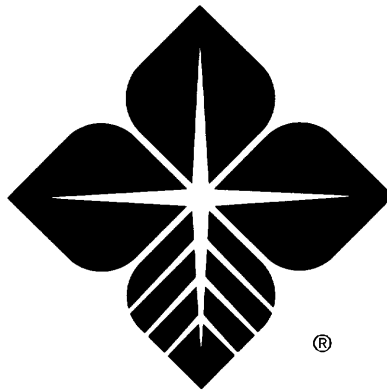


**PLAINS LAND BANK, FLCA**

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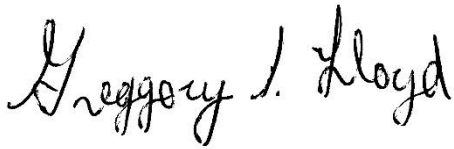
**2021  
Quarterly Report  
First Quarter**



**For the Quarter Ended March 31, 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.



Greggory S. Lloyd, Chief Executive Officer  
*April 30, 2021*



Daniel L. Krienke, Chairman, Board of Directors  
*April 30, 2021*



Kay Lynn McLaughlin, Chief Financial Officer  
*April 30, 2021*

# *First Quarter 2021 Financial Report*

## **Table of Contents**

|  |    |
|--|----|
| Management’s Discussion and Analysis.....    | 4  |
| Balance Sheet.....                           | 9  |
| Statements of Comprehensive Income.....      | 10 |
| Statement of Changes in Members’ Equity..... | 11 |
| Notes to the Financial Statements.....       | 12 |

## **PLAINS LAND BANK, FLCA MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following commentary reviews the financial performance of the Plains Land Bank, FLCA, referred to as the Association, for the quarter ended March 31, 2021. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2020 Annual Report to Stockholders.

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

The financial statements comprise the operations of the FLCA. The financial statements were prepared under the oversight of the Association's audit committee.

### *Significant Events*

In January 2021, a patronage of \$8,800,000 was declared. The patronage was subsequently paid in March 2021.

### *Conditions in the Texas District*

The United States continues to operate under a presidentially declared emergency since March 13, 2020, due to the Coronavirus Disease 2019 (also referred to as COVID-19). The Association continues during these unprecedented times to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. There have been no significant changes to the Association's lending activities and strategies, and the Association's compliance with all interest rate risk measures. Capital levels remain adequate to support any adversity and loan demand.

Operationally, the Association continued to function as normal during these challenging times. The Association's internal controls over financial reporting and disclosure controls and procedures are operating effectively, with no material changes to the controls or financial systems having occurred or contemplated.

The U.S. economic recovery gained some momentum during the first quarter of 2021 as vaccination rates increased, new monthly COVID-19 cases decreased, and stimulus payments were distributed across the economy. The U.S. Bureau of Economic Analysis estimated that real gross domestic product (GDP) increased at an annual rate of 4.3% in the fourth quarter of 2020. Additionally, as of April 9, 2021, the Federal Reserve Bank of Atlanta's GDP forecasting model estimates that real GDP growth during the first quarter of 2021 was about 6.0%. U.S. total nonfarm payroll employment increased by 916,000 in March 2021, and the unemployment rate decreased to 6.0%, reflecting the continued resumption of economic activity. According to data and analysis published by the Federal Reserve Bank of Dallas, Texas economic conditions have generally improved in recent months. The most recent information available from the U.S. Bureau of Labor Statistics indicates that the quarterly average unemployment rate in the Texas district has decreased during the first quarter of 2021 compared to the fourth quarter of 2020; however, unemployment rates in the Texas district still remain above pre-pandemic levels.

The average number of active oil and gas rigs in the United States increased for the eighth consecutive month in March 2021. Quarterly average West Texas Intermediate (WTI) oil prices increased more than 30.0% during the first quarter of 2021 compared to the previous quarter, reaching about \$58 per barrel. Similarly, WTI crude oil prices averaged higher during the first quarter of 2021 compared to the same period last year. During March 2021, the WTI price averaged above \$60 per barrel, more than \$10 per barrel higher than the breakeven price to profitably drill a new well in the Permian Basin, according to a recent Federal Reserve Bank of Dallas survey. In its April Short-Term Energy Outlook, the U.S. Energy Information estimated that WTI prices would average nearly \$59 per barrel during 2021.

On March 31, 2021, the U.S. Department of Agriculture (USDA) released its 2021 Prospective Plantings report. Corn planted acreage was estimated at 91.1 million acres, up about 325,000 acres from 2020. Soybean planted acreage was estimated at 87.6 million acres, up about 4.5 million acres from the previous season. Estimated planted acreage for corn and soybeans was below market expectations, contributing to higher prices for both crops. All cotton planted area was estimated at 12.0 million acres, slightly lower than the level observed in 2020.

According to USDA’s March 2021 World Agricultural Supply and Demand Estimates report, farmers are likely to receive significantly higher prices for corn, soybeans and cotton in the 2020/21 marketing year compared to the previous season. Meanwhile, the average price received by farmers for all milk is projected to decrease by about 3.10% in 2021, after decreasing slightly during 2020. Livestock prices have been volatile overall, but feeder and live cattle prices averaged higher during the first quarter of 2021 compared to the same period last year. Lumber prices have continued to be historically high as elevated demand for construction materials has persisted in recent months.

During 2021, agricultural producers may be negatively affected by several factors, including volatile commodity prices, export market disruptions, economic uncertainty, and weather-related challenges. To date, the historically low temperatures observed across the central U.S. in February have not had and are not expected to have a significant adverse impact on the Association’s, Bank’s, or District’s overall financial condition and results of operations. The Association’s loan portfolio is well supported by industry diversification. Additionally, a percentage of the Association’s borrowers primarily rely on non-farm sources of income to repay their loans.

#### *Loan Portfolio*

Total loans outstanding at March 31, 2021, including nonaccrual loans and sales contracts, were \$818,434,747 compared to \$792,907,347 at December 31, 2020, reflecting an increase of 3.2%. Nonaccrual loans as a percentage of total loans outstanding were 0.1% at March 31, 2021, compared to 0.2% at December 31, 2020.

The Association recorded no recoveries and \$789,250 in charge-offs for the quarter ended March 31, 2021, and no recoveries or charge-offs for the same period in 2020. The Association’s allowance for loan losses was 0.4% of total loans outstanding as of March 31, 2021 and December 31, 2020.

