LONE STAR, ACA

2021
Quarterly Report
Third Quarter

LONE STAR
AG CREDIT

For the Quarter Ended September 30, 2021

REPORT OF MANAGEMENT

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

Joe H. Hayman, Chief Executive Officer

November 9, 2021

Brent Neuhaus, Chairman, Board of Directors

November 9, 2021

Nicholas Acosta, Chief Financial Officer

November 9, 2021

David Conrad, Chairman, Audit Committee

November 9, 2021

Third Quarter 2021 Financial Report

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LONE STAR, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis reviews the consolidated financial performance of the Lone Star, ACA, (ACA) including its wholly-owned subsidiaries Lone Star, FLCA and Lone Star, PCA, (collectively referred to herein as the Association) for the three and nine months ended September 30, 2021. The discussion should be read in conjunction with the Association's Annual Report to Stockholders, and notes thereto, for the year ended December 31, 2020. Operating results for the three and nine months ended September 30, 2021, are not necessarily indicative of the results for the year ending December 31, 2021, or any future period.

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

Since 1917, the Association and its predecessors have provided its members with quality financial services. The Board and management remain committed to maintaining the financial integrity of the Association while offering competitive loan products that meet the financial needs of agricultural producers.

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

Patronage:

In September 2020, the Board declared an advance payment of patronage on expected 2020 full-year patronage paid to eligible borrowers in October 2020. This advance was based on 50 basis points of eligible average outstanding loan balance for the period starting on January 1, 2020, and ending September 30, 2020, in the amount of $7,424,105 and was made in an effort to assist member-owners during an unprecedented and challenging time resulting from COVID-19.

In December 2020, the Board declared a cash patronage in the amount of $14,759,557 paid in March 2021, based on 2020 earnings. The patronage was paid to eligible borrowers based on their average outstanding loan balance for the year ending December 31, 2020. The 2020 cash patronage, including the payment advance of $7,424,105, represents on average an approximately 1.5 percent reduction in borrowers' loan interest rate, less any applicable contractual reductions. The Association's total capital position remains strong after the declaration and distribution of patronage at 16.2 percent for the period ending September 30, 2021.

The following table provides information on the patronage received from the Farm Credit Bank of Texas (Bank) for the year ended December 31, 2020:

	2020
Direct loan patronage	$ 8,135,546
Stock investment in the Bank	585,023
AMBS investment patronage	125,448
Total Patronage Received	$ 8,846,017

The direct loan patronage received represents 56 basis points on average daily balance of the Association's direct loan with the Bank.

Loan Portfolio:

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans and farm-related business loans. These loan products are available to eligible borrowers with competitive variable, fixed, adjustable, LIBOR-based, SOFR-based, and prime-based interest rates. Commercial loans primarily consist of operating loans and short-term loans for working capital, equipment and livestock. Mortgage loans primarily consist of 20- to 30- year maturities. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

Total loans outstanding at September 30, 2021, including nonaccrual loans, were $2,155,336,522 compared to $1,965,793,014 at December 31, 2020, reflecting an increase of 9.6 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.2 percent at September 30, 2021, compared to 0.3 percent at December 31, 2020. Impaired loans as a percentage of total loans outstanding were 0.2 percent at September 30, 2021 compared to 0.3 percent at December 31, 2020.

The Association recorded $421,137 in recoveries and $20,889 in charge-offs for the quarter ended September 30, 2021, and $82,864 in recoveries and $3,059 in charge-offs for the same period in 2020. The Association's allowance for credit losses was 0.3 percent and 0.4 percent of total loans outstanding as of September 30, 2021, and December 31, 2020, respectively.

Risk Exposure:

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

	September 30, 2021		December 31, 2020	
	Amount	**%**	Amount	%
Nonaccrual	**$ 4,126,256**	**97.5%**	$ 5,047,957	93.6%
90 days past due and still accruing interest	**-**	**0.0%**	234,577	4.3%
Formally restructured	**103,835**	**2.5%**	111,159	2.1%
Total	**$ 4,230,091**	**100.0%**	$ 5,393,693	100.0%

At September 30, 2021, and December 31, 2020, the Association held no property classified as other property owned.

Results of Operations:

The Association had net income of $13,793,514 and $35,294,808 for the three and nine months ended September 30, 2021, as compared to net income of $8,979,120 and $24,576,817 for the same period in 2020, reflecting an increase of 53.6 percent and 43.6 percent, respectively. Net interest income was $18,113,900 and $45,873,006 for the three and nine months ended September 30, 2021, compared to $12,195,114 and $35,906,296 for the same period in 2020, respectively.

	Nine Months Ended			
	September 30, 2021		September 30, 2020	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 2,068,166,139**	**$ 70,982,377**	$ 1,748,329,467	$ 62,320,999
Total interest-earning assets	**2,068,166,139**	**70,982,377**	1,748,329,467	62,320,999
Interest-bearing liabilities	**1,710,538,527**	**25,109,371**	1,401,631,616	26,414,703
Impact of capital	**$ 357,627,612**		$ 346,697,851	
Net interest income		**$ 45,873,006**		$ 35,906,296

	2021 Average Yield	2020 Average Yield
Yield on loans	**4.59%**	4.76%
Total yield on interest-earning assets	**4.59%**	4.76%
Cost of interest-bearing liabilities	**1.96%**	2.52%
Interest rate spread	**2.63%**	2.24%
Net interest income as a percentage of average earning assets	**2.97%**	2.74%

	Nine months ended: September 30, 2021 vs. September 30, 2020		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$11,390,475**	**$ (2,729,097)**	**$ 8,661,378**
Interest expense	**5,816,107**	**(7,121,439)**	**(1,305,332)**
Net interest income	**$ 5,574,368**	**$ 4,392,342**	**$ 9,966,710**

