ArborOne
FARM CREDIT

2020
ANNUAL REPORT

CONGRATULATIONS ON YOUR RETIREMENT!

Kathy S. Heustess

31 Years of Service (from 1989 – 2020)

The ArborOne Farm Credit Executive Leadership Team, Board of Directors, and Staff would like to dedicate the 2020 Annual Report to President and CEO, Kathy S. Heustess, who retired from service on December 31, 2020.

Kathy's leadership has been critical to the success of ArborOne Farm Credit. Her dedication has been instrumental to the advancement of the Farm Credit mission and service to agriculture in South Carolina.

Kathy worked for ArborOne Farm Credit for 31 years. She holds a Bachelor of Science Degree in Business Administration from Francis Marion University and is a Certified Public Accountant in the state of South Carolina. Kathy is also a graduate of the Graduate School of Banking at Louisiana State University. Kathy's career in the Farm Credit System began in 1989 ranging from management of accounting, reporting, operations, credit, marketing, information management and human resources. She held the positions of Controller, Chief Financial Officer and Chief Operating Officer prior to making history in January 2012 when she became the first female President and Chief Executive Officer in the AgFirst Farm Credit Bank District.

Additionally, Kathy served on the Francis Marion University Education Foundation Board; and the Farm Credit Council Services Board and chaired its compensation committee.

From everyone at ArborOne Farm Credit, thank you, Kathy, for your guidance and steadfast leadership, even during some of the hardest times endured by this Association. Your dedication to the Farm Credit mission has certainly left its mark, and you will truly be missed!

ArborOne, ACA

2020 Annual Report

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Management

Bryant Sansbury ... President and Chief Executive Officer
Tammy G. Smith ... Chief Financial Officer and Treasurer
Sarah H. Jackson ... Chief Human Resources Officer and Corporate Secretary
Leah B. Hollifield ... Chief Credit Officer

Board of Directors

William DuPree Atkinson ... Chairman
John Lee Newman. ... Vice Chairman
Harry B. DuRant ... Director
John E. Lay ... Director
J. Whit Player ... Director
Jimmy Poston ... Director
James M. Ward ... Director
Kelly O. Wiseman ... Director

Message from the President

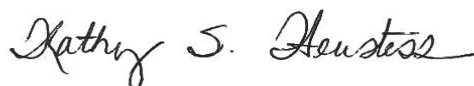
Dear Customers,

As I reflect upon 2020, we have persevered through yet another unprecedented year. Over the past several years, as farmers, you have experienced disastrous weather events, legislative and trade agreement consequences, continued low commodity prices and overall unfavorable and uncontrollable conditions as the provider of food and fiber for this nation and the world. I'd like to take a moment to acknowledge and "thank you" for that perseverance to ensure the world does not go hungry. As I look back on my career at Farm Credit, I have seen time and time again the grit and determination you have shown in order to overcome the obstacles that you face on a regular basis. My career at Farm Credit ended on December 31, 2020 after 31 years of promoting and advocating for agriculture in South Carolina and the mission of the Farm Credit system.

Although I have moved into that "new phase of life" known as retirement, Farm Credit will always remain a part of me. My hopes and prayers for you is that of bountiful harvests, prosperity and good health.

Our transition at ArborOne has been handled with great intentionality so that you would not feel the slightest ripple in the service provided to you. It's been my honor to provide guidance and support during the succession process as Bryant Sansbury transitioned into his new role as the CEO of ArborOne Farm Credit. I can say, without hesitation that Bryant and our devoted staff will remain committed to providing excellent service to you, our valued customers, and promoting agriculture in South Carolina and beyond.

Blessings to you all,



Kathy S. Heustess,
President and CEO *(from November 2011-December 2020)*

March 11, 2021

Dear Stockholders,

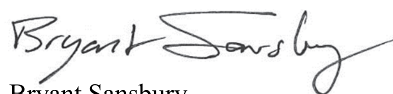
Let me start by congratulating Kathy Heustess on an outstanding career with ArborOne Farm Credit. She has been a visionary leader for our Association, driven by her love for farming in the Pee Dee Area and her strong belief in the cooperative principle. We will miss her guidance and friendship but wish her all the best as she begins retirement.