#### *Risk Exposure*

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

|  | <b>March 31, 2021</b>      |                      | <b>December 31, 2020</b>   |                      |
|--|----------------------------|----------------------|----------------------------|----------------------|
|  | <b>Amount</b>              | <b>%</b>             | <b>Amount</b>              | <b>%</b>             |
| Nonaccrual                                   | <b>\$ 1,001,949</b>        | <b>60.8%</b>         | \$ 1,416,452               | 100.0%               |
| 90 days past due and still accruing interest | -                          | <b>0.0%</b>          | -                          | 0.0%                 |
| Other property owned, net                    | <b>645,890</b>             | <b>39.2%</b>         | -                          | 0.0%                 |
| Total  | <b><u>\$ 1,647,839</u></b> | <b><u>100.0%</u></b> | <b><u>\$ 1,416,452</u></b> | <b><u>100.0%</u></b> |

During the first quarter of 2021, the Association did not exchange any mortgage loans that previously were covered under a long-term standby commitment to purchase agreement with Federal Agricultural Mortgage Corporation (Farmer Mac) for a Farmer Mac guaranteed agricultural mortgage-backed security.

## Results of Operations

The Association had net income of \$3,084,040 for the three months ended March 31, 2021, as compared to net income of \$3,584,669 for the same period in 2020, reflecting a decrease of 14.0 percent. Net interest income was \$5,524,196 for the three months ended March 31, 2021, compared to \$5,001,501 for the same period in 2020.

|                              | <b>Three Months Ended</b>  |                     |                            |                     |
|------------------------------|----------------------------|---------------------|----------------------------|---------------------|
|                              | <b>March 31,</b>           |                     | <b>March 31,</b>           |                     |
|                              | <b>2021</b>                |                     | <b>2020</b>                |                     |
|                              | <b>Average<br/>Balance</b> | <b>Interest</b>     | <b>Average<br/>Balance</b> | <b>Interest</b>     |
| Loans                        | \$ 807,999,424             | \$ 9,358,497        | \$ 712,784,885             | \$ 9,512,319        |
| Interest-bearing liabilities | 690,310,328                | 3,834,301           | 602,082,691                | 4,510,818           |
| Impact of capital            | <u>\$ 117,689,096</u>      |                     | <u>\$ 110,702,194</u>      |                     |
| Net interest income          |                            | <u>\$ 5,524,196</u> |                            | <u>\$ 5,001,501</u> |

|   | <b>2021</b>          | <b>2020</b>          |
|---|----------------------|----------------------|
|   | <b>Average Yield</b> | <b>Average Yield</b> |
| Yield on loans  | 4.70%                | 5.37%                |
| Cost of interest-bearing liabilities                          | 2.25%                | 3.01%                |
| Interest rate spread  | 2.45%                | 2.36%                |
| Net interest income as a percentage of average earning assets | 2.77%                | 2.82%                |

|                         | <b>Three months ended:</b>               |                    |                   |
|-------------------------|--|--------------------|-------------------|
|                         | <b>March 31, 2021 vs. March 31, 2020</b> |                    |                   |
|                         | <b>Increase (decrease) due to</b>        |                    |                   |
|                         | <b>Volume</b>                            | <b>Rate</b>        | <b>Total</b>      |
| Interest income - loans | \$ 1,260,134                             | \$ (1,413,956)     | \$ (153,822)      |
| Interest expense        | 655,536                                  | (1,332,054)        | (676,518)         |
| Net interest income     | <u>\$ 604,598</u>                        | <u>\$ (81,902)</u> | <u>\$ 522,696</u> |

Interest income for the three months ended March 31, 2021, decreased by \$153,822, or 1.6%, from the same period of 2020, primarily due to a decrease in yields on earning assets offset by an increase in average loan volume. Interest expense for the three months ended March 31, 2021, decreased by \$676,518, or 15.0 percent, from the same period of 2020 due to a decrease in interest rates offset by an increase in average loan volume. Average loan volume for the first quarter of 2021 was \$807,999,424, compared to \$712,784,885 in the first quarter of 2020. The average net interest rate spread on the loan portfolio for the first quarter of 2021 was 2.45 percent, compared to 2.36 percent in the first quarter of 2020.

The Association's return on average assets for the three months ended March 31, 2021, was 2.06 percent compared to 1.95 percent for the same period in 2020. The Association's return on average equity for the three months ended March 31, 2021, was 12.37 percent, compared to 11.32 percent for the same period in 2020.

### *Liquidity and Funding Sources*

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

|                                  | <b>March 31,<br/>2021</b> | December 31,<br>2020 |
|----------------------------------|---------------------------|----------------------|
| Note payable to the Bank         | \$ <b>697,836,817</b>     | \$ 678,846,912       |
| Accrued interest on note payable | <b>1,271,392</b>          | 1,276,985            |
| Total                            | <b>\$ 699,108,209</b>     | \$ 680,123,897       |

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2023. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$697,836,817 as of March 31, 2021, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.18 percent at March 31, 2021. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2020, is due to the Association's increase in total assets since year end. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$120,326,991 at March 31, 2021. The maximum amount the Association may borrow from the Bank as of March 31, 2021, was \$824,836,085 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2023, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

### *Capital Resources*

The Association's capital position decreased by \$5,723,720 at March 31, 2021, compared to December 31, 2020. The Association's debt as a percentage of members' equity was 5.30:1 as of March 31, 2021, compared to 4.88:1 as of December 31, 2020.

Farm Credit Administration regulations require the Association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of March 31, 2021, the Association exceeded all regulatory capital requirements.

### *Significant Recent Accounting Pronouncements*

In March 2020, the Financial Accounting Standards Board (FASB) issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020, through December 31, 2022. New contracts entered into before December 31, 2021 will either utilize a reference rate other than LIBOR or have robust fallback language that includes a clearly defined alternative reference rate. These actions are necessary to facilitate an orderly transition.

In December 2019, the FASB issued guidance entitled “Simplifying the Accounting for Income Taxes.” This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements, and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted, and the institution adopted this guidance on January 1, 2020. The adoption of this guidance did not materially impact the Association’s financial condition or results of operations.

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

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

The financial statements comprise the operations of the FLCA. The preparation of these financial statements requires the use of management’s estimates. The results for the quarter ended March 31, 2021, are not necessarily indicative of the results to be expected for the year ended December 31, 2021. Certain amounts in the prior period’s financial statements may have been reclassified to conform to current financial statement presentation.

#### *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 Plains Land Bank, FLCA 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 by calling (512) 483-9204. The annual and quarterly stockholder reports for the Bank are also available on its website at [www.farmcreditbank.com](http://www.farmcreditbank.com).

The Association’s quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Plains Land Bank, FLCA, 1616 S. Kentucky St., Suite C-250, Amarillo, TX 79102-5210 or calling (806) 331-0926. The annual and quarterly stockholder reports for the Association are also available on its website at [www.plainslandbank.com](http://www.plainslandbank.com). Copies of the Association’s quarterly stockholder reports can also be requested by e-mailing [kmclaughlin@plainslandbank.com](mailto:kmclaughlin@plainslandbank.com).



