	September 30, 2021	December 31, 2020
Power and water/waste disposal		
Acceptable	100.000%	–%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	–%
Rural residential real estate:		
Acceptable	94.37%	95.66%
OAEM	3.06	4.34
Substandard/doubtful/loss	2.57	–
	100.00%	100.00%
International:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Lease receivables:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	91.63%	90.45%
OAEM	4.73	5.82
Substandard/doubtful/loss	3.64	3.73
	100.00%	100.00%

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

	September 30, 2021				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 360	$ 1,366	$ 1,726	$ 336,311	$ 338,037
Production and intermediate-term	19	3,402	3,421	200,776	204,197
Loans to cooperatives	–	–	–	2,111	2,111
Processing and marketing	–	–	–	20,107	20,107
Farm-related business	1,320	569	1,889	11,071	12,960
Power and water/waste disposal	–	–	–	685	685
Rural residential real estate	–	222	222	8,399	8,621
International	–	–	–	945	945
Lease receivables	–	–	–	6	6
Total	$ 1,699	$ 5,559	$ 7,258	$ 580,411	$ 587,669

	December 31, 2020				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 321	$ 2,899	$ 3,220	$ 305,950	$ 309,170
Production and intermediate-term	1,547	5,613	7,160	184,180	191,340
Loans to cooperatives	–	–	–	4,729	4,729
Processing and marketing	–	–	–	21,805	21,805
Farm-related business	1,101	22	1,123	9,613	10,736
Rural residential real estate	95	–	95	6,257	6,352
International	–	–	–	945	945
Lease receivables	–	–	–	24	24
Total	$ 3,064	$ 8,534	$ 11,598	$ 533,503	$ 545,101

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

	September 30, 2021	December 31, 2020
Nonaccrual loans:		
Real estate mortgage	$ 3,448	$ 4,206
Production and intermediate-term	6,057	7,204
Farm-related business	652	18
Rural residential real estate	222	–
Total	$ 10,379	$ 11,428
Accruing restructured loans:		
Real estate mortgage	$ 4,868	$ 6,273
Production and intermediate-term	2,255	2,703
Lease receivables	6	24
Total	$ 7,129	$ 9,000
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 17,508	$ 20,428
Other property owned	246	469
Total nonperforming assets	$ 17,754	$ 20,897
Nonaccrual loans as a percentage of total loans	1.79%	2.13%
Nonperforming assets as a percentage of total loans and other property owned	3.06%	3.89%
Nonperforming assets as a percentage of capital	17.48%	22.17%

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

	September 30, 2021	December 31, 2020
Impaired nonaccrual loans:		
Current as to principal and interest	$ 4,806	$ 2,237
Past due	5,573	9,191
Total	$ 10,379	$ 11,428
Impaired accrual loans:		
Restructured	$ 7,129	$ 9,000
90 days or more past due	–	–
Total	$ 7,129	$ 9,000
Total impaired loans	$ 17,508	$ 20,428
Additional commitments to lend	$ 292	$ 528

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

	September 30, 2021			Three Months Ended September 30, 2021		Nine Months Ended September 30, 2021	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:							
Real estate mortgage	$ 3,419	$ 3,429	$ 248	$ 3,473	$ 93	$ 3,626	$ 244
Production and intermediate-term	3,189	3,453	613	3,239	86	3,382	228
Rural residential real estate	222	222	79	226	6	235	16
Total	$ 6,830	$ 7,104	$ 940	$ 6,938	$ 185	$ 7,243	$ 488
With no related allowance for credit losses:							
Real estate mortgage	$ 4,897	$ 5,867	$ –	$ 4,975	$ 132	$ 5,193	$ 351
Production and intermediate-term	5,123	10,952	–	5,205	139	5,433	366
Farm-related business	652	1,404	–	663	17	692	47
Rural residential real estate	–	5	–	–	–	–	–
Lease receivables	6	6	–	6	–	6	–
Total	$ 10,678	$ 18,234	$ –	$ 10,849	$ 288	$ 11,324	$ 764
Total impaired loans:							
Real estate mortgage	$ 8,316	$ 9,296	$ 248	$ 8,448	$ 225	$ 8,819	$ 595
Production and intermediate-term	8,312	14,405	613	8,444	225	8,815	594
Farm-related business	652	1,404	–	663	17	692	47
Rural residential real estate	222	227	79	226	6	235	16
Lease receivables	6	6	–	6	–	6	–
Total	$ 17,508	$ 25,338	$ 940	$ 17,787	$ 473	$ 18,567	$ 1,252

