GreenStone Farm Credit Services, ACA

Quarterly Report
June 30, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

GreenStone Farm Credit Services, ACA
3515 West Road
East Lansing, MI 48823
(800) 968-0061
www.greenstonefcs.com
Travis.Jones@greenstonefcs.com

AgriBank, FCB
30 East 7th Street, Suite 1600
St. Paul, MN 55101
(651) 282-8800
www.AgriBank.com
FinancialReporting@AgriBank.com

FORWARD-LOOKING INFORMATION

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

COVID-19 PANDEMIC

As domestic public health measures have been implemented to limit the spread of the virus, including the availability of vaccines, many locations across the United States (U.S.) have been able to lift many or all restrictions. While the emergence of COVID-19 variants may negatively impact economic conditions, the overall economy continues to recover, and the outlook is positive for many sectors, including agriculture.

The extent to which the COVID-19 pandemic continues to impact the Association will depend on future developments that are highly uncertain and cannot be predicted. However, we have weathered the significant challenges presented to date. Our business continuity response has allowed us to continue to serve our mission. All of our office buildings have re-opened and employees have returned to our offices on a full-time or hybrid work arrangement basis. We have not had any significant changes to internal controls over financial reporting due to working remotely.

AGRICULTURAL AND ECONOMIC CONDITIONS

Grain prices softened slightly in July 2021 from the highs in May and June of 2021 but are still up significantly compared to the fall of 2020. The corn price increased from $3.83 per bushel (bu.) on October 1, 2020, to $5.64 per bu. on July 15, 2021, while the soybean price increased from $10.24 per bu. to $14.48 per bu. during that time. Production levels are also looking promising throughout most of our territory as the United States Department of Agriculture (USDA) crop progress report for the week ending July 25, 2021 reported the corn condition as either being "Good" or "Excellent" at 82% in Michigan and 75% in Wisconsin while soybeans reported as either "Good" or "Excellent" were 72% in both Michigan and Wisconsin.

While the current run-up in grain prices has been welcomed for row crop operations, those producers in the animal protein sector are experiencing spikes in feed costs, thereby compressing margins. Prudent risk management strategies have proven to be vital for animal protein operations, as a number of producers have been able to limit their rise in feed costs via hedging strategies, cost-plus contract arrangements, and/or ample storage capacity.

The USDA lowered their all-milk forecasts in June due to downward trends in most wholesale dairy products prices from stronger international price competition, lower than anticipated domestic demand, high stock levels and higher expected imports. The all-milk price forecast for 2021 was lowered by $0.55 to $18.30 per hundredweight (cwt.). The all-milk price for the second quarter was $18.75 per cwt. but is forecast to decrease in the third quarter to $18.20 per cwt. before increasing to $18.90 per cwt. in the fourth quarter. The all-milk price forecast average for 2022 is $18.50 per cwt.

The Bureau of Economic Analysis (BEA) reported real gross domestic product (GDP) increased at an annual rate of 6.4% in the first quarter of 2021 compared to 4.3% in the fourth quarter of 2020. The increase in real GDP in the first quarter reflected increases in personal consumption expenditures, nonresidential fixed investment, federal government spending, residential fixed investment, and state and local government spending that were partially offset by decreases in private inventory investment and exports.

Inflation has been increasing as supply disruptions and increased lead times have caused prices to rise, with both consumer and producer prices seeing significant upward momentum over the last several months. The BEA reported the Consumer Price Index (CPI) rose 0.9% in June on a seasonally adjustment basis after rising 0.6% in May. This was the largest single month change since June 2008. The all items index rose to 5.4% for the 12 months ending in June and has been trending upward every month since January 2021. Some of the notable 12-month increases are: food at home increased 0.9%, food away from home increased 4.2%, energy increased 24.5% which included gasoline that increased 45.1%, new vehicles increased 5.3% while used cars and trucks increased 45.2%, and transportation services increased 10.4% which included airline fees that increased 24.6%. While price increases have largely materialized in certain understandable segments of the economy, the Fed and most economists have stated the current inflationary trends will prove to be transient, and abate as supply chains slowly normalize post COVID-19 pandemic. However, it remains to be seen if the current price pressures will indeed be transient and inflation data will be key to track going forward as continued price pressures could force the Fed to tighten monetary policy, an action that would have ramifications throughout the economy and could impact economic growth.