**PLAINS LAND BANK, FLCA**

**BALANCE SHEET**

|   | <b>March 31,<br/>2021<br/>(unaudited)</b> | <b>December 31,<br/>2020</b> |
|---|---|------------------------------|
| <b><u>ASSETS</u></b>  |   |                              |
| Cash  | \$ 9,666                                  | \$ 13,104                    |
| Loans   | 818,434,747                               | 792,907,347                  |
| Less: allowance for loan losses                                     | 3,068,080                                 | 2,963,862                    |
| Net loans   | 815,366,667                               | 789,943,485                  |
| Accrued interest receivable   | 10,792,600                                | 13,299,322                   |
| Investment in and receivable from the Farm<br>Credit Bank of Texas: |   |                              |
| Capital stock   | 12,664,660                                | 12,664,660                   |
| Other   | 377,536                                   | 3,894,059                    |
| Other property owned, net   | 645,890                                   | -                            |
| Premises and equipment, net   | 2,860,664                                 | 2,570,269                    |
| Sales-type lease net investment                                     | 330,695                                   | -                            |
| Other assets  | 1,753,136                                 | 487,315                      |
| Total assets  | <b>\$ 844,801,514</b>                     | <b>\$ 822,872,214</b>        |
| <b><u>LIABILITIES</u></b>   |   |                              |
| Note payable to the Farm Credit Bank of Texas                       | \$ 697,836,817                            | \$ 678,846,912               |
| Accrued interest payable  | 1,271,392                                 | 1,276,985                    |
| Drafts outstanding  | 333,145                                   | 254,464                      |
| Other liabilities   | 11,163,119                                | 2,573,092                    |
| Total liabilities   | <b>710,604,473</b>                        | <b>682,951,453</b>           |
| <b><u>MEMBERS' EQUITY</u></b>                                       |   |                              |
| Capital stock and participation certificates                        | 2,090,995                                 | 2,098,280                    |
| Unallocated retained earnings                                       | 131,981,404                               | 137,695,231                  |
| Accumulated other comprehensive income                              | 124,642                                   | 127,250                      |
| Total members' equity   | <b>134,197,041</b>                        | <b>139,920,761</b>           |
| Total liabilities and members' equity                               | <b>\$ 844,801,514</b>                     | <b>\$ 822,872,214</b>        |

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

**PLAINS LAND BANK, FLCA**

**STATEMENTS OF COMPREHENSIVE INCOME**

(unaudited)

|   | <b>Quarter Ended</b> |                     |
|---|----------------------|---------------------|
|   | <b>March 31,</b>     |                     |
|   | <u>2021</u>          | <u>2020</u>         |
| <b><u>INTEREST INCOME</u></b>                       |                      |                     |
| Loans   | \$ 9,358,497         | \$ 9,512,319        |
| <b><u>INTEREST EXPENSE</u></b>                      |                      |                     |
| Note payable to the Farm Credit Bank of Texas       | 3,834,301            | 4,510,818           |
| Net interest income                                 | <u>5,524,196</u>     | <u>5,001,501</u>    |
| <b><u>PROVISION FOR LOAN LOSSES</u></b>             | <u>893,105</u>       | <u>289,784</u>      |
| Net interest income after provision for loan losses | <u>4,631,091</u>     | <u>4,711,717</u>    |
| <b><u>NONINTEREST INCOME</u></b>                    |                      |                     |
| Income from the Farm Credit Bank of Texas:          |                      |                     |
| Patronage income                                    | 992,154              | 733,779             |
| Loan fees   | 268,850              | 159,974             |
| Financially related services income                 | 1,665                | 1,325               |
| Gain (loss) on other property owned, net            | 5,370                | (2,993)             |
| Gain on sale of premises and equipment, net         | 17,338               | 65,386              |
| Other noninterest income                            | 30,746               | 200,860             |
| Total noninterest income                            | <u>1,316,123</u>     | <u>1,158,331</u>    |
| <b><u>NONINTEREST EXPENSES</u></b>                  |                      |                     |
| Salaries and employee benefits                      | 1,747,745            | 1,481,573           |
| Directors' expense                                  | 52,415               | 84,789              |
| Purchased services                                  | 310,493              | 141,523             |
| Travel  | 53,426               | 61,548              |
| Occupancy and equipment                             | 115,425              | 98,453              |
| Communications                                      | 23,075               | 17,110              |
| Advertising   | 96,150               | 90,788              |
| Public and member relations                         | 52,661               | 51,732              |
| Supervisory and exam expense                        | 72,829               | 65,855              |
| Insurance Fund premiums                             | 320,680              | 160,703             |
| Other noninterest expense                           | 18,275               | 31,305              |
| Total noninterest expenses                          | <u>2,863,174</u>     | <u>2,285,379</u>    |
| <b><u>NET INCOME</u></b>                            | <u>3,084,040</u>     | <u>3,584,669</u>    |
| Other comprehensive income:                         |                      |                     |
| Change in postretirement benefit plans              | (2,608)              | (2,608)             |
| <b><u>COMPREHENSIVE INCOME</u></b>                  | <u>\$ 3,081,432</u>  | <u>\$ 3,582,061</u> |

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

PLAINS LAND BANK, FLCA

STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

|   | <u>Capital Stock/<br/>Participation<br/>Certificates</u> | <u>Unallocated<br/>Retained Earnings</u> | <u>Accumulated<br/>Other<br/>Comprehensive<br/>Income (Loss)</u> | <u>Total<br/>Members'<br/>Equity</u> |
|---|--|--|--|--------------------------------------|
| Balance at December 31, 2019  | \$ 2,086,145   | \$ 129,257,637                           | \$ 147,829   | \$ 131,491,611                       |
| Comprehensive income  | -  | 3,584,669                                | (2,608)  | 3,582,061                            |
| Capital stock/participation certificates<br>and allocated retained earnings issued  | 76,000   | -  | -  | 76,000                               |
| Capital stock/participation certificates<br>and allocated retained earnings retired | (79,990)   | -  | -  | (79,990)                             |
| Patronage refunds:  |  |  |  |                                      |
| Cash  | -  | (8,529,689)                              | -  | (8,529,689)                          |
| Balance at March 31, 2020   | <u>\$ 2,082,155</u>                                      | <u>\$ 124,312,617</u>                    | <u>\$ 145,221</u>  | <u>\$ 126,539,993</u>                |
| Balance at December 31, 2020  | \$ 2,098,280   | \$ 137,695,231                           | \$ 127,250   | \$ 139,920,761                       |
| Comprehensive income  | -  | 3,084,040                                | (2,608)  | 3,081,432                            |
| Capital stock/participation certificates<br>and allocated retained earnings issued  | 85,000   | -  | -  | 85,000                               |
| Capital stock/participation certificates<br>and allocated retained earnings retired | (92,285)   | -  | -  | (92,285)                             |
| Patronage refunds:  |  |  |  |                                      |
| Cash  | -  | (8,800,000)                              | -  | (8,800,000)                          |
| Capital stock/participation certificates<br>and allocated retained earnings         | -  | 2,133                                    | -  | 2,133                                |
| <b>Balance at March 31, 2021</b>  | <b><u>\$ 2,090,995</u></b>                               | <b><u>\$ 131,981,404</u></b>             | <b><u>\$ 124,642</u></b>   | <b><u>\$ 134,197,041</u></b>         |