Impaired loans:	December 31, 2020 Recorded Investment	 Unpaid Principal Balance	 Related Allowance	Year Ended December 31, 2020 Average Impaired Loans	 Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 3,642	$ 3,760	$ 394	$ 3,850	$ 139
Production and intermediate-term	2,800	3,098	361	2,959	106
Total	$ 6,442	$ 6,858	$ 755	$ 6,809	$ 245
With no related allowance for credit losses:					
Real estate mortgage	$ 6,837	$ 7,632	$ –	$ 7,226	$ 260
Production and intermediate-term	7,107	12,821	–	7,512	271
Farm-related business	18	100	–	19	1
Rural residential real estate	–	7	–	–	–
Lease receivables	24	24	–	25	1
Total	$ 13,986	$ 20,584	$ –	$ 14,782	$ 533
Total impaired loans:					
Real estate mortgage	$ 10,479	$ 11,392	$ 394	$ 11,076	$ 399
Production and intermediate-term	9,907	15,919	361	10,471	377
Farm-related business	18	100	–	19	1
Rural residential real estate	–	7	–	–	–
Lease receivables	24	24	–	25	1
Total	$ 20,428	$ 27,442	$ 755	$ 21,591	$ 778

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivables	Total
Activity related to the allowance for credit losses:								
Balance at June 30, 2021	$ 3,255	$ 7,438	$ 1,255	$ –	$ 29	$ 7	$ –	$ 11,984
Charge-offs	(154)	(739)	(57)	–	–	–	–	(950)
Recoveries	–	96	–	–	–	–	–	96
Provision for loan losses	140	916	125	5	82	–	–	1,268
Balance at September 30, 2021	$ 3,241	$ 7,711	$ 1,323	$ 5	$ 111	$ 7	$ –	$ 12,398
Balance at December 31, 2020	$ 3,115	$ 7,427	$ 1,178	$ 38	$ 26	$ 6	$ –	$ 11,790
Charge-offs	(177)	(1,032)	(643)	–	–	–	–	(1,852)
Recoveries	119	301	–	–	–	–	–	420
Provision for loan losses	184	1,015	788	(33)	85	1	–	2,040
Balance at September 30, 2021	$ 3,241	$ 7,711	$ 1,323	$ 5	$ 111	$ 7	$ –	$ 12,398
Balance at June 30, 2020	$ 3,697	$ 8,219	$ 798	$ 17	$ 25	$ 6	$ –	$ 12,762
Charge-offs	–	(1,025)	(80)	–	–	–	–	(1,105)
Recoveries	–	44	–	–	–	–	–	44
Provision for loan losses	(311)	798	30	21	(1)	–	–	537
Balance at September 30, 2020	$ 3,386	$ 8,036	$ 748	$ 38	$ 24	$ 6	$ –	$ 12,238
Balance at December 31, 2019	$ 3,498	$ 8,042	$ 712	$ 18	$ 22	$ 6	$ –	$ 12,298
Charge-offs	–	(1,681)	(80)	–	–	–	–	(1,761)
Recoveries	15	118	–	–	–	–	–	133
Provision for loan losses	(129)	1,559	116	20	2	–	–	1,568
Loan type reclassification	2	(2)	–	–	–	–	–	–
Balance at September 30, 2020	$ 3,386	$ 8,036	$ 748	$ 38	$ 24	$ 6	$ –	$ 12,238
Allowance on loans evaluated for impairment:								
Individually	$ 248	$ 613	$ –	$ –	$ 79	$ –	$ –	$ 940
Collectively	2,993	7,098	1,323	5	32	7	–	11,458
Balance at September 30, 2021	$ 3,241	$ 7,711	$ 1,323	$ 5	$ 111	$ 7	$ –	$ 12,398
Individually	$ 394	$ 361	$ –	$ –	$ –	$ –	$ –	$ 755
Collectively	2,721	7,066	1,178	38	26	6	–	11,035
Balance at December 31, 2020	$ 3,115	$ 7,427	$ 1,178	$ 38	$ 26	$ 6	$ –	$ 11,790
Recorded investment in loans evaluated for impairment:								
Individually	$ 8,316	$ 8,312	$ 652	$ –	$ 222	$ –	$ 6	$ 17,508
Collectively	329,721	195,885	34,526	685	8,399	945	–	570,161
Balance at September 30, 2021	$ 338,037	$ 204,197	$ 35,178	$ 685	$ 8,621	$ 945	$ 6	$ 587,669
Individually	$ 10,479	$ 9,907	$ 18	$ –	$ –	$ –	$ 24	$ 20,428
Collectively	298,691	181,433	37,252	–	6,352	945	–	524,673
Balance at December 31, 2020	$ 309,170	$ 191,340	$ 37,270	$ –	$ 6,352	$ 945	$ 24	$ 545,101