The national unemployment rate was 5.9% in June according to the Bureau of Labor Statistics (BLS). Notable job gains occurred in leisure and hospitality, public and private education, professional and business services, retail trade, and other services. Employment in leisure and hospitality added jobs at the fastest pace in June, as COVID-19 related restrictions continued to ease in some parts of the country. The BLS reported 14.4% of employed persons worked remotely in June because of the COVID-19 pandemic, down from 16.6% in the prior month. The unemployment rate in June for Michigan was 5.0% and Wisconsin was 3.9%.

Existing home sales ended a four-month string of declines and rose 1.4% during June to a 5.86 million-unit pace. While home buying activity has cooled off due to shrinking inventories and increased prices, underlying demand for homes remains strong. Home building also improved in June with housing starts rising 6.3% during the month to a 1.64 million-unit pace, with increases in both single family and multifamily housing starts. The increases in home construction are encouraging signs that home builders are still able to build homes despite soaring material costs, labor shortages, and scarcity of buildable lots.

Ransomware incidents have been increasing for the last several years and the attacks on Colonial Pipeline and JBS put the public spotlight on the issue. The attack on JBS in particular shows that agriculture is not insulated from these events, and in fact may be a prime target for those with malicious intentions. While strong corporate security protocols can reduce the risk of attack, these events appear to represent a new risk that organizations across the globe will have to attempt to mitigate in the future.

LOAN PORTFOLIO

Loan Portfolio

Owned loan volume totaled $10.6 billion at June 30, 2021, a $13.2 million decrease from December 31, 2020.

Total owned and managed loan volume, including serviced volume on the real estate loans sold to AgriBank was $10.7 billion at June 30, 2021, a $26.3 million decrease from December 31, 2020. Our combined mortgage portfolio increased $70.7 million, or 0.9% from December 31, 2020, while our short-term commercial loan portfolio decreased $97.0 million, or 4.0% from December 31, 2020. When compared to June 30, 2020, owned and managed loan volume is up 4.3%. This increase was driven by growth in our country living and traditional farm segments that have increased 21.3% and 5.2% since June 30, 2020, respectively.

The Paycheck Protection Program (PPP) is a guaranteed loan program administered by the U.S. Small Business Administration (SBA) created in response to the COVID-19 pandemic. We obtained approval from the SBA in 2020 to participate as a lender in the PPP. The PPP provides for payment deferral, and when certain requirements are fulfilled, loan forgiveness. As of June 30, 2021, we had successfully processed $231.1 million in PPP loans for customers with primarily production and intermediate-term type loans, of which $86.0 million were processed during the first six months of 2021. We are working with our customers gathering documentation and submitting applications for the forgiveness of the PPP loans and $131.4 million has been forgiven as of June 30, 2021.

Portfolio Credit Quality

The credit quality of our loan portfolio slightly improved during the first half of 2021. Acceptable loan credit quality, as measured under the Uniform Classification System, was 92.9%, which increased from 91.9% at December 31, 2020. Year over year, acceptable credit quality increased 2.2% from 90.7% at June 30, 2020. Portfolio assets criticized as being less than acceptable was comprised of 4.6% other assets especially mentioned (OAEM) and 2.5% adversely classified. OAEM decreased 0.8% and adversely classified decreased 0.2% from December 31, 2020.

Adversely classified loans are identified as having material credit weaknesses which, if left uncorrected, result in a greater than normal risk. Portfolio credit quality is considered when assessing the reasonableness of our allowance for loan losses. Weaker borrowers in our dairy, cash crop, and hog portfolios continued to be challenged financially during the first six months of 2021.