Interest income for the three and nine months ended September 30, 2021, increased by $6,174,193 and $8,661,378, or 30.0 percent and 13.9 percent, respectively, from the same period of 2020, primarily due to an increase in average interest-earning assets and amounts accreted into interest income, offset by a decrease in yield on interest-earning assets. Refer to Note 7, Fair Value Measurements, for disclosures regarding fair value of concessions granted. Interest expense for the three and nine months ended September 30, 2021, increased by $255,407 and decreased by $1,305,332, or 3.1 percent and 4.9 percent, respectively, from the same period of 2020, due to a decrease in the cost of interest-bearing liabilities offset by an increase in interest-bearing liabilities. Average loan volume for the third quarter of 2021 was $2,118,797,503, compared to $1,841,961,435 in the third quarter of 2020. The average net interest rate spread on the loan portfolio for the third quarter of 2021 was 3.06 percent, compared to 2.21 percent in the third quarter of 2020.

The Association's return on average assets for the nine months ended September 30, 2021, was 2.24 percent compared to 1.84 percent for the same period in 2020. The Association's return on average equity for the nine months ended September 30, 2021, was 12.43 percent, compared to 9.04 percent for the same period in 2020.

Noninterest income for the three and nine months ended September 30, 2021, increased by $910,551 and $2,684,979, or 41.6 percent and 40.6 percent, respectively, from the same period of 2020, primarily due to an increase in patronage income from the Bank. Noninterest expenses for the three and nine months ended September 30, 2021, increased by $2,319,021 and $3,754,359, or 41.7 percent and 21.7 percent, respectively, from the same period of 2020, primarily due to planned staffing changes made in 2021, an increase in insurance fund premiums and a return to normal level of expenses as COVID restrictions are lifted.

Provisions for credit losses for the three and nine months ended September 30, 2021, decreased by $269,278 and $1,797,974, or 181.9 and 272.4 percent, respectively, from the same period of 2020, primarily due to improvement in qualitative and environmental allowance adjustments, continuous improvement in credit quality and recoveries.

Liquidity and Funding Sources:

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

		September 30, 2021		December 31, 2020
Note payable to the bank	**$**	**1,784,743,976**	$	1,607,883,153
Accrued interest on note payable		**2,765,479**		2,733,031
Total	**$**	**1,787,509,455**	$	1,610,616,184

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of the note payable to the Bank was $1,784,743,976 as of September 30, 2021, and is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 1.9 percent at September 30, 2021. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the General Financing Agreement (GFA). The increase in note payable to the Bank since December 31, 2020, correlates directly with the overall increase in the Association accrual loan volume for the period. As the Association match funds its new loan volume, the Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $373,085,955 at September 30, 2021. The maximum amount the Association may borrow from the Bank as of September 30, 2021, was $2,142,896,807 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, which is September 30, 2023, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The liquidity policy of the Association is to manage cash balances, to maximize debt reduction and to increase accrual loan volume. This policy will continue to be pursued during 2021. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association will continue to fund its operations through direct borrowings from the Bank, capital surplus from prior years and borrower stock.

Capital Resources:

The Association's capital position increased by $35,491,902 at September 30, 2021, compared to December 31, 2020. The Association's debt as a percentage of members' equity was 4.51:1 as of September 30, 2021, compared to 4.50:1 as of December 31, 2020.

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

Economic Conditions:

The United States has been operating under a presidentially declared emergency since March 13, 2020 due to the Coronavirus Disease (also referred to as COVID-19). The Association continues during these unprecedented times to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. The Association is closely monitoring its loan portfolio overall and is particularly focused on sectors that may be pressured by COVID-19 and its related economic impacts, such as oil and gas, food processing, timber and beef cattle. The Association has adjusted its portfolio monitoring and servicing practices. Capital levels remained strong to support any adversity or continuing loan demand.

Operationally, the Association continues to function as normal during these challenging times. The Association has witnessed the benefits of past and current technology initiatives which allow personnel to work remotely and support both their families and their customer base. As it relates to the Association's internal controls over financial reporting and disclosure controls and procedures, the controls and procedures continue to operate effectively and no material changes to the controls or financial systems have occurred or are contemplated. The potential impact of COVID-19 on the global, U.S. and regional economies creates a high degree of economic uncertainty. The Association continues to assess the potential impact as conditions unfold.

The U.S. economy is estimated to have decelerated during the third quarter of 2021 primarily due to a surge in new COVID-19 cases and supply chain disruptions that negatively impacted performance. The U.S. Bureau of Economic Analysis estimates that real gross domestic product (GDP) increased at an annual rate of 6.7 percent in the second quarter of 2021, up from 6.3 percent during the first quarter of 2021. However, as of October 1, 2021, the Federal Reserve Bank of Atlanta estimates that real GDP growth was about 2.3 percent during the third quarter of 2021. According to the International Monetary Fund's latest World Economic Outlook, released on July 27, 2021, U.S. real GDP growth is estimated to be 7.0 percent in 2021. Inflationary pressures persisted during the third quarter of 2021. The annual inflation rate increased in July and August 2021, reaching 5.3 percent. Additionally, the most recent data available from the U.S. Bureau of Labor Statistics indicates that the unemployment rate decreased in each of the states within the Texas District during July and August 2021 but remained above pre-pandemic levels.

