Quarterly Report to Stockholders

AMERICAN AGCREDIT

MONEY FOR AGRICULTURE

as of June 30, 2021

Management's Discussion and Analysis

The following discussion summarizes the financial position and results of operations of American AgCredit, ACA and its subsidiaries (collectively "the Association") as of the second quarter of 2021. This commentary should be read with the accompanying consolidated financial statements and the related notes appearing in this report along with our 2020 Annual Report. The discussion includes significant known trends, commitments, events, or uncertainties that have impacted or are reasonably likely to impact our financial condition and results of operations. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of our Board of Directors.

Our annual and quarterly reports to shareholders are available on our website, www.AgLoan.com, or can be obtained free of charge by calling our corporate headquarters at (707) 545-1200. Additionally, the financial condition and results of operations of CoBank, ACB (CoBank), our funding bank, materially affect the risk associated with shareholder investments in American AgCredit. Shareholders of American AgCredit may obtain copies of CoBank's Quarterly or Annual Report to Shareholders free of charge by accessing CoBank's website, www.CoBank.com, calling (800) 542-8072, or mailing CoBank at 6340 S. Fiddlers Green Circle, Greenwood Village, CO 80111.

As a cooperative, American AgCredit is owned by the members we serve. Our territory extends across a diverse agricultural region that includes parts of California, Kansas, Oklahoma, Colorado, and New Mexico, as well as the states of Nevada and Hawaii. The Association possesses an extremely strong geographic and commodity diversification within the Farm Credit System.

The Association continues to closely monitor the impact of the COVID-19 worldwide pandemic to its operations and borrowers. Customers can obtain up-to-date information on each office location's status at www.AgLoan.com/locations. Through the end of the program, the Association continued to originate loans through the Small Business Administration's (SBA) Paycheck Protection Program (PPP), which offered 100% SBA guaranteed loans designed to provide direct incentive for small businesses to keep workers employed. The most recent conclusion of the program was May 31, 2021. Under the program, if loan proceeds are used for payroll, rent, mortgage interest, or utilities, and other conditions are met, SBA will forgive the loan and accrued interest of the borrower. If not forgiven, a PPP loan will bear interest at a fixed 1.0% interest rate with up to a five-year maturity and payments deferred for six months. The Association also continues to assist customers in navigating various national, state, local, and private relief programs available to farmers and ranchers.

Forward Looking Statements

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

Preferred Stock and Subordinated Debt Offerings

In June 2021, the Association issued $300.0 million of Series A 5.25% fixed-rate reset perpetual non-cumulative preferred stock and $200.0 million of 3.375% fixed-to-floating rate subordinated notes due 2036. The Series A Preferred Stock and subordinated notes may be redeemed at the option of the Association no earlier than June 15, 2026 and June 15, 2031, respectively, subject to conditions. The Association will utilize the net proceeds to provide more capacity to support the capital needs of its customers. In anticipation of the capital offerings, the Association was assigned a 'BBB+' long-term issuer credit rating on May 19, 2021 by S&P Global Ratings. On June 4, 2021, the announced issuances of preferred stock and subordinated debt were rated 'BB+' and 'BBB' by S&P Global Ratings, respectively.

Economic Overview

The economy is showing signs of rebounding among mixed signals, especially pertaining to inflation and employment levels. Overall, the economic recovery has been more rapid than expected due to steady vaccination progress, declining pandemic cases, and trillions of dollars of government stimulus. While the Fed is targeting a 2.0% long-term inflation target, supply shortages, especially in lumber, computer chips, and workers, has resulted in higher annualized rates in the second quarter. Consumer prices rose 5.4% in June on an annualized basis. As a result of a more rapid recovery, Fed officials have now signaled likely interest rate increases of at least half a percentage point by the end of 2023, which is an accelerated timeframe as compared to previous forecasts. Many economists are also expecting a tapering of the Fed's bond purchases later this year. The labor market's recovery has been slower as job growth was significantly below expectations in the spring. Unemployment increased slightly to 5.9% in June, partially attributable to an increase in the number of individuals searching for jobs. Hourly wages among private-sector workers increased 3.6% from a year earlier. Domestic U.S. equity markets also continued experiencing gains through the first half of 2021. The S&P 500 index increased 14.4% year-to-date June 2021. On July 1, officials from 130 countries agreed to a global minimum tax rate of 15.0%, which is intended to reduce the opportunity for tax avoidance caused by countries with relatively lower corporate income tax rates, however the agreement would require individual approval through each country’s legislative approval process to be effective.

Of specific concern to agriculture is the worsening drought conditions in the western United States. Various governments have reduced water allocations in California, resulting in growers paying premiums for supplemental water purchases. 2021 crop production is expected to be smaller due to lower yields as a result of reduced irrigation, but also because of decisions to leave land unplanted or abandoned due to water unavailability. As a result, the price of feed grains is at its highest levels since 2013 and global food prices were nearly 40% higher in May as compared to a year earlier. It is unknown whether the high inflation in goods and services related to agriculture will prove to be transitory or more persistent in nature. As government restrictions in response to COVID-19 continue to be relaxed, sectors which were large agricultural product purchasers such as schools, restaurants, conventions/arenas, and other tourist and hospitality businesses are expected to improve which should have a positive impact on agriculture.