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

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

	Three Months Ended September 30, 2021				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Production and intermediate-term	$ –	$ 139	$ –	$ 139	
Total	$ –	$ 139	$ –	$ 139	
Post-modification:					
Production and intermediate-term	$ –	$ 2	$ –	$ 2	$ (29)
Total	$ –	$ 2	$ –	$ 2	$ (29)

	Nine Months Ended September 30, 2021				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Production and intermediate-term	$ –	$ 139	$ –	$ 139	
Farm-related business	303	–	–	303	
Total	$ 303	$ 139	$ –	$ 442	
Post-modification:					
Production and intermediate-term	$ –	$ 2	$ –	$ 2	$ (29)
Farm-related business	303	–	–	303	–
Total	$ 303	$ 2	$ –	$ 305	$ (29)

	Three Months Ended September 30, 2020				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 79	$ –	$ 79	
Production and intermediate-term	–	–	413	413	
Total	$ –	$ 79	$ 413	$ 492	
Post-modification:					
Real estate mortgage	$ –	$ 98	$ –	$ 98	$ –
Production and intermediate-term	–	–	413	413	–
Total	$ –	$ 98	$ 413	$ 511	$ –

	Nine Months Ended September 30, 2020				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 79	$ –	$ 79	
Production and intermediate-term	–	2,612	413	3,025	
Total	$ –	$ 2,691	$ 413	$ 3,104	
Post-modification:					
Real estate mortgage	$ –	$ 98	$ –	$ 98	$ –
Production and intermediate-term	–	2,720	413	3,133	–
Total	$ –	$ 2,818	$ 413	$ 3,231	$ –

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

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

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Defaulted troubled debt restructurings:				
Farm-related business	$ –	$ –	$ 175	$ –
Total	$ –	$ –	$ 175	$ –

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

	Total TDRs		Nonaccrual TDRs	
	September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
Real estate mortgage	$ 5,057	$ 6,463	$ 189	$ 190
Production and intermediate-term	2,932	3,438	677	735
Farm-related business	88	–	88	–
Lease receivables	6	24	–	–
Total loans	$ 8,083	$ 9,925	$ 954	$ 925
Additional commitments to lend	$ –	$ –		

Note 3 — Investments

Investments in Debt Securities

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have different eligibility requirements. At September 30, 2021, the Association held no RABs whose credit quality had deteriorated beyond the program limits.

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

September 30, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 7,838	$ 873	$ –	$ 8,711	5.78%

December 31, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 7,897	$ 1,256	$ –	$ 9,153	5.77%

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

September 30, 2021	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	–	–	–
After five years through ten years	–	–	–
After ten years	7,838	8,711	5.78
Total	$ 7,838	$ 8,711	5.78%

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

An investment is considered impaired if its fair value is less than its cost. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified. The Association had no investments that were in a continuous unrealized loss position at September 30, 2021 or December 31, 2020.

The recording of an impairment is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

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

Based on the results of all analyses, the Association has recognized no credit-related other-than-temporary impairment for the periods presented and no accretion to interest income of previously recognized credit impairment was recorded.