West Texas Intermediate (WTI) crude oil prices continued to rise during the third quarter of 2021, averaging slightly above $70 per barrel, up from $66 per barrel in the previous quarter. Similarly, WTI crude oil prices increased by about 72.0 percent year-over-year from an average of about $41 per barrel during the third quarter of 2020. In its September 2021 Short-Term Energy Outlook (STEO), the U.S. Energy Information Administration estimated that WTI prices would average nearly $66 per barrel during 2021, up about $4 per barrel from the previous quarter. The September 2021 STEO also states that natural gas prices increased in August 2021, reflecting higher demand from the electric power sector due to hotter temperatures. Prices rose further by the end of August 2021 due to disruptions in natural gas production caused by Hurricane Ida in the Gulf of Mexico.

In September 2021, the U.S. Department of Agriculture (USDA) presented its latest farm income forecast. Net farm income is forecasted at $113.0 billion in 2021, up $18.5 billion or 19.5 percent year-over-year. Total production expenses are forecasted to increase by about 3.5 percent in 2021 when adjusted for inflation. Farm sector assets and equity are both forecasted to increase by about 2.5 percent and 2.9 percent, respectively, while farm debt is forecasted to decrease by about 0.2 percent in real terms. After deteriorating since 2012, the debt-to-assets ratio is forecasted to fall (i.e., improve) in 2021. The bankruptcy rate and the debt service ratio are similarly forecasted to improve in 2021.

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

For the remainder of 2021, agricultural producers may be negatively affected by several factors, including volatile commodity prices, uncertainty around COVID, export market disruptions, a recovering global economy, and weather-related challenges. The Association loan portfolio is well-supported by industry diversification.

Significant Recent Accounting Pronouncements:

Refer to Note 1 – "Organization and Significant Accounting Policies" in this quarterly report for disclosures of recent accounting pronouncements which may impact the Association's consolidated financial position and results of operations and for critical accounting policies.

Relationship With the Farm Credit Bank of Texas:

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and

Notes to Financial Statements contained in the 2020 Annual Report of the Association more fully describe the Association's relationship with the Bank.

The annual and quarterly stockholder reports of the Bank are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720-2590 or calling (512) 465-1881. Copies of the Bank annual and quarterly stockholder reports can also be requested by e-mailing *fcb@farmcreditbank.com*. The annual and quarterly stockholder reports are also available on its website at *www.farmcreditbank.com*.

The Association's annual and quarterly stockholder reports are also available free of charge, upon request. The annual and quarterly stockholder reports are available approximately 75 days after year end and 40 days after quarter end, respectively, and can be obtained by writing to Lone Star, ACA, 1612 Summit Avenue, Suite 300, Fort Worth, Texas 76102 or calling (817) 332-6565. The annual and quarterly stockholder reports for the Association are also available on its website at *www.lonestaragcredit.com*. Copies of the reports can also be requested by e-mailing *ShareHolderRelations@lonestaragcredit.com*.

LONE STAR, ACA

CONSOLIDATED BALANCE SHEETS

	September 30, 2021 (unaudited)	December 31, 2020
ASSETS		
Cash	$ 206,710	$ 86,857
Loans	2,155,336,522	1,965,793,014
Less: allowance for credit losses	(7,339,556)	(8,044,487)
Net loans	2,147,996,966	1,957,748,527
Accrued interest receivable	10,910,421	8,991,130
Investment in and receivable from the Bank:		
Capital stock	28,499,325	28,508,380
Other	8,699,275	2,222,472
Premises and equipment, net	3,152,076	2,947,464
Other assets	3,635,728	3,244,489
Total assets	$ 2,203,100,501	$ 2,003,749,319
LIABILITIES		
Note payable to the Bank	$ 1,784,743,976	$ 1,607,883,153
Accrued interest payable	2,765,479	2,733,031
Drafts outstanding	86,223	47,422
Patronage dividends payable	-	14,759,557
Other liabilities	15,983,912	14,297,147
Total liabilities	1,803,579,590	1,639,720,310
MEMBERS' EQUITY		
Capital stock and participation certificates	5,896,735	5,841,380
Additional paid-in capital	91,343,553	91,343,553
Unallocated retained earnings	303,308,631	267,904,169
Accumulated other comprehensive loss	(1,028,008)	(1,060,093)
Total members' equity	399,520,911	364,029,009
Total liabilities and members' equity	$ 2,203,100,501	$ 2,003,749,319