The resulting level of credit quality, when combined with our earnings and addition to capital surplus, resulted in an adverse assets to regulatory capital ratio of 14.0%, which decreased 2.2% from December 31, 2020.

In certain circumstances, Federal Agricultural Mortgage Corporation and other government agency guarantee programs are used to reduce the risk of loss. At June 30, 2021, $506.7 million of our loans were substantially guaranteed under these programs. The guaranteed loan volume increased from $481.3 million at December 31, 2020.

While overall credit quality remains solid, the impact of the global pandemic disruption to many agriculture industries and commodity prices may result in increases to adverse credit quality.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**June 30, 2021**	December 31, 2020
Loans:		
Nonaccrual	**$60,160**	$41,376
Accruing restructured	**2,859**	3,078
Accruing loans 90 days or more past due	**--**	30
Total risk loans	**63,019**	44,484
Acquired property	**1,717**	811
Total risk assets	**$64,736**	$45,295
Total risk loans as a percentage of total loans	**0.6%**	0.4%
Nonaccrual loans as a percentage of total loans	**0.6%**	0.4%
Current nonaccrual loans as a percentage of total nonaccrual loans	**95.7%**	54.5%
Total delinquencies as a percentage of total loans	**0.1%**	0.3%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2020, but have remained at acceptable levels. Total risk loans as a percentage of total loans remained well within our established risk management guidelines.

Nonaccrual loans increased from $41.4 million at December 31, 2020, to $60.2 million at June 30, 2021. This increase was primarily due to a commercial dairy relationship that transferred to nonaccrual in June of 2021, which was partially offset by a nonaccrual commercial dairy relationship that was sold in April of 2021. As of June 30, 2021, 77.4% of the nonaccrual loan portfolio was comprised of dairy loans.

We are working individually with customers experiencing economic hardships. From weather and economic challenges over the last several years, to more recent stress generated by market pressures and uncertainties resulting from the COVID-19 pandemic, we are proactively providing assistance by working with customers to develop individualized financial solutions.

Allowance for Loan Losses

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

Allowance Coverage Ratios

As of:	**June 30, 2021**	December 31, 2020
Allowance as a percentage of:		
Loans	**0.7%**	0.7%
Nonaccrual loans	**123.8%**	182.7%
Total risk loans	**118.2%**	169.9%

The allowance for loan losses decreased $1.1 million from December 31, 2020, to $74.5 million at June 30, 2021. During the first six months of 2021, a reversal of loan losses of $3.1 million was recorded. Included in our allowance is additional general industry reserves for our dairy and cash grain portfolios due to uncertainties surrounding the COVID-19 pandemic along with low commodity prices over the past several years. While corn and soybean prices have increased recently, it is unknown how long this bull run will continue and how many of our customers have been able to take advantage of these higher prices. In addition, recent corn and soybean prices will mean higher feed costs to the dairy and other protein sectors. The additional general industry reserve for the dairy and cash grain portfolio decreased from $46.3 million at December 31, 2020 to $37.5 million at June 30, 2021.

Under certain circumstances, credit losses may be recorded to establish a reserve on unfunded loan commitments. The “Reversal of credit losses” in the Consolidated Statements of Income for the six months ended June 30, 2021 included a provision for credit losses on unfunded loan commitments of $1.3 million. The accrued credit losses are recorded in “other liabilities” in the Consolidated Statements of Condition. The accrued credit losses related to unfunded loan commitments were $4.2 million and $2.9 million as of June 30, 2021 and December 31, 2020, respectively.