Commodity Review and Outlook

The Association’s commodity portfolio remains well-diversified. Wine grapes and wine and field crops lead our commodity portfolio at 16.9% and 14.5%, respectively, followed by tree fruits & nuts at 13.5%, dairies and dairy products at 11.5%, beef at 10.5%, and forest products at 7.2%. The top six commodities make up 74.1% of the total portfolio with the remaining 25.9% spread over sixteen additional categories, including an "Other" category. The bulk of the Association's wine portfolio continues to be centered in the super- and ultra-premium segments of the wine market. Field crops consist primarily of wheat, corn, soybeans, alfalfa, sorghum, and other grains. Tree fruits and nuts consists primarily of almonds, walnuts and orchards in California’s Central Valley and Hawaii.

Following is a summary of economic conditions among the Association’s significant commodities:

- **Wine grapes and wine:** The outlook for wine grapes and wine continues to depend heavily upon the evolution of the COVID-19 pandemic, especially with respect to the ability of tasting rooms and other hospitality sector businesses to attract patrons. While still cautious, overall sentiments have improved since the beginning of the year. Early price indications point to mostly average prices in the wine grape contract market. As drought conditions worsen, vineyards across California are expecting a light crop. A smaller harvest in 2021 may help bring balance to the supply-to-demand equation. Year-to-date cumulative wine sales are above both 2020 levels and the 2016 to 2020 average. However, views are mixed around the path of future growth in the industry. Bulk wine supply continues to be low, which could also support demand for the 2021 crop. 2021 wine exports year-to-date are higher than the previous year, although regaining export markets will continue to increase in importance. Specifically, wine exports to Europe have significantly declined and now represent only 15.0% of current market share, down from 20.0%. An increasing expectation among some in the wine industry is a move into a transition period of increasing demand and tighter supplies.
- **Field Crops:** Optimism regarding profitability within the field crop industry has strongly increased through the first half of 2021. Prices for most field crops remain elevated as supply-to-use ratios have improved, driven by strong demand and drought concerns. Strong commodity prices are expected to outweigh input price inflation. Production expectations are also somewhat dampened due to drought concerns. Soil moisture and/or available water is expected to be limited during the 2021 growing season. Exports, especially to China, remain elevated and have hit recent highs in 2021. Strong domestic demand for corn has been buoyed by growing cow, dairy, and hog herds, although a return to pre-pandemic demand for ethanol will be an important factor in maintaining corn prices. The sorghum market has largely followed the corn market. Supply-to-use ratios for the 2021 wheat crop are expected to be slightly lower than for the 2020 crop, and some cattle feeders have substituted wheat for corn which should lead to improved demand. The soybean market has remained positive as both exports and domestic demand remains strong while low stock-to-use ratios persist amid drought conditions. Hay prices have also increased due to drought concern as production has declined and demand for feedstuffs has increased.