I am grateful to our Board of Directors for the opportunity to lead the Association and look forward to serving in this role. I also want to thank Kathy Heustess for her mentorship as we worked through our transition in 2020. Transition always brings a little uncertainty to any organization, but rest assured that ArborOne Farm Credit will be sticking to its mission of providing reliable, consistent credit and financial services to our farmers and rural communities in 2021 and beyond.

In review of 2020, the ArborOne staff should be recognized for an outstanding job. While our employees work hard every year to meet the needs of our customers, the resiliency and adaptability they showed in 2020 was amazing. The staff overcame many obstacles brought on by the pandemic. Their dedication to our customers and each other was incredible and I'm proud to work with such a talented group of people.

As we move forward, ArborOne Farm Credit will continue to work hard to earn your business and demonstrate the benefits that come with being a borrower-member. These benefits include local decision making, ownership control through an elected member-board of directors and patronage dividends. Patronage is a significant benefit of doing business with ArborOne Farm Credit as the customers share in the success when the Association has a good year – the cooperative principle at work. Despite the difficulties of 2020, your Association had a successful year and, as a result, we will return about 22 cents of every dollar of interest you paid last year back to you in cash! You'll see that check arrive in the spring, around the end of March. This past December, we also returned over $2.3 million of allocated surplus to customers who did business with us in 2012!

Lastly, let me echo Kathy's comments regarding our farmers. Your courage and optimism through all challenges are inspiring to us all. We are proud to work for you and to be a part of your team! Thank you for your business and we look forward to seeing you in 2021!



Bryant Sansbury
President and CEO *(January 2021 – Present)*

March 11, 2021

Report of Management

The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by management of **ArborOne, ACA** (Association) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the consolidated financial statements and financial information contained in this report.

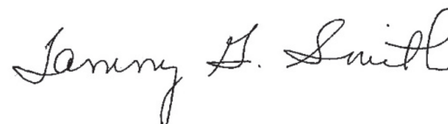
Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the Association are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Association maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Board of Directors.

The consolidated financial statements have been audited by independent auditors, whose report appears elsewhere in this annual report. The Association is also subject to examination by the Farm Credit Administration.

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2020 Annual Report of **ArborOne, ACA**, that the report has been prepared under the oversight of the audit committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

William Dupree Atkinson
Chairman of the Board

Bryant Sansbury
President and Chief Executive Officer



Tammy G. Smith
Chief Financial Officer and Treasurer

March 11, 2021

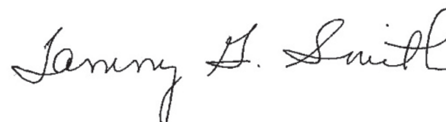
Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2020. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of December 31, 2020, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2020.