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

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the six months ended June 30	**2021**	2020
Net income	**$129,820**	$127,605
Return on average assets	**2.4%**	2.5%
Return on average members' equity	**13.1%**	14.1%

Changes presented in the profitability information chart relate directly to:

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

Changes in Significant Components of Net Income

(in thousands) For the six months ended June 30	**2021**	2020	**Increase (decrease) in net income**
Net interest income	**$126,503**	$119,886	**$6,617**
Reversal of credit losses	**1,815**	3,672	**(1,857)**
Patronage income	**28,731**	27,215	**1,516**
Financially related services income	**7,544**	4,542	**3,002**
Fee income	**22,568**	21,926	**642**
Allocated insurance reserve accounts distribution	**--**	1,900	**(1,900)**
Other non-interest income	**530**	1,329	**(799)**
Non-interest expense	**(54,314)**	(49,833)	**(4,481)**
Provision for income taxes	**(3,557)**	(3,032)	**(525)**
Net income	**$129,820**	$127,605	**$2,215**

Net Interest Income

Changes in Net Interest Income

(in thousands) For the six months ended June 30	**2021 vs 2020**
Changes in volume	**$11,458**
Changes in interest rates	**(5,286)**
Changes in nonaccrual income and other	**445**
Net change	**$6,617**

Reversal of Credit Losses

In the first six months of 2021, the reversal of credit losses of $1.8 million was primarily due to a decrease in the additional general industry reserve for the dairy and cash grain along with a commercial nonaccrual dairy relationship that was sold in April of 2021. These decreases were partially offset by the downgrades of a commercial dairy relationship and a capital markets relationship. The reversal of credit losses of $3.7 million in the first six months of 2020 was primarily due to the payoff of a substandard dairy processor relationship in the second quarter of 2020.

Non-Interest Income

The change in non-interest income was primarily due to financially related services income and Allocated Insurance Reserve Accounts distribution.

Financially Related Services Income: The increase in financially related services income was primarily due to growth of crop and livestock insurance commissions in the first six months of 2021 compared to 2020.

Allocated Insurance Reserve Accounts Distribution: The change in the Allocated Insurance Reserve Accounts (AIRA) distribution received from the Farm Credit System Insurance Corporation (FCSIC) was due to our share of the distribution from AIRA of $1.9 million during the six months ended June 30, 2020, while there was no distribution during the six months ended June 30, 2021. The AIRA was established by FCSIC when premiums collected increased the level of the Farm Credit Insurance Fund beyond the required secured base amount of 2% of insured debt. Refer to the 2020 Annual Report for additional information about the FCSIC.

Non-Interest Expense

The change in non-interest expense from 2020 to 2021 was primarily due to an increase in the Farm Credit System insurance expense of $3.7 million. The increase in 2021 was due to a higher premium rate charged by FCSIC on accrual loans. The premium rate for the first half of 2021 was 16 basis points on Association borrowings, which increased from 8 basis points compared to the same period in 2020. The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable is scheduled to mature on December 31, 2023. We intend to renegotiate the note payable no later than the maturity date. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

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

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

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

Market volatility increased due to the COVID-19 pandemic and certain adjustments to the costs of our funding of longer-term loans were impacted. This volatility and higher cost of funding has neither significantly impacted our business operations nor materially impacted our Consolidated Financial Statements.

Total members' equity increased $78.2 million from December 31, 2020, primarily due to net income for the period partially offset by patronage distribution accruals.

The Farm Credit Administration (FCA) Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total regulatory capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 8 in our 2020 Annual Report for a more complete description of these ratios.

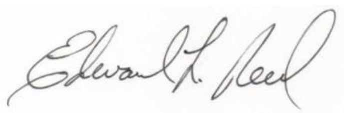
Regulatory Capital Requirements and Ratios

As of:	**June 30, 2021**	December 31, 2020	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**15.7%**	15.9%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**15.7%**	15.9%	6.0%	2.5%	8.5%
Total regulatory capital ratio	**16.5%**	16.7%	8.0%	2.5%	10.5%
Permanent capital ratio	**15.9%**	16.0%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**16.6%**	16.6%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**18.0%**	17.9%	1.5%	N/A	1.5%

Capital ratios are directly impacted by the changes in capital, as more fully explained in this section, the changes in assets, as discussed in the Loan Portfolio section, and off-balance sheet commitments, as disclosed in Note 12 in our 2020 Annual Report.