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

LONE STAR, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	**2021**	2020
INTEREST INCOME				
Loans	**$ 26,743,839**	$ 20,569,646	**$ 70,982,377**	$ 62,320,999
Total interest income	**26,743,839**	20,569,646	**70,982,377**	62,320,999
INTEREST EXPENSE				
Note payable to the Bank	**8,629,900**	8,374,527	**25,109,077**	26,414,568
Advance conditional payments	**39**	5	**294**	135
Total interest expense	**8,629,939**	8,374,532	**25,109,371**	26,414,703
Net interest income	**18,113,900**	12,195,114	**45,873,006**	35,906,296
(REVERSAL OF) PROVISION FOR CREDIT LOSSES	**(417,325)**	(148,047)	**(1,137,924)**	660,050
Net interest income after provision for credit losses	**18,531,225**	12,343,161	**47,010,930**	35,246,246
NONINTEREST INCOME				
Income from the Bank:				
Patronage income	**2,799,191**	1,847,966	**8,189,067**	5,283,724
Loan fees	**251,856**	288,201	**702,907**	709,400
Refunds from FCSIC	**-**	-	**-**	293,816
Financially related services income	**896**	1,050	**3,124**	4,330
Gain on sale of premises and equipment, net	**18,263**	16,464	**215,717**	102,944
Other noninterest income	**29,461**	35,435	**194,204**	225,826
Total noninterest income	**3,099,667**	2,189,116	**9,305,019**	6,620,040
NONINTEREST EXPENSES				
Salaries and employee benefits	**4,920,200**	3,382,320	**12,759,938**	10,547,549
Directors' expense	**165,415**	77,398	**390,016**	264,520
Purchased services	**462,704**	405,135	**1,341,497**	1,458,681
Travel	**221,124**	168,584	**581,859**	544,190
Occupancy and equipment	**584,854**	370,557	**1,711,651**	1,128,122
Communications	**84,825**	131,754	**329,445**	366,507
Advertising	**165,739**	171,362	**389,351**	377,795
Public and member relations	**271,212**	150,045	**619,766**	600,836
Supervisory and exam expense	**115,822**	130,724	**399,834**	444,166
Insurance Fund premiums	**653,527**	374,054	**1,896,771**	864,693
Other components of net periodic postretirement benefit cost	**51,407**	51,908	**154,222**	155,724
Other noninterest expense	**179,177**	143,144	**479,014**	546,222
Total noninterest expenses	**7,876,006**	5,556,985	**21,053,364**	17,299,005
Income before income taxes	**13,754,886**	8,975,292	**35,262,585**	24,567,281
Benefit from income taxes	**(38,628)**	(3,828)	**(32,223)**	(9,536)
NET INCOME	**13,793,514**	8,979,120	**35,294,808**	24,576,817
Other comprehensive income:				
Change in postretirement benefit plans	**10,695**	6,873	**32,085**	20,619
COMPREHENSIVE INCOME	**$ 13,804,209**	$ 8,985,993	**$ 35,326,893**	$ 24,597,436

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

LONE STAR, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Additional Paid-in-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2019	$ 5,737,095	$ 91,343,553	$ -	$ 255,587,367	$ (889,531)	$ 351,778,484
Comprehensive income	-	-	-	24,576,817	20,619	24,597,436
Capital stock/participation certificates and allocated retained earnings issued	916,220	-	-	-	-	916,220
Capital stock/participation certificates and allocated retained earnings retired	(896,965)	-	-	-	-	(896,965)
Dividends declared	-	-	-	(7,484,205)	-	(7,484,205)
Balance at September 30, 2020	$ 5,756,350	$ 91,343,553	$ -	$ 272,679,979	$ (868,912)	$ 368,910,970
Balance at December 31, 2020	$ 5,841,380	$ 91,343,553	$ -	$ 267,904,169	$ (1,060,093)	$ 364,029,009
Comprehensive income	-	-	-	35,294,808	32,085	35,326,893
Capital stock/participation certificates and allocated retained earnings issued	887,755	-	-	-	-	887,755
Capital stock/participation certificates and allocated retained earnings retired	(832,400)	-	-	-	-	(832,400)
Dividends declared	-	-	-	109,654	-	109,654
Balance at September 30, 2021	**$ 5,896,735**	**$ 91,343,553**	**$ -**	**$ 303,308,631**	**$ (1,028,008)**	**$ 399,520,911**

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Lone Star, ACA, including its wholly-owned subsidiaries, Lone Star, PCA and Lone Star, FLCA, is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Bell, Borden, Bosque, Bowie, Burnet, Camp, Cass, Cooke, Coryell, Dallas, Delta, Denton, Eastland, Ellis, Erath, Falls, Fannin, Fisher, Freestone, Grayson, Hamilton, Hill, Hood, Johnson, Kent, Lamar, Lampasas, Limestone, McLennan, Milam, Mitchell, Morris, Navarro, Nolan, Palo Pinto, Parker, Red River, Scurry, Shackelford, Somervell, Stephens, Tarrant, Taylor, Throckmorton, Titus, Williamson, Wise and Young in the state of Texas. The Association is a lending institution of the Farm Credit System, which was established by Acts of Congress to meet the needs of American agriculture.

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

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

In 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 adoption of this guidance will not materially impact the Association's financial condition or its results of operations.

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

NOTE 2 — INVESTMENTS:

The Association may hold mission-related and other investments. The Farm Credit Administration approves mission-related programs and other mission-related investments. The following is a summary of mission-related and other investments that are held to maturity:

During 2010, the Association exchanged loans totaling $59,626,146 for Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed mortgage-backed securities (AMBS). The loans were previously covered under the Long-Term Standby Commitment to Purchase Agreements with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transactions.

Effective January 26, 2012, the Bank purchased the Association's securitized Farmer Mac AMBS Investments. The purchase of $35,459,508 included outstanding principal and accrued interest as of that date. There was no gain or loss recognized by the Association on this transaction. The Association will continue to service the underlying loans that were included in this security. Also, for 2012 there was no effect to the Association's income based on this transaction as the Bank was able to pay the Association a patronage equivalent to the net interest that it would have earned on the AMBS investment. The amount of patronage received in 2020 was $125,448 . However, for future years, the Bank's payment of patronage is at the discretion of the Bank's board of directors. The remaining balance of the AMBS investment at September 30, 2021 was $3,665,271.