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

Equity Investments in Other Farm Credit System Institutions

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

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 2.12 percent of the issued stock of the Bank as of September 30, 2021 net of any reciprocal investment. As of that date, the Bank's assets totaled $37.9 billion and shareholders' equity totaled $2.7 billion. The Bank's earnings were $357 million for the first nine months of 2021. In addition, the Association held investments of $366 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

Changes in Accumulated Other Comprehensive Income by Component *(a)*

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Unrealized gains (losses) on Investments				
Balance at beginning of period	$ 255	$ 273	$ 264	$ 282
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	(5)	(5)	(14)	(14)
Net current period other comprehensive income	(5)	(5)	(14)	(14)
Balance at end of period	$ 250	$ 268	$ 250	$ 268
Employee Benefit Plans:				
Balance at beginning of period	$ (325)	$ (295)	$ (332)	$ (301)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	5	3	12	9
Net current period other comprehensive income	5	3	12	9
Balance at end of period	$ (320)	$ (292)	$ (320)	$ (292)
Accumulated Other Comprehensive Income				
Balance at beginning of period	$ (70)	$ (22)	$ (68)	$ (19)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	–	(2)	(2)	(5)
Net current period other comprehensive income	–	(2)	(2)	(5)
Balance at end of period	$ (70)	$ (24)	$ (70)	$ (24)

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*				
	Three Months Ended September 30,		Nine Months Ended September 30,		
	2021	2020	2021	2020	Income Statement Line Item
Investment Securities:					
Amortization	$ 5	$ 5	$ 14	$ 14	Interest income on investments
Net amounts reclassified	5	5	14	14	
Defined Benefit Pension Plans:					
Periodic pension costs	(5)	(3)	(12)	(9)	See Note 7.
Net amounts reclassified	(5)	(3)	(12)	(9)	
Total reclassifications for period	$ –	$ 2	$ 2	$ 5	

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

Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

	September 30, 2021				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 1,286	$ 1,286	$ –	$ –	$ 1,286
Recurring Assets	$ 1,286	$ 1,286	$ –	$ –	$ 1,286
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 5,890	$ –	$ –	$ 5,890	$ 5,890
Other property owned	246	–	–	271	271
Nonrecurring Assets	$ 6,136	$ –	$ –	$ 6,161	$ 6,161
Other Financial Instruments					
Assets:					
Cash	$ 2	$ 2	$ –	$ –	$ 2
Investments in debt securities, held-to-maturity	7,838	–	–	8,711	8,711
Loans	560,905	–	–	562,509	562,509
Other Financial Assets	$ 568,745	$ 2	$ –	$ 571,220	$ 571,222
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 489,202	$ –	$ –	$ 490,506	$ 490,506
Other Financial Liabilities	$ 489,202	$ –	$ –	$ 490,506	$ 490,506

	December 31, 2020				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 1,347	$ 1,347	$ –	$ –	$ 1,347
Recurring Assets	$ 1,347	$ 1,347	$ –	$ –	$ 1,347
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 5,687	$ –	$ –	$ 5,687	$ 5,687
Other property owned	469	–	–	511	511
Nonrecurring Assets	$ 6,156	$ –	$ –	$ 6,198	$ 6,198
Other Financial Instruments					
Assets:					
Cash	$ 2	$ 2	$ –	$ –	$ 2
Investments in debt securities, held-to-maturity	7,897	–	–	9,153	9,153
Loans	519,251	–	–	524,537	524,537
Other Financial Assets	$ 527,150	$ 2	$ –	$ 533,690	$ 533,692
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 451,350	$ –	$ –	$ 456,744	$ 456,744
Other Financial Liabilities	$ 451,350	$ –	$ –	$ 456,744	$ 456,744

Uncertainty in Measurements of Fair Value

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

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

Investments in Debt Securities

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

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

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

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 6,161	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

Note 7 — Employee Benefit Plans

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

	Three Months Ended September 30		Nine Months Ended September 30,	
	2021	2020	2021	2020
Pension	$ 226	$ 232	$ 677	$ 697
401(k)	80	77	269	252
Other postretirement benefits	58	55	175	160
Total	$ 364	$ 364	$ 1,121	$ 1,109

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

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

Note 8 — Commitments and Contingent Liabilities

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is remote that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

Note 9 — Subsequent Events

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

On October 18, 2021, AgFirst's Board of Directors indicated an intention to declare, in December 2021, a special patronage distribution. The Association will receive between approximately $5,645 and $5,881 which will be recorded as patronage refunds from other Farm Credit institutions.