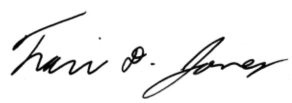
CERTIFICATION

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



Edward L. Reed
Chair of the Board
GreenStone Farm Credit Services, ACA

David B. Armstrong
Chief Executive Officer
GreenStone Farm Credit Services, ACA



Travis D. Jones
Executive Vice President – Chief Financial Officer
GreenStone Farm Credit Services, ACA

August 5, 2021

CONSOLIDATED STATEMENTS OF CONDITION

GreenStone Farm Credit Services, ACA
(in thousands)
(Unaudited)

As of:	**June 30, 2021**	December 31, 2020
ASSETS		
Loans	**$10,576,750**	$10,589,927
Allowance for loan losses	**74,505**	75,574
Net loans	**10,502,245**	10,514,353
Investment in AgriBank, FCB	**263,083**	257,760
Investment securities	**3,725**	5,404
Accrued interest receivable	**55,523**	62,836
Premises and equipment, net	**47,265**	47,395
Deferred tax assets, net	**1,694**	2,444
Other assets	**78,005**	77,042
Total assets	**$10,951,540**	$10,967,234
LIABILITIES		
Note payable to AgriBank, FCB	**$8,783,957**	$8,827,305
Accrued interest payable	**30,495**	30,933
Patronage distribution payable	**52,500**	105,000
Other liabilities	**61,886**	59,452
Total liabilities	**8,928,838**	9,022,690
Contingencies and commitments (Note 4)		
MEMBERS' EQUITY		
Protected members' equity	**1**	1
Capital stock and participation certificates	**25,182**	24,553
Unallocated surplus	**2,000,535**	1,923,172
Accumulated other comprehensive loss	**(3,016)**	(3,182)
Total members' equity	**2,022,702**	1,944,544
Total liabilities and members' equity	**$10,951,540**	$10,967,234

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

GreenStone Farm Credit Services, ACA
(in thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
For the period ended June 30	**2021**	2020	**2021**	2020
Interest income	**$94,584**	$100,141	**$188,032**	$209,345
Interest expense	**30,495**	40,305	**61,529**	89,459
Net interest income	**64,089**	59,836	**126,503**	119,886
Reversal of credit losses	**(10,121)**	(2,851)	**(1,815)**	(3,672)
Net interest income after reversal of credit losses	**74,210**	62,687	**128,318**	123,558
Non-interest income				
Patronage income	**15,364**	14,085	**28,731**	27,215
Financially related services income	**3,241**	2,062	**7,544**	4,542
Fee income	**8,624**	15,779	**22,568**	21,926
Allocated Insurance Reserve Accounts distribution	**--**	--	**--**	1,900
Other non-interest income	**262**	582	**530**	1,329
Total non-interest income	**27,491**	32,508	**59,373**	56,912
Non-interest expense				
Salaries and employee benefits	**19,015**	17,774	**37,603**	35,339
Other operating expense	**8,328**	6,692	**16,711**	14,494
Total non-interest expense	**27,343**	24,466	**54,314**	49,833
Income before income taxes	**74,358**	70,729	**133,377**	130,637
Provision for income taxes	**2,189**	1,685	**3,557**	3,032
Net income	**$72,169**	$69,044	**$129,820**	$127,605
Other comprehensive income				
Employee benefit plans activity	**$83**	$59	**$166**	$118
Total other comprehensive income	**83**	59	**166**	118
Comprehensive income	**$72,252**	$69,103	**$129,986**	$127,723