NOTE 3 — LOANS AND ALLOWANCE FOR CREDIT LOSSES:

A summary of loans follows:

Loan Type	**September 30, 2021 Amount**	December 31, 2020 Amount
Production agriculture:		
Real estate mortgage	**$ 1,743,119,770**	$ 1,563,661,606
Production and intermediate term	**121,013,049**	107,672,020
Agribusiness:		
Loans to cooperatives	**10,218,018**	13,604,762
Processing and marketing	**150,609,062**	144,686,095
Farm-related business	**51,296,396**	45,481,458
Communication	**38,519,132**	42,755,132
Energy	**28,338,161**	30,944,363
Water and waste water	**4,228,814**	5,050,538
Rural residential real estate	**10,722,302**	11,937,040
International	**8,182,239**	-
Total	**$ 2,166,246,943**	$ 1,965,793,014

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

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 22,076,505	$ 21,917,256	$ 5,737,375	$ -	$ 27,813,880	$ 21,917,256
Production and intermediate term	44,615,848	1,695,218	-	-	44,615,848	1,695,218
Agribusiness	187,238,121	6,012,136	-	-	187,238,121	6,012,136
Communication	38,517,236	-	-	-	38,517,236	-
Energy	28,174,686	-	-	-	28,174,686	-
Water and waste water	4,228,425	-	-	-	4,228,425	-
International	8,169,863	-	-	-	8,169,863	-
Total	$ 333,020,684	$ 29,624,610	$ 5,737,375	$ -	$ 338,758,059	$ 29,624,610

The Association is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were $15,647,748 and $15,749,899 at September 30, 2021, and December 31, 2020, respectively.

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

	September 30, 2021	December 31, 2020
Nonaccrual loans:		
Real estate mortgage	**$ 3,624,676**	$ 4,369,064
Production and intermediate term	**45,503**	678,893
Energy	**456,077**	-
Total nonaccrual loans	**4,126,256**	5,047,957
Accruing restructured loans:		
Real estate mortgage	**103,835**	111,159
Total accruing restructured loans	**103,835**	111,159
Accruing loans 90 days or more past due:		
Real estate mortgage	**-**	234,577
Total accruing loans 90 days or more past due	**-**	234,577
Total nonperforming loans	**4,230,091**	5,393,693
Total nonperforming assets	**$ 4,230,091**	$ 5,393,693

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

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

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

	September 30, 2021	December 31, 2020
Real estate mortgage		
Acceptable	**99%**	97%
OAEM	**0%**	2%
Substandard/doubtful	**1%**	1%
	100%	100%
Production and intermediate term		
Acceptable	**100%**	94%
OAEM	**0%**	5%
Substandard/doubtful	**0%**	1%
	100%	100%
Loan to cooperatives		
Acceptable	**100%**	100%
OAEM	**0%**	0%
Substandard/doubtful	**0%**	0%
	100%	100%
Processing and marketing		
Acceptable	**96%**	91%
OAEM	**0%**	9%
Substandard/doubtful	**4%**	0%
	100%	100%
Farm-related business		
Acceptable	**100%**	100%
OAEM	**0%**	0%
Substandard/doubtful	**0%**	0%
	100%	100%
Communication		
Acceptable	**100%**	100%
OAEM	**0%**	0%
Substandard/doubtful	**0%**	0%
	100%	100%
Energy		
Acceptable	**96%**	98%
OAEM	**2%**	0%
Substandard/doubtful	**2%**	2%
	100%	100%
Water and waste water		
Acceptable	**100%**	100%
OAEM	**0%**	0%
Substandard/doubtful	**0%**	0%
	100%	100%
Rural residential real estate		
Acceptable	**99%**	99%
OAEM	**0%**	0%
Substandard/doubtful	**1%**	1%
	100%	100%
International		
Acceptable	**100%**	0%
OAEM	**0%**	0%
Substandard/doubtful	**0%**	0%
	100%	0%
Total loans		
Acceptable	**99%**	97%
OAEM	**0%**	3%
Substandard/doubtful	**1%**	0%
	100%	100%

There were no loans and related interest in the loss category.

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

September 30, 2021	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 3,368,437**	**$ 22,025**	**$ 3,390,462**	**$ 1,739,729,308**	**$ 1,743,119,770**	**$ -**
Production and intermediate term	**13,448**	**-**	**13,448**	**120,999,601**	**121,013,049**	**-**
Loans to cooperatives	**-**	**-**	**-**	**10,218,018**	**10,218,018**	**-**
Processing and marketing	**-**	**-**	**-**	**150,609,062**	**150,609,062**	**-**
Farm-related business	**-**	**-**	**-**	**51,296,396**	**51,296,396**	**-**
Communication	**-**	**-**	**-**	**38,519,132**	**38,519,132**	**-**
Energy	**-**	**-**	**-**	**28,338,161**	**28,338,161**	**-**
Water and waste water	**-**	**-**	**-**	**4,228,814**	**4,228,814**	**-**
Rural residential real estate	**9,839**	**-**	**9,839**	**10,712,463**	**10,722,302**	**-**
International	**-**	**-**	**-**	**8,182,239**	**8,182,239**	**-**
Total	**$ 3,391,724**	**$ 22,025**	**$ 3,413,749**	**$ 2,162,833,194**	**$ 2,166,246,943**	**$ -**

December 31, 2020	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 2,667,091	$ 914,223	$ 3,581,314	$ 1,568,115,978	$ 1,571,697,292	$ 234,577
Production and intermediate term	-	507,062	507,062	107,670,111	108,177,173	-
Loans to cooperatives	-	-	-	13,610,671	13,610,671	-
Processing and marketing	-	-	-	144,904,803	144,904,803	-
Farm-related business	-	-	-	45,563,153	45,563,153	-
Communication	-	-	-	42,757,285	42,757,285	-
Energy	-	-	-	31,058,687	31,058,687	-
Water and waste water	-	-	-	5,051,261	5,051,261	-
Rural residential real estate	-	-	-	11,963,819	11,963,819	-
Total	$ 2,667,091	$ 1,421,285	$ 4,088,376	$ 1,970,695,768	$ 1,974,784,144	$ 234,577

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

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

As of September 30, 2021, the total recorded investment of troubled debt restructured loans was $1,340,788, including $1,236,953 classified as nonaccrual and $103,835 classified as accrual, with no specific allowance for loan losses. There were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring as of September 30, 2021 and December 31, 2020.