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

**PLAINS LAND BANK, FLCA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
*Unaudited*

**NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:**

The Plains Land Bank, FLCA (Federal Land Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Armstrong, Briscoe, Carson, Floyd, Gray, Hale, the southwest portion of Hall, Hansford, Hemphill, Hutchinson, Lipscomb, Motley, Ochiltree, Oldham, Potter, Randall, and Roberts in the state of Texas. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

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

In the opinion of management, the accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these 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. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020, through December 31, 2022. New contracts entered into before December 31, 2021 will either utilize a reference rate other than LIBOR or have robust fallback language that includes a clearly defined alternative reference rate. These actions are necessary to facilitate an orderly transition.

In December 2019, the FASB issued guidance entitled “Simplifying the Accounting for Income Taxes.” This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted and the institution adopted this guidance on January 1, 2020. The adoption of this guidance did not materially impact the Association’s financial condition or results of operations.

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

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

The financial statements comprise the operations of the FLCA. The preparation of these financial statements requires the use of management’s estimates. The results for the quarter ended March 31, 2021, are not necessarily indicative of the results to be expected for the year ended December 31, 2021. Certain amounts in the prior period’s financial statements may have been reclassified to conform to current financial statement presentation.

## NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

| Loan Type                           | March 31,<br>2021<br>Amount | December 31,<br>2020<br>Amount |
|-------------------------------------|-----------------------------|--------------------------------|
| Production agriculture:             |                             |                                |
| Real estate mortgage                | \$ 698,059,669              | \$ 682,404,512                 |
| Production and<br>intermediate term | 23,881,824                  | 12,409,970                     |
| Agribusiness:                       |                             |                                |
| Processing and marketing            | 41,253,187                  | 40,625,531                     |
| Farm-related business               | 7,062,968                   | 7,797,851                      |
| Loans to cooperatives               | 4,695,137                   | 7,071,752                      |
| Energy                              | 16,529,271                  | 15,838,753                     |
| Communication                       | 13,531,877                  | 13,568,681                     |
| Rural residential real estate       | 12,393,017                  | 12,148,303                     |
| Water and waste water               | 1,027,797                   | 1,041,994                      |
| Total                               | \$ 818,434,747              | \$ 792,907,347                 |

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at March 31, 2021:

|                                  | Other Farm Credit Institutions |                     | Non-Farm Credit Institutions |                | Total                 |                     |
|----------------------------------|--------------------------------|---------------------|------------------------------|----------------|-----------------------|---------------------|
|                                  | Participations                 | Participations      | Participations               | Participations | Participations        | Participations      |
|                                  | Purchased                      | Sold                | Purchased                    | Sold           | Purchased             | Sold                |
| Agribusiness                     | \$ 40,968,373                  | \$ -                | \$ -                         | \$ -           | \$ 40,968,373         | \$ -                |
| Real estate mortgage             | 23,588,672                     | 5,433,946           | -                            | -              | 23,588,672            | 5,433,946           |
| Energy                           | 16,529,271                     | -                   | -                            | -              | 16,529,271            | -                   |
| Communication                    | 13,531,877                     | -                   | -                            | -              | 13,531,877            | -                   |
| Production and intermediate term | 8,647,383                      | -                   | 1,752,553                    | -              | 10,399,936            | -                   |
| Water and waste water            | 1,027,797                      | -                   | -                            | -              | 1,027,797             | -                   |
| Total                            | <u>\$ 104,293,373</u>          | <u>\$ 5,433,946</u> | <u>\$ 1,752,553</u>          | <u>\$ -</u>    | <u>\$ 106,045,926</u> | <u>\$ 5,433,946</u> |

The Association is authorized under the Farm Credit Act to accept “advance conditional payments” (ACPs) from borrowers. To the extent the borrower’s access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower’s related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. As of March 31, 2021, there were \$6,287,065 of ACPs contained in funds held on the balance sheet.

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

|                            | <b>March 31,<br/>2021</b> | December 31,<br>2020 |
|----------------------------|---------------------------|----------------------|
| <b>Nonaccrual loans:</b>   |                           |                      |
| Energy                     | <b>\$ 1,001,949</b>       | \$ -                 |
| Agribusiness               | -                         | 1,416,452            |
| Total nonperforming loans  | <b>1,001,949</b>          | 1,416,452            |
| Other property owned       | <b>645,890</b>            | -                    |
| Total nonperforming assets | <b>\$ 1,647,839</b>       | <b>\$ 1,416,452</b>  |

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:

|                                  | <b>March 31,<br/>2021</b> | December 31,<br>2020 |
|----------------------------------|---------------------------|----------------------|
| Real estate mortgage             |                           |                      |
| Acceptable                       | <b>97.7</b> %             | 97.3 %               |
| OAEM                             | <b>0.1</b>                | 0.1                  |
| Substandard/doubtful             | <b>2.2</b>                | 2.6                  |
|                                  | <b>100.0</b>              | 100.0                |
| Production and intermediate term |                           |                      |
| Acceptable                       | <b>100.0</b>              | 100.0                |
| OAEM                             | -                         | -                    |
| Substandard/doubtful             | -                         | -                    |
|                                  | <b>100.0</b>              | 100.0                |
| Agribusiness                     |                           |                      |
| Acceptable                       | <b>97.4</b>               | 95.0                 |
| OAEM                             | <b>2.6</b>                | 2.5                  |
| Substandard/doubtful             | -                         | 2.5                  |
|                                  | <b>100.0</b>              | 100.0                |
| Energy                           |                           |                      |
| Acceptable                       | <b>86.4</b>               | 93.4                 |
| OAEM                             | -                         | -                    |
| Substandard/doubtful             | <b>13.6</b>               | 6.6                  |
|                                  | <b>100.0</b>              | 100.0                |
| Water and waste water            |                           |                      |
| Acceptable                       | <b>100.0</b>              | 100.0                |
| OAEM                             | -                         | -                    |
| Substandard/doubtful             | -                         | -                    |
|                                  | <b>100.0</b>              | 100.0                |
| Communication                    |                           |                      |
| Acceptable                       | <b>100.0</b>              | 100.0                |
| OAEM                             | -                         | -                    |
| Substandard/doubtful             | -                         | -                    |
|                                  | <b>100.0</b>              | 100.0                |
| Rural residential real estate    |                           |                      |
| Acceptable                       | <b>100.0</b>              | 100.0                |
| OAEM                             | -                         | -                    |
| Substandard/doubtful             | -                         | -                    |
|                                  | <b>100.0</b>              | 100.0                |
| Total loans                      |                           |                      |
| Acceptable                       | <b>97.6</b>               | 97.2                 |
| OAEM                             | <b>0.2</b>                | 0.3                  |
| Substandard/doubtful             | <b>2.2</b>                | 2.5                  |
|                                  | <b>100.0</b> %            | 100.0 %              |