Bryant Sansbury
President and Chief Executive Officer



Tammy G. Smith
Chief Financial Officer and Treasurer

March 11, 2021

Consolidated Five - Year Summary of Selected Financial Data

	December 31,				
(dollars in thousands)	**2020**	**2019**	**2018**	**2017**	**2016**
Balance Sheet Data					
Cash	**$ 2**	$ 113	$ 48	$ 181	$ 12
Investments in debt securities	**7,897**	8,993	9,268	14,309	18,489
Loans	**536,728**	530,928	495,168	459,894	447,150
Allowance for loan losses	**(11,790)**	(12,298)	(12,804)	(10,844)	(8,676)
Net loans	**524,938**	518,630	482,364	449,050	438,474
Equity investments in other Farm Credit institutions	**6,074**	6,315	5,945	5,924	5,659
Other property owned	**469**	171	822	783	623
Other assets	**22,863**	21,519	20,516	20,627	20,421
Total assets	**$ 562,243**	$ 555,741	$ 518,963	$ 490,874	$ 483,678
Notes payable to AgFirst Farm Credit Bank*	**$ 451,350**	$ 453,022	$ 418,933	$ 392,398	$ 386,383
Accrued interest payable and other liabilities with maturities of less than one year	**16,636**	13,604	12,255	11,594	12,777
Total liabilities	**467,986**	466,626	431,188	403,992	399,160
Protected borrower stock	**—**	52	52	53	62
Capital stock and participation certificates	**1,761**	1,620	1,510	1,413	1,351
Retained earnings					
Allocated	**63,700**	59,046	58,095	57,424	54,690
Unallocated	**28,864**	28,416	28,044	27,867	28,196
Accumulated other comprehensive income (loss)	**(68)**	(19)	74	125	219
Total members' equity	**94,257**	89,115	87,775	86,882	84,518
Total liabilities and members' equity	**$ 562,243**	$ 555,741	$ 518,963	$ 490,874	$ 483,678
Statement of Income Data					
Net interest income	**$ 15,343**	$ 14,242	$ 12,622	$ 12,192	$ 11,768
Provision for loan losses	**1,976**	3,344	2,369	2,611	1,711
Noninterest income (expense), net	**(406)**	(2,789)	(1,343)	(1,195)	(1,280)
Net income	**$ 12,961**	$ 8,109	$ 8,910	$ 8,386	$ 8,777
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.34%**	1.51%	1.76%	1.72%	1.92%
Total members' equity	**13.78%**	8.81%	9.89%	9.60%	10.33%
Net interest income as a percentage of average earning assets	**2.83%**	2.72%	2.55%	2.56%	2.67%
Net (chargeoffs) recoveries to average loans	**(0.464)%**	(0.747)%	(0.085)%	(0.096)%	(0.099)%
Total members' equity to total assets	**16.76%**	16.04%	16.91%	17.70%	17.47%
Debt to members' equity (:1)	**4.97**	5.24	4.91	4.65	4.72
Allowance for loan losses to loans	**2.20%**	2.32%	2.59%	2.36%	1.94%
Permanent capital ratio	**17.69%**	16.91%	17.48%	18.44%	19.42%
Total surplus ratio	**	**	**	**	19.10%
Core surplus ratio	**	**	**	**	16.46%
Common equity tier 1 capital ratio	**17.48%**	16.72%	17.26%	18.20%	**
Tier 1 capital ratio	**17.48%**	16.72%	17.26%	18.20%	**
Total regulatory capital ratio	**18.75%**	17.99%	18.52%	19.46%	**
Tier 1 leverage ratio	**16.27%**	15.60%	16.03%	16.58%	**
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**9.24%**	8.27%	8.13%	8.24%	**
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 5,493**	$ 5,413	$ 6,167	$ 2,495	$ 1,992
Qualified allocated retained earnings	**—**	—	—	—	332
Nonqualified allocated retained earnings	**—**	—	—	4,845	4,317
Nonqualified retained earnings	**6,788**	2,114	2,468	977	—

** General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 2021.*
*** Not applicable due to changes in regulatory capital requirements effective January 1, 2017.*

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of ArborOne, ACA, (Association) for the year ended December 31, 2020 with comparisons to the years ended December 31, 2019 and December 31, 2018. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements, and other sections in this Annual Report. The accompanying Consolidated Financial Statements were prepared under the oversight of the Audit Committee of the Board of Directors (Board). For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 100 years. The System's mission is to maintain and improve the income and well-being of American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration, (FCA), which is an independent safety and soundness regulator.