There are no loans with troubled debt restructuring designation that occurred during the three and nine months ended September 30, 2021.The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the three and nine months ended September 30, 2020. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred.

For the Three Months Ended September 30, 2020	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 1,421,186	$ 1,407,303
Total	$ 1,421,186	$ 1,407,303

For the Nine Months Ended September 30, 2020	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 1,421,186	$ 1,407,303
Total	$ 1,421,186	$ 1,407,303

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). There were no restructurings where principal was forgiven that required a charge-off, at the modification date, for the three and nine months ended September 30, 2021, and 2020, respectively.

The predominant form of concession granted for troubled debt restructuring includes an extension of the term, principal, or accrued interest reduction, interest rate decrease or delayed in repayment of principal, among others. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case we assess all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

As of September 30, 2021, and 2020, respectively, the Association had no loans that met the accounting criteria as a troubled debt restructuring and that occurred within the previous 12 months of that year and for which there was a payment default during the period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status*		TDRs in Accrual Status	
	September 30, 2021	December 31, 2020	**September 30, 2021**	December 31, 2020	**September 30, 2021**	December 31, 2020
Real estate mortgage	**$ 1,340,788**	$ 1,452,684	**$ 1,236,953**	$ 1,341,525	**$ 103,835**	$ 111,159
Total	**$ 1,340,788**	$ 1,452,684	**$ 1,236,953**	$ 1,341,525	**$ 103,835**	$ 111,159

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

Additional impaired loan information is as follows:

	September 30, 2021			December 31, 2020		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Production and intermediate term	**$ -**	**$ -**	**$ -**	$ 104,758	$ 104,758	$ 41,551
Energy and water/waste water	**456,077**	**456,077**	**121,915**	-	-	-
Total	**$ 456,077**	**$ 456,077**	**$ 121,915**	$ 104,758	$ 104,758	$ 41,551
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 3,728,511**	**$ 3,731,846**	**$ -**	$ 4,714,800	$ 4,810,160	$ -
Production and intermediate term	**45,503**	**60,685**	**-**	574,135	597,368	-
Total	**$ 3,774,014**	**$ 3,792,531**	**$ -**	$ 5,288,935	$ 5,407,528	$ -
Total impaired loans:						
Real estate mortgage	**$ 3,728,511**	**$ 3,731,846**	**$ -**	$ 4,714,800	$ 4,810,160	$ -
Production and intermediate term	**45,503**	**60,685**	**-**	678,893	702,126	41,551
Energy and water/waste water	**456,077**	**456,077**	**121,915**	-	-	-
Total	**$ 4,230,091**	**$ 4,248,608**	**$ 121,915**	$ 5,393,693	$ 5,512,286	$ 41,551

[a] Unpaid principal balance represents the recorded principal balance of the loan.

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2021		September 30, 2020		**September 30, 2021**		September 30, 2020	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	**$ -**	**$ -**	$ -	$ -	**$ -**	**$ -**	$ 142,002	$ -
Production and intermediate term	**-**	**-**	1,648,126	16,427	**-**	**-**	1,241,626	54,386
Energy and water/waste water	**477,640**	**-**	-	-	**399,203**	**115**	-	-
Total	**$ 477,640**	**$ -**	$ 1,648,126	$ 16,427	**$ 399,203**	**$ 115**	$ 1,383,628	$ 54,386
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	**$ 3,764,776**	**$ 10,132**	$ 4,578,351	$ 12,261	**$ 3,862,802**	**$ 41,945**	$ 3,844,436	$ 41,766
Production and intermediate term	**46,538**	**-**	65,070	-	**229,937**	**-**	54,170	122
Rural residential real estate	**-**	**1,440**	2,357	1,613	**-**	**4,418**	4,171	3,956
Total	**$ 3,811,314**	**$ 11,572**	$ 4,645,778	$ 13,874	**$ 4,092,739**	**$ 46,363**	$ 3,902,777	$ 45,844
Total impaired loans:								
Real estate mortgage	**$ 3,764,776**	**$ 10,132**	$ 4,578,351	$ 12,261	**$ 3,862,802**	**$ 41,945**	$ 3,986,438	$ 41,766
Production and intermediate term	**46,538**	**-**	1,713,196	16,427	**229,937**	**-**	1,295,796	54,508
Energy and water/waste water	**477,640**	**-**	-	-	**399,203**	**115**	-	-
Rural residential real estate	**-**	**1,440**	2,357	1,613	**-**	**4,418**	4,171	3,956
Total	**$ 4,288,954**	**$ 11,572**	$ 6,293,904	$ 30,301	**$ 4,491,942**	**$ 46,478**	$ 5,286,405	$ 100,230