- **Tree fruits and nuts:** Economic conditions are mixed due to water shortages and above average temperatures in most regions. While adverse weather conditions are likely to hurt yields, it should also sway the supply and demand equation favorably for producers. The USDA's tree fruit and nut price index, which measures the price that farmers received has significantly improved through 2020 and to-date in 2021. The overall sentiment regarding demand for most products remains on the strong side. Early reports indicate that yields for most California tree fruit and nut crops will be lower than prior years and production on the western slope of Colorado is also expected to be impacted. Almond demand remains strong, with overall shipments 4% above year ago levels and exports about 30% above year ago records. However, lower yields are expected to offset gross revenue gains. Additional pistachio acreage has come into production, however yields will likely be lower due to drought. Pistachio shipments remain above the five-year average. Drought conditions are lowering production potential for walnuts, and some in the industry are concerned that excessive heat is producing a "darker meat" product which typically carries a price discount.
- **Dairy:** Profit margins were mostly negative in the first quarter of 2021 and are expected to remain tight for the rest of 2021. A year ago, profit margins were historically high as a result of government programs and policies and lower input process. As feed costs became elevated and inflation for labor, equipment, supplies, and water increased, profit margins decreased. In California, most common feeds are more than 25% higher than year ago levels. In some regions, milk price increases have offset cost increases, but profit margins are mostly tight. Demand for dairy products has begun to catch up to supply and ending stocks have declined for the first time since December 2019. Uniform milk prices for both California and Colorado-Kansas have increased and are above the 2017-2020 average. At the onset of the pandemic, cheese, butter, and dried milk prices declined sharply but have since experienced double-digit gains. Exports in 2021 have also hit recent records. Future milk prices will largely depend on continued demand strength as production is expected to remain elevated.
- **Beef:** The beef industry continues to work through supply chain changes, drought conditions, and input price pressure. Demand has remained positive as consumers have continued to purchase beef products despite retail price increases. Although profit margins remain tight, cattle prices have recently improved. Processing rates continue to run at historically high rates, which is necessary to meet the demand for retail beef products. As restaurants, convention centers, educational institutions, and other similar entities reopen, many beef products have experienced double digit price increases on an annualized basis. In addition to strong domestic demand, export volumes have reached recent highs. Pasture conditions in the western United States have deteriorated as the drought has reduced available grass and water. As a result, feed costs have also been increased to recent highs. Live cattle prices have mostly improved over the last several months, reaching pre-pandemic levels in some regions. Most economists are projecting mostly tight profit margins as a result of elevated feed prices for the remainder of the year.
- **Forest products:** Forest products experienced some of the most noteworthy price increases and subsequent declines of all significant commodities through June 2021. Some futures prices for forest products have declined over 40% from highs experienced in May. Cash prices have also declined but mostly remain above pre-pandemic levels. Various lumber products had experienced gains of over 300% from year ago levels as of May 2021. Some expect lumber demand to continue in the long-term as housing demand continues to outpace supply. Demand for tissue and containerboard has remained strong. However, newsprint and paper mills have struggled as the pandemic accelerated declines in newspaper and paper consumption. Shortages in trucking availability have also resulted in excess supply of wood biomass, resulting in decreases to wood chip prices. As drought conditions persist, forest health is likely to decline and forest fire risks to increase. Overall, most in the industry are generally optimistic as the strong run in forest product prices helped many companies build strong equity positions for future growth.

Loan Portfolio

Total loan volume was $14.6 billion at June 30, 2021, an increase of $410.0 million from $14.2 billion at December 31, 2020. The increase was caused both by draws on existing facilities and new originations, partially offset by anticipated seasonal loan repayments. On a year-over-year basis, loan volume increased by $1.8 billion when compared to June 30, 2020, resulting in a growth rate of 14.5%. Although credit quality has slightly decreased to 97.8% at June 30, 2021 from 98.5% at December 31, 2020, the Association's overall credit quality remains strong. Credit quality is a measurement of loan volume classified as either "Acceptable" or "Other Assets Especially Mentioned" divided by total loan volume under the Farm Credit System 14 point probability of default rating scale.

In addition to the $14.6 billion of loan and lease volume reported on our balance sheet, we serviced an additional $5.5 billion of loan volume for other institutions as of June 30, 2021.

Management's Discussion and Analysis

Nonearning Assets

Nonaccrual loan volume decreased by $2.3 million to $49.2 million at June 30, 2021, compared to $51.5 million at December 31, 2020. The change in nonaccrual loan volume was primarily due to transfers to nonaccrual status and disbursements on nonaccrual loans of $23.1 million, offset by $19.1 million year-to-date repayments on nonaccrual loans, charge-offs of nonaccrual loans of $5.5 million, and loans reinstated to accrual status of $0.9 million. Nonaccrual loan volume represented 0.34% of total loan volume at the end of June 30, 2021, compared to 0.45% at June 30, 2020 and 0.36% at December 31, 2020.

Allowance for Credit Losses

The allowance for credit losses is composed of the allowance for loan losses (ALL) and the reserve for unfunded commitments. The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. The appropriate level of allowance for loan losses is determined based on periodic evaluation of factors such as loan loss history, portfolio quality, estimated collateral values, and current economic and environmental conditions. Total allowance for credit losses was $38.8 million at June 30, 2021, which included a $34.8 million allowance for loan losses and a $4.0 million reserve for unfunded commitments.

Financial Condition and Results of Operations

Net income for the six months ended June 30, 2021 was $177.3 million compared to $115.5 million for the same period last year, an increase of $61.8 million. The change in net income was primarily due to the following reasons:

- Net interest income increased by $44.4 million year-over-year due to growth in accrual loan volume and a higher net interest margin. The increase in the net interest margin was primarily caused by a decrease in our cost of funds. The Association's weighted average interest rate on interest-bearing liabilities excluding the subordinated debt offering was 0.70% and 1.10% as of June 30, 2021 and 2020, respectively. Including the subordinated debt offering, the weighted average rate was 0.74% as of June 30, 2021.

- Provision for credit losses decreased by $5.9 million year-over-year. The decrease was caused by a lower provision recorded through June 30, 2020 primarily as a result of changes in assumptions in the provision estimate in March 2021.

- Noninterest income increased by $9.2 million year-over-year. The increase was primarily due to an $11.7 million increase in patronage income. In June, CoBank increased the target patronage for Association direct note balances to 45 basis points, from 39 basis points retroactive back to January 1, 2021. This was, offset by a return of excess Farm Credit System Insurance Corporation (FCSIC) insurance funds of $2.5 million, received in March 2020. No refund will be received in 2021.