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

GreenStone Farm Credit Services, ACA
(in thousands)
(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2019	$1	$23,019	$1,757,944	($2,252)	$1,778,712
Net income	--	--	127,605	--	127,605
Other comprehensive income	--	--	--	118	118
Unallocated surplus designated for patronage distributions	--	--	(49,991)	--	(49,991)
Capital stock and participation certificates issued	--	1,311	--	--	1,311
Capital stock and participation certificates retired	--	(799)	--	--	(799)
Balance at June 30, 2020	$1	$23,531	$1,835,558	($2,134)	$1,856,956
Balance at December 31, 2020	$1	$24,553	$1,923,172	($3,182)	$1,944,544
Net income	**--**	**--**	**129,820**	**--**	**129,820**
Other comprehensive income	**--**	**--**	**--**	**166**	**166**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(52,457)**	**--**	**(52,457)**
Capital stock and participation certificates issued	**--**	**1,815**	**--**	**--**	**1,815**
Capital stock and participation certificates retired	**--**	**(1,186)**	**--**	**--**	**(1,186)**
Balance at June 30, 2021	**$1**	**$25,182**	**$2,000,535**	**($3,016)**	**$2,022,702**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

Significant Accounting Policies

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

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

Recently Issued or Adopted Accounting Pronouncements

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

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

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	**June 30, 2021**		December 31, 2020	
	Amount	**Percentage**	Amount	Percentage
Real estate mortgage	**$6,416,706**	**60.7%**	$6,292,857	59.4%
Production and intermediate-term	**1,904,554**	**18.0**	1,998,160	18.9
Agribusiness	**1,533,583**	**14.5**	1,640,282	15.5
Other	**721,907**	**6.8**	658,628	6.2
Total	**$10,576,750**	**100.0%**	$10,589,927	100.0%

The other category is primarily composed of rural infrastructure and rural residential real estate related loans.

Delinquency

Aging Analysis of Loans

(in thousands) **As of 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	Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$7,817**	**$1,330**	**$9,147**	**$6,445,839**	**$6,454,986**	**$ --**
Production and intermediate-term	**1,048**	**628**	**1,676**	**1,915,416**	**1,917,092**	**--**
Agribusiness	**859**	**--**	**859**	**1,536,273**	**1,537,132**	**--**
Other	**794**	**32**	**826**	**722,225**	**723,051**	**--**
Total	**$10,518**	**$1,990**	**$12,508**	**$10,619,753**	**$10,632,261**	**$ --**

As of December 31, 2020	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
Real estate mortgage	$8,965	$11,568	$20,533	$6,314,643	$6,335,176	$ --
Production and intermediate-term	2,584	5,422	8,006	2,006,049	2,014,055	30
Agribusiness	--	95	95	1,643,820	1,643,915	--
Other	4,341	248	4,589	655,011	659,600	--
Total	$15,890	$17,333	$33,223	$10,619,523	$10,652,746	$30

Note: Accruing loans include accrued interest receivable.

Risk Loans

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

Risk Loan Information

(in thousands) As of:	**June 30, 2021**	December 31, 2020
Volume with specific allowance	**$51,276**	$24,145
Volume without specific allowance	**11,743**	20,339
Total risk loans	**$63,019**	$44,484
Total specific allowance	**$9,309**	$8,966
For the six months ended June 30	**2021**	2020
Income on accrual risk loans	**$68**	$74
Income on nonaccrual loans	**1,374**	891
Total income on risk loans	**$1,442**	$965
Average risk loans	**$38,119**	$77,418

Note: Accruing loans include accrued interest receivable.

We had $6.3 million of commitments to lend additional money to borrowers whose loans were classified as risk loans at June 30, 2021.

Troubled Debt Restructurings (TDRs)

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a TDR, also known as a formally restructured loan for regulatory purposes. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral. There may be modifications made related to the COVID-19 pandemic or in the normal course of business that would not be considered TDRs.

TDR Activity

(in thousands) Six months ended June 30	2021 Pre-modification	 Post-modification
Real estate mortgage	**$67**	**$65**
Production and intermediate-term	**67**	**67**
Total	**$134**	**$132**

There were no TDRs that occurred during the six months ended June 30, 2020. Pre-modification represents the outstanding recorded investment of the loan just prior to restructuring and post-modification represents the outstanding recorded investment of the loan immediately following the restructuring. The recorded investment is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment.

The primary types of modification included deferral of principal and interest rate reduction below market.