A summary of changes in the allowance for credit losses and unfunded commitments and the ending balance of loans outstanding are as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	International	Total
Allowance for Credit Losses:								
Balance at June 30, 2021	$ 5,360,516	$ 533,388	$ 1,071,663	$ 126,109	$ 211,721	$ 33,156	$ 32,812	$ 7,369,365
Charge-offs	-	(20,889)	-	-	-	-	-	(20,889)
Recoveries	-	420,567	570	-	-	-	-	421,137
(Reversal of) Provision for credit losses	97,484	(459,874)	(33,314)	(12,682)	(3,856)	270	(5,353)	(417,325)
Transfer from reserve on unfunded commitments	-	(12,937)	886	-	(170)	-	(511)	(12,732)
Balance at September 30, 2021	$ 5,458,000	$ 460,255	$ 1,039,805	$ 113,427	$ 207,695	$ 33,426	$ 26,948	$ 7,339,556
Balance at December 31, 2020	$ 6,034,076	$ 614,838	$ 1,084,089	$ 150,793	$ 115,453	$ 45,238	$ -	$ 8,044,487
Charge-offs	-	(20,889)	-	-	-	-	-	(20,889)
Recoveries	-	426,899	1,880	-	-	-	-	428,779
(Reversal of) Provision for credit losses	(576,283)	(576,219)	(56,867)	(37,967)	91,748	(11,812)	29,476	(1,137,924)
Transfer from reserve on unfunded commitments	207	15,626	10,703	601	494	-	(2,528)	25,103
Balance at September 30, 2021	$ 5,458,000	$ 460,255	$ 1,039,805	$ 113,427	$ 207,695	$ 33,426	$ 26,948	$ 7,339,556
Ending Balance:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 121,915	$ -	$ -	$ 121,915
Collectively evaluated for impairment	5,458,000	460,255	1,039,805	113,427	85,780	33,426	26,948	7,217,641
Balance at September 30, 2021	$ 5,458,000	$ 460,255	$ 1,039,805	$ 113,427	$ 207,695	$ 33,426	$ 26,948	$ 7,339,556
Balance at June 30, 2020	$ 5,678,011	$ 845,721	$ 1,060,019	$ 148,657	$ 225,268	$ 45,622	$ -	$ 8,003,298
Charge-offs	-	(3,059)	-	-	-	-	-	(3,059)
Recoveries	-	82,264	600	-	-	-	-	82,864
(Reversal of) Provision for credit losses	(6,714)	(112,483)	62,023	(18,272)	(74,026)	1,425	-	(148,046)
Transfer from reserve on unfunded commitments	3,207	(1,210)	(15,849)	(194)	2,470	-	-	(11,577)
Balance at September 30, 2020	$ 5,674,504	$ 811,233	$ 1,106,793	$ 130,191	$ 153,713	$ 47,047	$ -	$ 7,923,480
Balance at December 31, 2019	$ 4,713,632	$ 969,201	$ 835,460	$ 20,870	$ 451,789	$ 138,131	$ -	$ 7,129,083
Charge-offs	-	(45,373)	-	-	-	-	-	(45,373)
Recoveries	53,860	93,878	600	-	-	-	-	148,338
(Reversal of) Provision for credit losses	902,731	(222,170)	266,852	109,137	(305,416)	(91,084)	-	660,050
Transfer from reserve on unfunded commitments	4,281	15,697	3,881	184	7,339	-	-	31,382
Balance at September 30, 2020	$ 5,674,504	$ 811,233	$ 1,106,793	$ 130,191	$ 153,712	$ 47,047	$ -	$ 7,923,480
Ending Balance:								
Individually evaluated for impairment	$ -	$ 187,845	$ -	$ -	$ -	$ -	$ -	$ 187,845
Collectively evaluated for impairment	5,674,504	623,388	1,106,793	130,191	153,712	47,047	-	7,735,634
Balance at September 30, 2020	$ 5,674,504	$ 811,233	$ 1,106,793	$ 130,191	$ 153,712	$ 47,047	$ -	$ 7,923,479

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Agricultural Export Finance	Total
Recorded Investments in Loans Outstanding:								
Ending Balance at September 30, 2021	$ 1,743,119,770	$ 121,013,049	$ 212,123,476	$ 38,519,132	$ 32,566,975	$ 10,722,302	$ 8,182,239	$ 2,166,246,943
Individually evaluated for impairment	$ 3,728,511	$ 45,503	$ -	$ -	$ 456,077	$ -	$ -	$ 4,230,091
Collectively evaluated for impairment	$ 1,739,391,259	$ 120,967,546	$ 212,123,476	$ 38,519,132	$ 32,110,898	$ 10,722,302	$ 8,182,239	$ 2,162,016,852
Ending Balance at December 31, 2020	$ 1,571,697,292	$ 108,177,173	$ 204,078,627	$ 42,757,285	$ 36,109,948	$ 11,963,819	$ -	$ 1,974,784,144
Individually evaluated for impairment	$ 4,714,800	$ 678,893	$ -	$ -	$ -	$ -	$ -	$ 5,393,693
Collectively evaluated for impairment	$ 1,566,982,492	$ 107,498,280	$ 204,078,627	$ 42,757,285	$ 36,109,948	$ 11,963,819	$ -	$ 1,969,390,451

NOTE 4 —LEASES:

The components of lease expense were as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2021	September 30, 2020	**September 30, 2021**	September 30, 2020
Operating lease cost	**$ 148,901**	$ 154,629	**$ 451,904**	$ 470,447
Net lease cost	**$ 148,901**	$ 154,629	**$ 451,904**	$ 470,447

Other information related to leases was as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2021	September 30, 2020	**September 30, 2021**	September 30, 2020
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	**$ 147,868**	$ 141,254	**$ 429,913**	$ 432,758

Lease term and discount rate are as follows:

	September 30, 2021	December 31, 2020
Weighted average remaining lease term in years		
Operating leases	**2.4**	3.0
Weighted average discount rate		
Operating leases	**2.9%**	2.9%

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

	Operating Leases
2021 (excluding the nine months ended 9/30/21)	$ 139,847
2022	452,681
2023	398,465
2024	150,104
Total	$ 1,141,097

NOTE 5 — CAPITAL:

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

Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Requirements Including Capital Conservation Buffers	As of September 30, 2021
Common equity tier 1 ratio	7.00%	16.16%
Tier 1 capital ratio	8.50%	16.16%
Total capital ratio	10.50%	16.52%
Permanent capital ratio	7.00%	16.22%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.00%	16.79%
UREE leverage ratio	1.50%	17.85%

Risk-adjusted assets have been defined by FCA Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the deduction of the allowance for credit losses from risk-adjusted assets for the permanent capital ratio.