- FCSIC insurance, a component of noninterest operating expense, increased by $5.5 million when compared to June 2020. The FCSIC board approved an insurance premium assessment rate on adjusted insured debt of 16 basis points for 2021, an increase from 11 basis points in 2020. Their board also approved continuing a 10 basis point assessment on nonaccrual loans.

- Overall, noninterest operating expenses decreased by $2.2 million compared to the same period last year, primarily caused by a decrease in purchased services, technology expenses, and salaries and benefits.

The major components of change in net income are summarized as follows:

	For the Six Months Ended		Increase (Decrease) in
	June 30, 2021	**June 30, 2020**	**Net Income**
Net interest income	$217,767	$173,404	$44,363
Provision for credit losses	(3,012)	(8,931)	5,919
Patronage income	51,147	39,411	11,736
Other income, net	13,214	15,629	(2,415)
Operating expenses	(101,829)	(103,994)	2,165
Provision for income taxes	(2)	(2)	-
Net income	**$177,285**	**$115,517**	**$61,768**

Management's Discussion and Analysis

The following table shows the Association's year-to-date annualized return on average assets, return on equity, and net interest margin.

	June 30,	
	2021	2020
Return on average assets	2.34%	1.78%
Return on common equity	15.58%	10.71%
Return on total equity	14.81%	10.02%
Net interest margin	3.03%	2.83%

Liquidity and Funding

Liquidity is necessary to meet our financial obligations, such as paying our note with CoBank, funding loans and other commitments, and funding operations in a low-cost manner. Our liquidity policy is intended to manage short-term cash flow, maximize debt reductions, and liquidate nonearning assets. Our direct loan with CoBank, cash on hand, and borrower loan repayments provide adequate liquidity to fund our ongoing operations and other commitments.

Members' Equity

The Association's capital position remains strong. Total members' equity was $2.659 billion at the end of the second quarter, an increase of $290.2 million from $2.369 billion at December 31, 2020. The increase in equity is primarily the result of the Association's strong year-to-date net income and the issuance of the aforementioned $300.0 million Series A Preferred Stock, offset by the redemption and retirement of all Class H Preferred Stock on March 31, 2021. The Association was in compliance with all capital ratio requirements at June 30, 2021. The Association's strong earnings and capital position enable us to effectively serve our mission and our customers and support our ability to maintain our cash patronage distribution program.

Certification

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

George Fontes	Curt Hudnutt	Vern Zander
Chairman	Chief Executive Officer	Chief Financial Officer

August 9, 2021

Consolidated Statements of Condition *(dollars in thousands)*

	June 30, 2021	December 31, 2020
	(Unaudited)	*(Audited)*
ASSETS		
Loans	$14,581,358	$14,170,874
Less: allowance for loan losses	(34,830)	(33,211)
Net loans	14,546,528	14,137,663
Cash	19,512	61,128
Accrued interest receivable	115,678	114,735
Investment in CoBank	475,173	472,402
Investment in AgDirect	19,194	17,306
Premises and equipment, net	117,800	120,859
Other property owned	4,160	4,160
Other assets	149,507	165,887
Total assets	**$15,447,552**	**$15,094,140**
LIABILITIES		
Notes payable to CoBank	$12,203,514	$12,258,563
Subordinated notes	200,000	-
Funds Held accounts	247,766	146,415
Accrued interest payable	22,113	22,778
Cash patronage and preferred stock dividends payable	-	141,971
Reserve for unfunded commitments	3,947	4,482
Other liabilities	110,833	150,776
Total liabilities	**12,788,173**	**12,724,985**
MEMBERS' EQUITY		
Preferred stock – Series A	300,000	-
Preferred stock – H stock	-	175,623
Common stock and participation certificates	10,420	10,212
Additional paid-in capital	675,203	683,656
Unallocated retained surplus	1,692,012	1,520,252
Accumulated other comprehensive loss	(18,256)	(20,588)
Total members' equity	**2,659,379**	**2,369,155**
Total liabilities and members' equity	**$15,447,552**	**$15,094,140**