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

| March 31, 2021                   | 30-89<br>Days<br>Past Due | 90 Days<br>or More<br>Past Due | Total<br>Past<br>Due | Not Past Due or<br>Less Than 30<br>Days Past Due | Total<br>Loans        | Recorded Investment<br>>90 Days and Accruing |
|----------------------------------|---------------------------|--------------------------------|----------------------|--|-----------------------|--|
| Real estate mortgage             | \$ 1,006,604              | \$ -                           | \$ 1,006,604         | \$ 706,999,818                                   | \$ 708,006,422        | \$ -   |
| Processing and marketing         | -                         | -                              | -                    | 41,730,562                                       | 41,730,562            | -  |
| Production and intermediate term | -                         | -                              | -                    | 24,038,670                                       | 24,038,670            | -  |
| Energy                           | -                         | -                              | -                    | 16,645,466                                       | 16,645,466            | -  |
| Communication                    | -                         | -                              | -                    | 13,532,612                                       | 13,532,612            | -  |
| Rural residential real estate    | -                         | -                              | -                    | 12,449,407                                       | 12,449,407            | -  |
| Farm-related business            | -                         | -                              | -                    | 7,094,560  | 7,094,560             | -  |
| Loans to cooperatives            | -                         | -                              | -                    | 4,701,791  | 4,701,791             | -  |
| Water and waste water            | -                         | -                              | -                    | 1,027,857  | 1,027,857             | -  |
| <b>Total</b>                     | <b>\$ 1,006,604</b>       | <b>\$ -</b>                    | <b>\$ 1,006,604</b>  | <b>\$ 828,220,743</b>                            | <b>\$ 829,227,347</b> | <b>\$ -</b>                                  |

| December 31, 2020                | 30-89<br>Days<br>Past Due | 90 Days<br>or More<br>Past Due | Total<br>Past<br>Due | Not Past Due or<br>Less Than 30<br>Days Past Due | Total<br>Loans        | Recorded Investment<br>>90 Days and Accruing |
|----------------------------------|---------------------------|--------------------------------|----------------------|--|-----------------------|--|
| Real estate mortgage             | \$ 5,257,354              | \$ -                           | \$ 5,257,354         | \$ 689,901,263                                   | \$ 695,158,617        | \$ -   |
| Processing and marketing         | -                         | -                              | -                    | 41,047,028                                       | 41,047,028            | -  |
| Production and intermediate term | -                         | -                              | -                    | 12,451,155                                       | 12,451,155            | -  |
| Energy                           | -                         | -                              | -                    | 15,857,241                                       | 15,857,241            | -  |
| Communication                    | -                         | -                              | -                    | 13,569,431                                       | 13,569,431            | -  |
| Rural residential real estate    | -                         | -                              | -                    | 12,204,475                                       | 12,204,475            | -  |
| Farm-related business            | -                         | -                              | -                    | 7,803,077  | 7,803,077             | -  |
| Loans to cooperatives            | -                         | -                              | -                    | 7,073,589  | 7,073,589             | -  |
| Water and waste water            | -                         | -                              | -                    | 1,042,056  | 1,042,056             | -  |
| <b>Total</b>                     | <b>\$ 5,257,354</b>       | <b>\$ -</b>                    | <b>\$ 5,257,354</b>  | <b>\$ 800,949,315</b>                            | <b>\$ 806,206,669</b> | <b>\$ -</b>                                  |

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

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

There were no troubled debt restructured loans as of March 31, 2021. There were no commitments to lend funds held to borrowers whose loan terms have been modified in a troubled debt restructuring as of March 31, 2021 and December 31, 2020

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). The Association recorded charge-offs of \$789,250 as of March 31, 2021.

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



Additional impaired loan information is as follows:

|   | March 31, 2021         |   |                      | December 31, 2020      |   |                      |
|---|------------------------|---|----------------------|------------------------|---|----------------------|
|   | Recorded<br>Investment | Unpaid<br>Principal<br>Balance <sup>a</sup> | Related<br>Allowance | Recorded<br>Investment | Unpaid<br>Principal<br>Balance <sup>a</sup> | Related<br>Allowance |
| Impaired loans with a related allowance for credit losses:  |                        |   |                      |                        |   |                      |
| Energy and water/waste water                                | \$ 1,001,949           | \$ 1,001,949                                | \$ 262,051           | \$ -                   | \$ -  | \$ -                 |
| Loans to cooperatives                                       | -                      | -   | -                    | 1,416,452              | 1,537,644                                   | 75,100               |
| Total   | \$ 1,001,949           | \$ 1,001,949                                | \$ 262,051           | \$ 1,416,452           | \$ 1,537,644                                | \$ 75,100            |
| Impaired loans with no related allowance for credit losses: |                        |   |                      |                        |   |                      |
| Energy and water/waste water                                | \$ -                   | \$ -  | \$ -                 | \$ -                   | \$ -  | \$ -                 |
| Loans to cooperatives                                       | -                      | -   | -                    | -                      | -   | -                    |
| Total   | \$ -                   | \$ -  | \$ -                 | \$ -                   | \$ -  | \$ -                 |
| Total impaired loans:                                       |                        |   |                      |                        |   |                      |
| Energy and water/waste water                                | \$ 1,001,949           | \$ 1,001,949                                | \$ 262,051           | \$ -                   | \$ -  | \$ -                 |
| Loans to cooperatives                                       | -                      | -   | -                    | 1,416,452              | 1,537,644                                   | 75,100               |
| Total   | \$ 1,001,949           | \$ 1,001,949                                | \$ 262,051           | \$ 1,416,452           | \$ 1,537,644                                | \$ 75,100            |

<sup>a</sup> Unpaid principal balance represents the recorded principal balance of the loan.