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

TDRs Outstanding

(in thousands) As of:	**June 30, 2021**	December 31, 2020
Accrual status:		
Real estate mortgage	**$2,285**	$2,489
Production and intermediate-term	**350**	362
Other	**224**	227
Total TDRs in accrual status	**$2,859**	$3,078
Nonaccrual status:		
Real estate mortgage	**$493**	$436
Production and intermediate-term	**311**	258
Other	**102**	163
Total TDRs in nonaccrual status	**$906**	$857
Total TDRs:		
Real estate mortgage	**$2,778**	$2,925
Production and intermediate-term	**661**	620
Other	**326**	390
Total TDRs	**$3,765**	$3,935

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

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Six months ended June 30	**2021**	2020
Balance at beginning of period	**$75,574**	$95,454
Reversal of loan losses	**(3,133)**	(5,664)
Loan recoveries	**2,614**	123
Loan charge-offs	**(550)**	(4,692)
Balance at end of period	**$74,505**	$85,221

The “Reversal of credit losses” in the Consolidated Statements of Comprehensive Income includes a reversal of loan losses as presented in the previous chart, as well as a provision for credit losses on unfunded commitments. The accrued credit losses on unfunded commitments are recorded in “Other liabilities” in the Consolidated Statements of Condition. Typically, accrued credit losses are relieved and replaced with an allowance for loan loss as the related commitments are funded.

Credit Loss Information on Unfunded Commitments

(in thousands) For the six months ended June 30	**2021**	2020
Provision for credit losses	**$1,318**	$1,992
As of:	**June 30, 2021**	December 31, 2020
Accrued credit losses	**$4,212**	$2,894

NOTE 3: INVESTMENT SECURITIES

We held investment securities of $3.7 million at June 30, 2021, and $5.4 million at December 31, 2020. Our investment securities consisted of securities backed by pools of loans guaranteed by the Small Business Administration.

The investment securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. No investments within the portfolio were impaired at June 30, 2021, or December 31, 2020. Premiums paid to purchase the investments are not guaranteed and are amortized as a reduction of interest income.

Additional Investment Securities Information

(dollars in thousands) As of:	**June 30, 2021**	December 31, 2020
Amortized cost	**$3,725**	$5,404
Unrealized gains	**7**	20
Unrealized losses	**(44)**	(47)
Fair value	**$3,688**	$5,377
Weighted average yield	**1.5%**	2.9%

Investment income is recorded in “Interest income” in the Consolidated Statements of Comprehensive Income and totaled $38 thousand and $152 thousand for the six months ended June 30, 2021, and 2020, respectively.

NOTE 4: CONTINGENCIES AND COMMITMENTS

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

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

In June 2021, we signed an agreement guaranteeing the amounts borrowed by SunStream on their line of credit with AgriBank, up to $40.0 million. The term of the line of credit is 36 months and may be extended. The guarantee is in effect until any outstanding balance is paid in full. While we are primarily liable for our pro-rata portion of SunStream’s indebtedness to AgriBank, we are jointly and severally liable with certain other owners of SunStream. In the event of default by SunStream, we are responsible for the prompt and full payment of amounts outstanding. However, we may seek reimbursement from the remaining owners of SunStream subject to the guarantee agreement. There was no outstanding balance on the SunStream line of credit at June 30, 2021. At this time we believe it is unlikely that we will be required to make payment under this guarantee.

NOTE 5: FAIR VALUE MEASUREMENTS

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

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

Non-Recurring Basis

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

Assets Measured at Fair Value on a Non-Recurring Basis

(in thousands)

As of June 30, 2021	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$44,065**	**$44,065**
Acquired property	**--**	**--**	**4,535**	**4,535**

As of December 31, 2020	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$ --	$15,938	$15,938
Acquired property	--	--	3,324	3,324

Valuation Techniques

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

Acquired Property: Represents the fair value of foreclosed assets measured based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the property and other matters, they are classified as Level 3.

NOTE 6: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 5, 2021, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.