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

Consolidated Statements of Comprehensive Income *(dollars in thousands)*

(Unaudited)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
INTEREST INCOME				
Loans	$141,869	$131,139	$276,249	$274,609
Total interest income	**141,869**	**131,139**	**276,249**	**274,609**
INTEREST EXPENSE				
Notes payable CoBank	28,605	44,263	57,352	100,533
Subordinated notes	375	-	375	-
Funds Held and other interest	471	226	755	672
Total interest expense	**29,451**	**44,489**	**58,482**	**101,205**
Net interest income	**112,418**	**86,650**	**217,767**	**173,404**
Provision for credit losses	(5,246)	(3,670)	(3,012)	(8,931)
Net interest income after provision for credit losses	**107,172**	**82,980**	**214,755**	**164,473**
NON-INTEREST INCOME				
Patronage income from CoBank	18,586	12,570	33,224	24,368
Patronage income from other Farm Credit institutions	11,084	9,092	16,909	14,076
Patronage income from AgDirect	607	568	1,014	967
Loan origination fees	3,601	6,044	7,196	8,904
Servicing fees and late charges	1,990	659	2,316	959
Financially related services	799	584	1,709	1,540
Miscellaneous	1,118	695	1,993	4,226
Total non-interest income	**37,785**	**30,212**	**64,361**	**55,040**
NON-INTEREST EXPENSES				
Salaries and benefits	31,957	35,047	63,379	68,810
Occupancy and equipment expense	2,597	2,455	5,187	4,955
Insurance fund premiums	4,809	2,070	9,472	4,003
Supervisory and examination expense	718	811	1,437	1,622
Other operating expenses	10,619	11,679	22,354	24,604
Total non-interest expenses	**50,700**	**52,062**	**101,829**	**103,994**
Income before income taxes	94,257	61,130	177,287	115,519
Provision for income taxes	(2)	(2)	(2)	(2)
Net income	**$94,255**	**$61,128**	**$177,285**	**$115,517**
COMPREHENSIVE INCOME				
Actuarial gain in retirement obligation	1,166	750	2,332	1,500
Total comprehensive income	**$95,421**	**$61,878**	**$179,617**	**$117,017**

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

Consolidated Statements of Changes in Members' Equity *(dollars in thousands)*

For the Six Months Ended June 30, 2020 and 2021

(Unaudited)	Common Stock and Participation Certificates	Preferred Stock	Additional Paid-in Capital	Unallocated Retained Surplus	Accumulated Other Comprehen-sive Loss	Total Members' Equity
Balance at December 31, 2019	**$9,545**	**$127,955**	**$683,656**	**$1,420,692**	**$(14,267)**	**$2,227,581**
Comprehensive income				115,517	1,500	117,017
Stock/participation certificates issued	641	110,928				111,569
Stock/participation certificates retired	(325)	(80,335)				(80,660)
Preferred stock dividends paid		815				815
Preferred stock dividends accrued				(813)		(813)
Adjustment to prior period patronage accrual				(3,610)		(3,610)
Balance at June 30, 2020	**$9,861**	**$159,363**	**$683,656**	**$1,531,786**	**$(12,767)**	**$2,371,899**
Balance at December 31, 2020	**$10,212**	**$175,623**	**$683,656**	**$1,520,252**	**$(20,588)**	**$2,369,155**
Comprehensive income				177,285	2,332	179,617
Series A preferred stock issued		300,000				300,000
Stock/participation certificates issued	717	49,681				50,398
Stock/participation certificates retired	(509)	(225,575)				(226,084)
Preferred stock dividends paid		271				271
Preferred stock dividends accrued				(270)		(270)
Adjustment to prior period patronage accrual				(5,255)		(5,255)
Issuance costs			(8,453)			(8,453)
Balance at June 30, 2021	**$10,420**	**$300,000**	**$675,203**	**$1,692,012**	**$(18,256)**	**$2,659,379**

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

Notes to the Consolidated Financial Statements *(dollars in thousands, except as noted.)*

(Unaudited)

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of American AgCredit, ACA (Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2020 are contained in the 2020 Annual Report to Stockholders (2020 Annual Report). The financial statements were prepared under the oversight of the audit committee of the board of directors.

The accompanying unaudited second quarter 2021 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.

In the opinion of management, this unaudited financial information reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. 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. 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 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. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The Association adopted this guidance as of January 1, 2021.

Refer to Note 2 in our 2020 Annual Report for additional information on other accounting standards that have been issued, but are not yet effective. The Association is evaluating the impact of adoption of these standards on its financial condition and results of operations.

NOTE 2 – LOANS AND ALLOWANCE FOR LOAN LOSSES

Components of loans in the Consolidated Statements of Condition are as follows:

	June 30, 2021		December 31, 2020	
	Amount	**Percentage**	**Amount**	**Percentage**
Real estate mortgage	$8,279,205	56.8%	$7,802,390	55.1%
Production and intermediate-term	3,084,292	21.2%	3,132,095	22.1%
Agribusiness	2,728,462	18.6%	2,747,599	19.4%
Rural infrastructure	446,204	3.1%	445,199	3.1%
Agricultural export finance	41,565	0.3%	41,563	0.3%
Rural residential real estate	1,630	0.0%	2,028	0.0%
Total loans	**$14,581,358**	**100.0%**	**$14,170,874**	**100.0%**

PARTICIPATION INTERESTS

The Association, in the normal course of business, purchases and sells participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration regulations. All loans sold to other parties are sold without recourse.

The following table presents information regarding participations purchased and sold at June 30, 2021. The Association had no participations purchased from or sold to non-Farm Credit institutions at June 30, 2021.