|   | For the Quarter & Year Ended |                                  |                              |                                  |
|---|------------------------------|----------------------------------|------------------------------|----------------------------------|
|   | March 31, 2021               |                                  | March 31, 2020               |                                  |
|   | Average<br>Impaired<br>Loans | Interest<br>Income<br>Recognized | Average<br>Impaired<br>Loans | Interest<br>Income<br>Recognized |
| Impaired loans with a related allowance for credit losses:  |                              |                                  |                              |                                  |
| Energy and water/waste water                                | \$ 440,055                   | \$ 229                           | -                            | -                                |
| Real estate mortgage  | -                            | -                                | 192,874                      | -                                |
| Total   | \$ 440,055                   | \$ 229                           | \$ 192,874                   | \$ -                             |
| Impaired loans with no related allowance for credit losses: |                              |                                  |                              |                                  |
| Energy and water/waste water                                | \$ -                         | \$ -                             | \$ -                         | \$ -                             |
| Real estate mortgage  | -                            | -                                | 891,260                      | 6,776                            |
| Total   | \$ -                         | \$ -                             | \$ 891,260                   | \$ 6,776                         |
| Total impaired loans:                                       |                              |                                  |                              |                                  |
| Energy and water/waste water                                | \$ 440,055                   | \$ 229                           | \$ -                         | \$ -                             |
| Real estate mortgage  | -                            | -                                | 1,084,134                    | 6,776                            |
| Total   | \$ 440,055                   | \$ 229                           | \$ 1,084,134                 | \$ 6,776                         |

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

|   | Real Estate<br>Mortgage | Production and<br>Intermediate<br>Term | Agribusiness         | Communications       | Energy and<br>Water/Waste<br>Water | Rural<br>Residential<br>Real Estate | Total                 |
|---|-------------------------|--|----------------------|----------------------|------------------------------------|-------------------------------------|-----------------------|
| <b>Allowance for Credit Losses:</b>               |                         |  |                      |                      |                                    |                                     |                       |
| Balance at December 31, 2020                      | \$ 2,240,849            | \$ 38,077                              | \$ 369,848           | \$ 28,759            | \$ 255,256                         | \$ 31,073                           | \$ 2,963,862          |
| Charge-offs                                       | -                       | -                                      | (789,250)            | -                    | -                                  | -                                   | (789,250)             |
| Provision for loan losses                         | (129,318)               | 13,295                                 | 723,748              | 920                  | 284,948                            | (488)                               | 893,105               |
| Other   | (1,088)                 | (5,996)                                | 10,393               | -                    | (2,946)                            | -                                   | 363                   |
| Balance at March 31, 2021                         | <u>\$ 2,110,443</u>     | <u>\$ 45,376</u>                       | <u>\$ 314,739</u>    | <u>\$ 29,679</u>     | <u>\$ 537,258</u>                  | <u>\$ 30,585</u>                    | <u>\$ 3,068,080</u>   |
| Ending Balance:                                   |                         |  |                      |                      |                                    |                                     |                       |
| Individually evaluated for impairment             | \$ -                    | \$ -                                   | \$ -                 | \$ -                 | \$ 262,051                         | \$ -                                | \$ 262,051            |
| Collectively evaluated for impairment             | 2,110,443               | 45,376                                 | 314,739              | 29,679               | 275,207                            | 30,585                              | 2,806,029             |
| Balance at March 31, 2021                         | <u>\$ 2,110,443</u>     | <u>\$ 45,376</u>                       | <u>\$ 314,739</u>    | <u>\$ 29,679</u>     | <u>\$ 537,258</u>                  | <u>\$ 30,585</u>                    | <u>\$ 3,068,080</u>   |
| Balance at December 31, 2019                      | \$ 1,698,408            | \$ 15,516                              | \$ 256,667           | \$ 22,189            | \$ 58,021                          | \$ 23,512                           | \$ 2,074,313          |
| Charge-offs                                       | -                       | -                                      | -                    | -                    | -                                  | -                                   | -                     |
| Provision for loan losses                         | 219,820                 | (1,983)                                | 59,000               | 2,053                | 6,376                              | 4,518                               | 289,784               |
| Other   | (473)                   | 792                                    | (1,113)              | -                    | 1,612                              | -                                   | 818                   |
| Balance at March 31, 2020                         | <u>\$ 1,917,755</u>     | <u>\$ 14,325</u>                       | <u>\$ 314,554</u>    | <u>\$ 24,242</u>     | <u>\$ 66,009</u>                   | <u>\$ 28,030</u>                    | <u>\$ 2,364,915</u>   |
| Ending Balance:                                   |                         |  |                      |                      |                                    |                                     |                       |
| Individually evaluated for impairment             | \$ 430                  | \$ -                                   | \$ -                 | \$ -                 | \$ -                               | \$ -                                | \$ 430                |
| Collectively evaluated for impairment             | 1,917,325               | 14,325                                 | 314,554              | 24,242               | 66,009                             | 28,030                              | 2,364,485             |
| Balance at March 31, 2020                         | <u>\$ 1,917,755</u>     | <u>\$ 14,325</u>                       | <u>\$ 314,554</u>    | <u>\$ 24,242</u>     | <u>\$ 66,009</u>                   | <u>\$ 28,030</u>                    | <u>\$ 2,364,915</u>   |
| <b>Recorded Investments in Loans Outstanding:</b> |                         |  |                      |                      |                                    |                                     |                       |
| Ending Balance at                                 |                         |  |                      |                      |                                    |                                     |                       |
| March 31, 2021                                    | <u>\$ 708,006,422</u>   | <u>\$ 24,038,670</u>                   | <u>\$ 53,526,913</u> | <u>\$ 13,532,612</u> | <u>\$ 17,673,323</u>               | <u>\$ 12,449,407</u>                | <u>\$ 829,227,347</u> |
| Individually evaluated for impairment             | \$ -                    | \$ -                                   | \$ -                 | \$ -                 | \$ 1,001,949                       | \$ -                                | \$ 1,001,949          |
| Collectively evaluated for impairment             | <u>\$ 708,006,422</u>   | <u>\$ 24,038,670</u>                   | <u>\$ 53,526,913</u> | <u>\$ 13,532,612</u> | <u>\$ 16,671,374</u>               | <u>\$ 12,449,407</u>                | <u>\$ 828,225,398</u> |
| Ending Balance at                                 |                         |  |                      |                      |                                    |                                     |                       |
| December 31, 2020                                 | <u>\$ 695,158,617</u>   | <u>\$ 12,451,155</u>                   | <u>\$ 55,923,694</u> | <u>\$ 13,569,431</u> | <u>\$ 16,899,297</u>               | <u>\$ 12,204,475</u>                | <u>\$ 806,206,669</u> |
| Individually evaluated for impairment             | \$ -                    | \$ -                                   | \$ 1,416,452         | \$ -                 | \$ -                               | \$ -                                | \$ 1,416,452          |
| Collectively evaluated for impairment             | <u>\$ 695,158,617</u>   | <u>\$ 12,451,155</u>                   | <u>\$ 54,507,242</u> | <u>\$ 13,569,431</u> | <u>\$ 16,899,297</u>               | <u>\$ 12,204,475</u>                | <u>\$ 804,790,217</u> |