The ratios are based on a three-month average daily balance in accordance with FCA regulations and are calculated as follows:

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

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

The components of the Association's risk-adjusted capital, based on 90 day average balances, were as follows at September 30, 2021:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	$ 222,778,775	$ 222,778,775	$ 222,778,775	$ 222,778,775
Paid-in capital	91,343,553	91,343,553	91,343,553	91,343,553
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	5,898,764	5,898,764	5,898,764	5,898,764
Nonqualified allocated equities not subject to retirement	65,733,966	65,733,966	65,733,966	65,733,966
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	7,878,193	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(28,501,723)	(28,501,723)	(28,501,723)	(28,501,723)
	$ 357,253,335	$ 357,253,335	$ 365,131,528	$ 357,253,335
Denominator:				
Risk-adjusted assets excluding allowance	$ 2,238,712,087	$ 2,238,712,087	$ 2,238,712,087	$ 2,238,712,087
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(28,501,723)	(28,501,723)	(28,501,723)	(28,501,723)
Allowance for loan losses	-	-	-	(7,762,536)
	$ 2,210,210,364	$ 2,210,210,364	$ 2,210,210,364	$ 2,202,447,828
Ratios	16.16%	16.16%	16.52%	16.22%

The components of the Association's non-risk-adjusted capital, based on 90 day average balances, were as follows at September 30, 2021:

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	$ 222,778,775	$ 222,778,775
Paid-in capital	91,343,553	91,343,553
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	5,898,764	-
Allocated equities:		
Nonqualified allocated equities not subject to retirement	65,733,966	65,733,966
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(28,501,723)	(1,000)
	$ 357,253,335	$ 379,855,294
Denominator:		
Total Assets	$ 2,162,800,935	$ 2,162,800,935
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(34,548,183)	(34,548,183)
	$ 2,128,252,752	$ 2,128,252,752
Ratios	16.79%	17.85%

The Association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. The following table summarizes the change in accumulated other comprehensive income (loss) for the nine months ended September 30:

	2021	**2020**
Accumulated other comprehensive loss at January 1	**$(1,060,093)**	$ (889,531)
Amortization of prior service costs included in salaries and employee benefits	**(19,885)**	(19,887)
Amortization of actuarial loss included in salaries and employee benefits	**51,970**	40,506
Other comprehensive income, net of tax	**32,085**	20,619
Accumulated other comprehensive income (loss) at September 30	**$ (1,028,008)**	$ (868,912)

NOTE 6 — INCOME TAXES:

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

As of September 30, 2021, the deferred income tax valuation allowance was $10,109,634.

NOTE 7 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 15 to the 2020 Annual Report to Stockholders for a more complete description.

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

September 30, 2021	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Assets held in nonqualified benefit trusts	**$ 193,982**	**$ -**	**$ -**	**$ 193,982**
Total assets	**$ 193,982**	**$ -**	**$ -**	**$ 193,982**

December 31, 2020	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 228,487	$ -	$ -	$ 228,487
Total assets	$ 228,487	$ -	$ -	$ 228,487

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

September 30, 2021	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans*	**$ -**	**$ -**	**$ 334,162**	**$ 334,162**

December 31, 2020	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans*	$ -	$ -	$ 62,947	$ 62,947

*Represents the fair value of certain loans that were evaluated for impairment under the authoritative guidance "Accounting by Creditors for Impairment of a Loan" for which there was a specific allowance recorded. The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

Valuation Techniques

As more fully discussed in Note 2 to the 2020 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see Notes to the 2020 Annual Report to Stockholders.

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.

Standby Letters of Credit

The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.
Loans Evaluated for Impairment

For certain loans evaluated for impairment under 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.

Fair Value of Concessions Granted

The Association has recorded amounts related to the fair value of concessions granted for certain loans related to the breach of Association policies in 2016 and 2017. These amounts are netted against the unpaid principal balance of the related loans similar to a discount. The concessions granted were either through the refinancing of a relationship or as a result of acceptance of rates and terms previously negotiated, which were more favorable than market terms and rates. The fair value of the concessions are based on the expected future cash flows under the new contractual terms, discounted at a market interest rate. The fair value of the concessions is amortized into interest income over the contractual life of the related loans.

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 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.

NOTE 8 — EMPLOYEE BENEFIT PLANS:

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

Nine months ended September 30:	Other Benefits	
	2021	2020
Service cost	**$ 53,044**	$ 53,244
Interest cost	**133,600**	163,661
Amortization of prior service (credits) costs	**(19,885)**	(19,886)
Amortization of net actuarial (gain) loss	**40,507**	11,949
Net periodic benefit cost	**$ 207,266**	$ 208,968

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2021, was $5,553,478 and is included in other liabilities on the balance sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item "other components of net periodic postretirement benefit cost" in the income statement. The Association previously disclosed in its financial statements for the year ended December 31, 2020, that it expects to contribute $190,732 to the district's DC plan in 2021.

The structure of the district's DB plan, which is noncontributory and benefits are based on salary and years of service, is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the DB plan as an expense. The Association has contributed $755,539 to fund the DB plan for 2021. As of September 30, 2021, the Association has expensed and recognized $566,654.

NOTE 9 — COMMITMENTS AND CONTINGENT LIABILITIES:

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

NOTE 10 — SUBSEQUENT EVENTS:

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

There are no other subsequent events requiring disclosure as of November 9, 2021.