	Other Farm Credit Institutions	
	Participations	
	Purchased	**Sold**
Real estate mortgage	$516,835	$1,757,479
Production and intermediate-term	611,051	925,920
Agribusiness	1,471,741	1,714,659
Rural infrastructure	415,052	63,479
Agricultural export finance	41,566	-
Total	**$3,056,245**	**$4,461,537**

Notes to the Consolidated Financial Statements *(continued)*

CREDIT QUALITY

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 determination of the allowance for loan losses is based on estimates that are susceptible to changes in the economic environment and market conditions, and is based on the Association's past loss experience, known and inherent risks in the portfolio, the estimated value of the underlying collateral, and current economic conditions. Management believes that as of June 30, 2021, the allowance for loan losses is adequate based on information currently available.

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 June 30, 2021

	Acceptable		OAEM		Substandard/Doubtful		Total
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**
Real estate mortgage	$8,026,335	96.0%	$170,737	2.0%	$167,298	2.0%	$8,364,370
Production and intermediate-term	2,931,667	94.4%	74,351	2.4%	98,411	3.2%	3,104,429
Agribusiness	2,643,827	96.5%	40,384	1.5%	54,095	2.0%	2,738,306
Rural infrastructure	443,174	99.3%	3,270	0.7%	-	0.0%	446,444
Rural residential real estate	1,527	93.4%	-	0.0%	108	6.6%	1,635
Agricultural export finance	41,852	100.0%	-	0.0%	-	0.0%	41,852
Total	**$14,088,382**	**95.9%**	**$288,742**	**2.0%**	**$319,912**	**2.1%**	**$14,697,036**

As of December 31, 2020

	Acceptable		OAEM		Substandard/Doubtful		Total
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**
Real estate mortgage	$7,549,864	95.7%	$181,442	2.3%	$154,959	2.0%	$7,886,265
Production and intermediate-term	2,972,700	94.3%	125,286	4.0%	54,833	1.7%	3,152,819
Agribusiness	2,697,367	97.8%	49,731	1.8%	10,123	0.4%	2,757,221
Rural infrastructure	445,417	100.0%	-	0.0%	-	0.0%	445,417
Rural residential real estate	1,916	94.2%	-	0.0%	119	5.8%	2,035
Agricultural export finance	41,852	100.0%	-	0.0%	-	0.0%	41,852
Total	**$13,709,116**	**96.0%**	**$356,459**	**2.5%**	**$220,034**	**1.5%**	**$14,285,609**

Notes to the Consolidated Financial Statements *(continued)*

IMPAIRED ASSETS

Impaired assets (including related accrued interest) are as follows:

	June 30, 2021	December 31, 2020
Nonaccrual loans:		
Real estate mortgage	$39,375	$40,246
Production and intermediate-term	9,509	6,538
Agribusiness	219	4,638
Rural residential real estate	108	119
Total nonaccrual loans	**49,211**	**51,541**
Accruing restructured loans:		
Real estate mortgage	10,534	10,854
Production and intermediate-term	16	18
Total accruing restructured loans	**10,550**	**10,872**
Accruing loans > 90 days past due:		
Real estate mortgage	7,853	-
Production and intermediate-term	380	509
Total accruing loans > 90 days past due	**8,233**	**509**
Total impaired loans	**67,994**	**62,922**
Other property owned	4,160	4,160
Total impaired assets	**$72,154**	**$67,082**

Additional impaired loan information is as follows:

	At June 30, 2021			For the Six Months Ended June 30, 2021	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans:					
with a related allowance for credit losses	$5,239	$6,339	$1,958	$3,207	$0
with no related allowance for credit losses	62,755	84,815	-	61,338	2,727
Total	**$67,994**	**$91,154**	**$1,958**	**$64,545**	**$2,727**

	At June 30, 2020			For the Six Months Ended June 30, 2020	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans:					
with a related allowance for credit losses	$7,505	$9,211	$2,848	$3,957	$0
with no related allowance for credit losses	61,652	79,875	-	54,376	3,577
Total	**$69,157**	**$89,086**	**$2,848**	**$58,333**	**$3,577**

Notes to the Consolidated Financial Statements *(continued)*

DELINQUENCY

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

June 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
Real estate mortgage	$2,463	$11,584	$14,047	$8,350,323	$8,364,370
Production and intermediate-term	2,687	931	3,618	3,100,811	3,104,429
Agribusiness	164	-	164	2,738,142	2,738,306
Rural infrastructure	-	-	-	446,444	446,444
Rural residential real estate	-	19	19	1,616	1,635
Agricultural export finance	-	-	-	41,852	41,852
Total	**$5,314**	**$12,534**	**$17,848**	**$14,679,188**	**$14,697,036**

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
Real estate mortgage	$17,416	$9,549	$26,965	$7,859,300	$7,886,265
Production and intermediate-term	6,362	1,788	8,150	3,144,669	3,152,819
Agribusiness	1,268	4,572	5,840	2,751,381	2,757,221
Rural infrastructure	-	-	-	445,417	445,417
Rural residential real estate	97	21	118	1,917	2,035
Agricultural export finance	-	-	-	41,852	41,852
Total	**$25,143**	**$15,930**	**$41,073**	**$14,244,536**	**$14,285,609**

Notes to the Consolidated Financial Statements *(continued)*

TROUBLED DEBT RESTRUCTURINGS

A restructuring of debt constitutes a troubled debt restructuring (TDR) if the creditor for economic reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider.