### NOTE 3 —LEASES:

The components of lease expense were as follows:

|                      | For the Three Months Ended |                       |
|----------------------|----------------------------|-----------------------|
|                      | <u>March 31, 2021</u>      | <u>March 31, 2020</u> |
| Operating lease cost | \$ 18,011                  | \$ 1,215              |
| Net lease cost       | <u>\$ 18,011</u>           | <u>\$ 1,215</u>       |

Other information related to leases was as follows:

|   | For the Three Months Ended |                       |
|---|----------------------------|-----------------------|
|   | <u>March 31, 2021</u>      | <u>March 31, 2020</u> |
| Cash paid for amounts included in the measurement of lease liabilities: |                            |                       |
| Operating cash flows from operating leases                              | \$ 18,169                  | \$ 1,215              |
| Right-of-use assets obtained in exchange for lease obligations:         |                            |                       |
| Operating leases  | \$ 273,687                 | \$ 940                |

Lease term and discount rate are as follows:

|  | <u>March 31, 2021</u> | <u>December 31, 2020</u> |
|--|-----------------------|--------------------------|
| Weighted average remaining lease term in years |                       |                          |
| Operating leases                               | 4.04                  | 4.95                     |
| Weighted average discount rate                 |                       |                          |
| Operating leases                               | 2.44%                 | 2.44%                    |

Future minimum lease payments under non-cancellable leases as of March 31, 2021 were as follows:

|   | <u>Operating<br/>Leases</u> |
|---|-----------------------------|
| 2021 (excluding the three months ended 3/31/21) | \$ 55,441                   |
| 2022  | 73,917                      |
| 2023  | 73,790                      |
| 2024  | 75,270                      |
| 2025  | 25,256                      |
| Thereafter                                      | -                           |
| Total lease payments                            | <u>303,674</u>              |
| Less: interest                                  | <u>14,102</u>               |
| Total   | <u>\$ 289,572</u>           |

During the first quarter of 2021, the Association entered into a sales-type lease agreement in which the Association is the lessor. At the termination of the lease, the Association will grant the lessee the option to purchase the property which was valued at \$318,059 at the inception of the lease.

The components of the sales-type lease were as follows:

|  | <u>March 31, 2021</u> |
|--|-----------------------|
| Net investment in the lease                  | \$ 330,695            |
| Unguaranteed residual value of leased assets | \$ 272,898            |

Other information related to the Association's sales-type lease is as follows:

|  | <u>March 31, 2021</u> |
|--|-----------------------|
| Profit recognized at the commencement of the lease                     | \$ 12,636             |
| Interest income  | \$ -                  |
| Cash received for amounts included in the measurement of leased assets | \$ 2,630              |

## NOTE 4 — CAPITAL:

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

### Regulatory Capitalization Requirements

| <u>Risk-adjusted:</u>      | <b>Regulatory Requirements Including<br/>Capital Conservation Buffers</b> | <b>As of<br/>March 31, 2021</b> | <b>As of<br/>December 31, 2020</b> |
|----------------------------|---|---------------------------------|------------------------------------|
| Common equity tier 1 ratio | 7.00%   | 14.48%                          | 14.92%                             |
| Tier 1 capital ratio       | 8.50%   | 14.48%                          | 14.92%                             |
| Total capital ratio        | 10.50%  | 14.83%                          | 15.24%                             |
| Permanent capital ratio    | 7.00%   | 14.53%                          | 14.97%                             |
| <u>Non-risk-adjusted:</u>  |   |                                 |                                    |
| Tier 1 leverage ratio      | 5.00%   | 14.88%                          | 15.36%                             |
| UREE leverage ratio        | 1.50%   | 16.17%                          | 16.50%                             |

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) are 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 loan 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 seven years, allocated equities held for a minimum of seven 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 five years, allocated equities held for a minimum of five years, subordinated debt and limited-life preferred stock greater than five 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 offices 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 March 31, 2021 and December 31, 2020, respectively:

|  | Common equity tier 1 ratio | Tier 1 capital ratio | Total capital ratio | Permanent capital ratio |
|--|----------------------------|----------------------|---------------------|-------------------------|
| <b>March 31, 2021</b>  |                            |                      |                     |                         |
| Numerator:   |                            |                      |                     |                         |
| Unallocated retained earnings  | 132,881,433                | 132,881,433          | 132,881,433         | 132,881,433             |
| Common Cooperative Equities:   |                            |                      |                     |                         |
| Statutory minimum purchased borrower stock   | 2,083,860                  | 2,083,860            | 2,083,860           | 2,083,860               |
| Allowance for loan losses and reserve for credit losses subject to certain limitations |                            |                      | 2,941,898           |                         |
| Regulatory Adjustments and Deductions:   |                            |                      |                     |                         |
| Amount of allocated investments in other System institutions                           | (12,664,660)               | (12,664,660)         | (12,664,660)        | (12,664,660)            |
|  | <b>122,300,633</b>         | <b>122,300,633</b>   | <b>125,242,531</b>  | <b>122,300,633</b>      |
| Denominator:   |                            |                      |                     |                         |
| Risk-adjusted assets excluding allowance   | 857,050,351                | 857,050,351          | 857,050,351         | 857,050,351             |
| Regulatory Adjustments and Deductions:   |                            |                      |                     |                         |
| Regulatory deductions included in total capital  | (12,664,660)               | (12,664,660)         | (12,664,660)        | (12,664,660)            |
| Allowance for loan losses  |                            |                      |                     | (2,833,581)             |
|  | <b>844,385,691</b>         | <b>844,385,691</b>   | <b>844,385,691</b>  | <b>841,552,110</b>      |
| <b>December 31, 2020</b>   |                            |                      |                     |                         |
| Numerator:   |                            |                      |                     |                         |
| Unallocated retained earnings  | 132,991,905                | 132,991,905          | 132,991,905         | 132,991,905             |
| Common Cooperative Equities:   |                            |                      |                     |                         |
| Statutory minimum purchased borrower stock   | 2,098,803                  | 2,098,803            | 2,098,803           | 2,098,803               |
| Allowance for loan losses and reserve for credit losses subject to certain limitations |                            |                      | 2,641,411           |                         |
| Regulatory Adjustments and Deductions:   |                            |                      |                     |                         |
| Amount of allocated investments in other System institutions                           | (11,244,363)               | (11,244,363)         | (11,244,363)        | (11,244,363)            |
|  | <b>123,846,345</b>         | <b>123,846,345</b>   | <b>126,487,756</b>  | <b>123,846,345</b>      |
| Denominator:   |                            |                      |                     |                         |
| Risk-adjusted assets excluding allowance   | 841,194,873                | 841,194,873          | 841,194,873         | 841,194,873             |
| Regulatory Adjustments and Deductions:   |                            |                      |                     |                         |
| Regulatory deductions included in total capital  | (11,244,363)               | (11,244,363)         | (11,244,363)        | (11,244,363)            |
| Allowance for loan losses  |                            |                      |                     | (2,542,510)             |
|  | <b>829,950,510</b>         | <b>829,950,510</b>   | <b>829,950,510</b>  | <b>827,408,000</b>      |