The Association had no new TDRs during the first six months of 2021 and 2020.

In the allowance for loan loss analysis, TDR loans are individually evaluated and a specific allowance is established based on the likelihood the current events will result in an anticipated loss on the individual loans.

The following table provides information on outstanding principal balance of loans restructured in TDR at period-end. These loans are included as impaired loans in the impaired loan table at June 30, 2021:

	TDRs in Accrual Status		**TDRs in Nonaccrual Status**		**Total TDRs**	
	June 30, 2021	**Dec. 31, 2020**	**June 30, 2021**	**Dec. 31, 2020**	**June 30, 2021**	**Dec. 31, 2020**
Real estate mortgage	$10,515	$8,219	$2,563	$2,614	$13,078	$10,833
Production and intermediate-term	16	18	-	-	16	18
Total	**$10,531**	**$8,237**	**$2,563**	**$2,614**	**$13,094**	**$10,851**

Additional commitments to lend to borrowers whose loans have been modified in TDRs were $11 thousand at June 30, 2021.

ALLOWANCE FOR LOAN LOSSES

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

	Allowance for Loan Losses			**Recorded Investments in Loans Outstanding**		
	Balance at June 30, 2021	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	**Balance at June 30, 2021**	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate mortgage	$10,773	$954	$9,819	$8,364,370	$57,762	$8,306,608
Production and intermediate-term	14,779	1,004	13,775	3,116,465	9,905	3,106,560
Agribusiness	8,669	-	8,669	2,726,283	219	2,726,064
Rural infrastructure	451	-	451	446,444	-	446,444
Rural residential real estate	1	-	1	1,622	108	1,514
Agricultural export finance	157	-	157	41,852	-	41,852
Total	**$34,830**	**$1,958**	**$32,872**	**$14,697,036**	**$67,994**	**$14,629,042**

Notes to the Consolidated Financial Statements *(continued)*

	Allowance for Loan Losses			Recorded Investments in Loans Outstanding		
	Balance at Dec. 31, 2020	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	**Balance at Dec. 31, 2020**	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate mortgage	$11,815	$1,322	$10,493	$7,886,265	$51,100	$7,835,165
Production and intermediate-term	13,699	304	13,395	3,169,087	7,065	3,162,022
Agribusiness	7,003	-	7,003	2,740,953	4,638	2,736,315
Rural infrastructure	503	-	503	445,417	-	445,417
Rural residential real estate	1	-	1	2,035	119	1,916
Agricultural export finance	190	-	190	41,852	-	41,852
Total	**$33,211**	**$1,626**	**$31,585**	**$14,285,609**	**$62,922**	**$14,222,687**

A summary of the changes in the Allowance for Loan Losses is as follows:

	June 30,	
	2021	**2020**
Allowance for Loan Losses		
Balance at beginning of year	$33,211	$25,807
Charge-offs	(5,457)	(1,031)
Recoveries	3,529	1,160
Provision for loan losses	3,547	8,157
Balance at end of quarter	**$34,830**	**$34,093**

NOTE 3 – LEASES

The balance sheet effect of operating leases for office space, and finance leases for vehicles, are included in premises and equipment and other liabilities on the balance sheet. Right-of-use assets represent the Association's right to use an underlying asset for the lease term and lease liabilities represent the Association's obligation to make lease payments arising from the lease.

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

	Operating Leases	**Finance Leases**	**Total**
2021 (excluding the six months ended 6/30/21)	$439	$343	$782
2022	748	479	1,227
2023	649	414	1,063
2024	599	128	727
2025	512	78	590
Thereafter	1,688	-	1,688
Total lease payments	**4,635**	**1,442**	**6,077**
Less: interest	-	(44)	(44)
Total	**$4,635**	**$1,398**	**$6,033**

Right-of-use assets, net of accumulated amortization, amounted to $4.7 million for the period ended June 30, 2021.

Notes to the Consolidated Financial Statements *(continued)*

NOTE 4 – MEMBERS' EQUITY

The table below shows the Association's regulatory capital requirements and ratios as of June 30, 2021. The Association exceeded all regulatory minimum capital requirements as of June 30, 2021 and December 31, 2020.

	Regulatory Minimums	Capital Conservation Buffer	Total	June 30, 2021	Dec. 31, 2020
Risk-adjusted:					
Common Equity Tier 1 Capital	4.5%	2.5%	7.0%	**10.70%**	**11.55%**
Tier 1 Capital	6.0%	2.5%	8.5%	**11.04%**	**11.55%**
Total Capital	8.0%	2.5%	10.5%	**11.50%**	**11.79%**
Permanent Capital	7.0%	0.0%	7.0%	**11.47%**	**12.83%**
Non-risk-adjusted:					
Tier 1 Leverage	4.0%	1.0%	5.0%	**12.59%**	**13.16%**
URE and UREE Leverage	1.5%	0.0%	1.5%	**13.46%**	**13.94%**

The Association has a class of preferred stock known as H Stock of which 500 million shares of the stock are authorized at $1.00 par value. H Stock ownership is limited to existing common stockholders of the Association and is considered "at-risk." The stock bears a dividend rate that is set by the Board of Directors. Retirement of the stock is at the discretion of the Board. Effective March 31, 2021, the Board approved the redemption and retirement of all outstanding shares of H Stock. At June 30, 2021, there were no shares of H Stock issued and outstanding.

The Association is also authorized to issue other preferred stock with an aggregate par value of up to $900 million outstanding, subject to certain regulatory and other limitations. On June 14, 2021, the Association issued $300.0 million of Series A non-cumulative perpetual preferred stock at $1,000 par value per share. The issuance will carry an annual dividend rate of 5.25% payable quarterly until the First Reset Date of June 15, 2026, thereafter, the amount equal to the sum of the Five-Year Treasury Rate as of the most recent Reset Dividend Determination Date plus 4.50%. The issuance will be callable June 15, 2026 and quarterly thereafter. The Association will make its first dividend payment on September 15, 2021.

The Series A preferred stock is junior upon liquidation or dissolution to any subordinated debt, existing and future debt obligations, and to any series of preferred stock issued in the future with priority rights. Series A preferred stock has a preference as to dividends and is senior upon liquidation or dissolution to outstanding Class C common stock, Class F participation certificates, and patronage equities.

The following tables present the activity in the accumulated other comprehensive income (loss), net of tax by component:

Balance at December 31, 2020	Pension and Other Benefit Plans	Accumulated Other Comprehensive Loss
Other comprehensive loss before reclassifications	$(20,588)	$(20,588)
Amounts reclassified from accumulated other comprehensive loss	2,332	2,332
Net current period other comprehensive income	2,332	2,332
Balance at June 30, 2021	**$(18,256)**	**$(18,256)**

Balance at December 31, 2019	Pension and Other Benefit Plans	Accumulated Other Comprehensive Loss
Other comprehensive loss before reclassifications	$(14,267)	$(14,267)
Amounts reclassified from accumulated other comprehensive loss	1,500	1,500
Net current period other comprehensive income	1,500	1,500
Balance at June 30, 2020	**$(12,767)**	**$(12,767)**

The following table represents reclassifications out of accumulated other comprehensive income (loss):

	For the Three Months Ended		Location of Gain/(Loss) Recognized in Statement of Income
	June 30, 2021	June 30, 2020	
Pension and other benefit plans:			
Net actuarial gain	$2,332	$1,500	Salaries & Benefits
Total amounts reclassified	**$2,332**	**$1,500**	

NOTE 5 – SUBORDINATED NOTES

In June 2021, the Association issued $200.0 million of aggregate principal amount of Subordinated Notes (Notes), due in 2036, which may be redeemed all or in part on any interest payment date on or after June 2031. The Notes bear a fixed interest rate of 3.375% per annum, payable semi-annually until June 15, 2031, at which point the rate changes to a floating rate equal to the benchmark rate, expected to be three-month term SOFR, plus a spread of 212 basis points through maturity date or the date of earlier redemption. The Notes are subordinate to all other creditor debt, including general creditors, and senior to all classes of stock. The Notes are not considered System debt and are not an obligation of, nor guaranteed by any System entity. Further, payments on the Notes are not insured by the FCSIC.

NOTE 6 – FAIR VALUE MEASUREMENTS

Accounting standards define 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 2 to the 2020 Annual Report.

Assets and liabilities measured at fair value for each of the fair value hierarchy values are summarized below:

	June 30, 2021 Fair Value Measurement Using		December 31, 2020 Fair Value Measurement Using	
	Level 1	Level 3	Level 1	Level 3
Measured at fair value on a recurring basis:				
Assets held in nonqualified benefits trusts	$26,189		$22,044	
Measured at fair value on a non-recurring basis:				
Loans		$3,281		$1,382
Other Property Owned		$4,425		$4,425

During the reporting periods presented, the Association recorded no transfers in or out of Levels 1, 2, or 3. The Association had no liabilities measured at fair value on a recurring basis for the periods presented.

Valuation Techniques: Accounting 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 Associations' assets and liabilities.

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. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

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 other property owned involves the use of independent appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

Assets Held in Nonqualified Benefits Trusts: Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

NOTE 7 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through August 9, 2021, which is the date the financial statements were available to be issued.