The components of the Association's non-risk-adjusted capital, based on 90-day average balances, were as follows at March 31, 2021 and December 31, 2020, respectively:

|  | March 31, 2021        |                     | December 31, 2020     |                     |
|--|-----------------------|---------------------|-----------------------|---------------------|
|  | Tier 1 leverage ratio | UREE leverage ratio | Tier 1 leverage ratio | UREE leverage ratio |
| Numerator:   |                       |                     |                       |                     |
| Unallocated retained earnings                                | 132,881,433           | 132,881,433         | 132,991,905           | 132,991,905         |
| Common Cooperative Equities:                                 |                       |                     |                       |                     |
| Statutory minimum purchased borrower stock                   | 2,083,860             | -                   | 2,098,803             | -                   |
| Regulatory Adjustments and Deductions:                       |                       |                     |                       |                     |
| Amount of allocated investments in other System institutions | (12,664,660)          | -                   | (11,244,363)          | -                   |
|  | <b>122,300,633</b>    | <b>132,881,433</b>  | <b>123,846,345</b>    | <b>132,991,905</b>  |
| Denominator:   |                       |                     |                       |                     |
| Total Assets   | 834,523,450           | 834,523,450         | 819,430,557           | 819,430,557         |
| Regulatory Adjustments and Deductions:                       |                       |                     |                       |                     |
| Regulatory deductions included in tier 1 capital             | (12,685,160)          | (12,685,160)        | (13,172,697)          | (13,172,697)        |
|  | <b>821,838,290</b>    | <b>821,838,290</b>  | <b>806,257,860</b>    | <b>806,257,860</b>  |

An additional component of equity is accumulated other comprehensive income which is reported as follows:

| <b>Accumulated Other Comprehensive Income</b> |  | <b>March 31, 2021</b> |                |
|---|--|-----------------------|----------------|
| <b>Nonpension postretirement benefits</b>     |  | <b>\$</b>             | <b>124,642</b> |
| <b>Total</b>                                  |  | <b>\$</b>             | <b>124,642</b> |
|   |  | <b>March 31, 2020</b> |                |
| Nonpension postretirement benefits            |  | \$                    | 145,221        |
| Total   |  | \$                    | 145,221        |

The Association's accumulated other comprehensive income relates entirely to its nonpension other postretirement benefits. Amortization of prior service credits is reflected in "Salaries and employee benefits" in the Statements of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive income for the three months ended March 31:

|  | <b>2021</b>       | <b>2020</b>       |
|--|-------------------|-------------------|
| Accumulated other comprehensive income at January 1                                | \$ 127,250        | \$ 147,829        |
| Amortization of prior service credit included<br>in salaries and employee benefits | <b>(2,608)</b>    | (2,608)           |
| Other comprehensive loss, net of tax   | <b>(2,608)</b>    | (2,608)           |
| Accumulated other comprehensive income at March 31                                 | <b>\$ 124,642</b> | <b>\$ 145,221</b> |

#### **NOTE 5 — 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 13 to the 2020 Annual Report to Stockholders for a more complete description.

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

| <b><u>March 31, 2021</u></b>    | <b>Fair Value Measurement Using</b> |                |                | <b>Total Fair Value</b> | <b>Total Gains (Losses)</b> |
|---------------------------------|-------------------------------------|----------------|----------------|-------------------------|-----------------------------|
|                                 | <b>Level 1</b>                      | <b>Level 2</b> | <b>Level 3</b> |                         |                             |
| Assets:                         |                                     |                |                |                         |                             |
| Loans*                          | \$ -                                | \$ -           | \$ -           | \$ -                    | \$ -                        |
| Other property owned            | -                                   | -              | 645,890        | 645,890                 | 5,370                       |
| <br>                            |                                     |                |                |                         |                             |
| <b><u>December 31, 2020</u></b> | <b>Fair Value Measurement Using</b> |                |                | <b>Total Fair Value</b> | <b>Total Gains (Losses)</b> |
|                                 | <b>Level 1</b>                      | <b>Level 2</b> | <b>Level 3</b> |                         |                             |
| Assets:                         |                                     |                |                |                         |                             |
| Loans*                          | \$ -                                | \$ -           | \$ 1,341,352   | \$ 1,341,352            | \$ -                        |
| Other property owned            | -                                   | -              | -              | -                       | -                           |

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

#### **Uncertainty of Fair Value Measurements**

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the mortgage-backed securities are prepayment rates, probability of default and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would have resulted in a significantly lower (higher) fair value measurement.

Generally, a change in the assumption used for the probability of default would have been accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

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

### **Valuation Techniques**

As more fully discussed in Note 13 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.

#### *Cash*

For cash, the carrying amount is a reasonable estimate of fair value.

#### *Loans*

Fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the Association's current loan origination rates as well as management's estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale and could be less.

For purposes of estimating fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows, primarily based on contractual terms, and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

The fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For collateral-dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral.

#### *Loans Evaluated for Impairment*

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

#### *Commitments to Extend Credit*

The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates.

### *Other Property Owned*

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

### **NOTE 6 — EMPLOYEE BENEFIT PLANS:**

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three months ended March 31:

|                                       | Other Benefits |          |
|---------------------------------------|----------------|----------|
|                                       | 2021           | 2020     |
| Service cost                          | \$ 1,382       | \$ 2,252 |
| Interest cost                         | 8,113          | 9,847    |
| Amortization of prior service credits | (2,608)        | (2,608)  |
| Net periodic benefit cost             | \$ 6,887       | \$ 9,491 |

The Association's liability for the unfunded accumulated obligation for these benefits at March 31, 2021, was \$1,180,368 and is included in other liabilities on the balance sheet.

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

The structure of the District's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The Association previously disclosed in its financial statements for the year ended December 31, 2020, that expected benefit payments were \$43,973 to the District's defined benefit pension plan in 2021. As of March 31, 2021, \$112,322 of contributions have been made. The Association presently anticipates contributing an additional \$336,964 to fund the defined benefit pension plan in 2021 for a total of \$449,286.

### **NOTE 7 — 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 8 — SUBSEQUENT EVENTS:**

The Association has evaluated subsequent events through April 30, 2021, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of April 30, 2021.