The Association is a cooperative, which is owned by the members (also referred to throughout this Annual Report as stockholders or shareholders) served. The territory of the Association extends across a diverse agricultural region of 12 counties located in northeastern South Carolina. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be materially affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, ***www.agfirst.com,*** or may be obtained at no charge by calling 1-800-845-1745, extension 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, ***www.arborone.com***, or by calling 1-800-741-7332, extension 2317, or writing Sarah Jackson, Corporate Secretary, ArborOne, ACA, P.O. Box 3699, Florence, S.C. 29502. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the Farm Credit System, as a government-sponsored enterprise, as well as investor and rating-agency reactions to events involving other government-sponsored enterprises and other financial institutions; and
- actions taken by the Federal Reserve System in implementing monetary policy.

IMPACTS OF THE COVID-19 GLOBAL PANDEMIC

The spread of COVID-19 has created a global public-health crisis that has negatively impacted the global economy, significantly increased unemployment levels and disrupted global supply and demand chains. Unprecedented actions were and continue to be taken by governments, businesses and individuals to slow or contain the spread of COVID-19, including quarantines, "stay at home" orders, school closings, travel bans and restrictions that substantially limited daily activities and forced many businesses to curtail or cease operations. The actions to contain the pandemic vary by country and by state in the United States.

The extent to which the COVID-19 pandemic impacts the Association's, results of operations and financial condition depends on future developments that are highly uncertain and cannot be predicted. The scope, duration and full effects of COVID-19 (including the possibility of further surges or variants of COVID-19), the timing and efficacy of the vaccinations, and the actions to contain the impact of COVID-19 are rapidly evolving and still not fully known. However, it is clear that the pandemic and related efforts to contain it have disrupted global economic activity, adversely affected the functioning of financial markets, increased unemployment levels and economic and market uncertainty, and disrupted trade and supply chains, potentially leading to future credit deterioration.

The negative economic, market and social developments arising from the COVID-19 pandemic created a high level of uncertainty causing investors to shift toward cash, and highly rated cash-like investments during March 2020. This, in turn, reduced flexibility to issue certain types of debt securities; in particular, intermediate to long-term fixed rate non-callable debt and callable debt with longer non-call periods. During this period, as investor demand moved to highly rated shorter-term debt instruments, the Bank maintained access to the short-term debt market. In addition, although less accessible, moderate amounts of longer-term debt were issued as market demand allowed. During the latter part of April 2020, funding flexibility improved to near normal pre-COVID-19 levels.

COVID-19 Support Programs

On March 13, 2020, the President of the United States declared the COVID-19 outbreak as a national emergency. In response, the Farm Credit Administration (FCA), other federal banking regulators and the Financial Accounting Standards Board (FASB) issued guidance on restructurings of loans through loan modifications, such as payment deferrals and extensions of repayment terms, which would not be considered as troubled debt restructurings if made on a good faith basis in response to the national emergency.

The Association has developed payment deferral programs for borrowers directly affected by market disruptions caused by the COVID-19 pandemic. These actions are designed to help farmers and ranchers preserve liquidity.

On March 27, 2020, Congress passed the CARES Act. Among other provisions, the CARES Act provided funding and authority to bolster United States Department of Agriculture (USDA) programs. On April 17, 2020, the USDA announced a $19 billion Coronavirus Food Assistance Program (CFAP), that provided $16 billion of direct support based on actual losses for agricultural producers where prices and market supply chains have been impacted. The $16 billion included approximately $10 billion of funding targeted to livestock and dairy producers, $4 billion for row crop producers, $2 billion for specialty crop producers, and $500 million for other specialty crops. Additionally, $3 billion was allocated for direct purchases of fresh produce, dairy and meat for distribution to food banks and other non-profits. As of January 31, 2021, the USDA provided $10.5 billion of direct relief to producers under CFAP.

The CARES Act also appropriated $349 billion for the Paycheck Protection Program (PPP), a guaranteed loan program administered by the U.S. Small Business Administration (SBA), which commenced on April 3, 2020. The purpose of the program is to support payroll and certain other financial needs of small businesses during the COVID-19 pandemic. Agricultural producers, farmers and ranchers with 500 or fewer employees or that fit within the revenue-based standard are eligible for PPP loans.

Applicants who are otherwise eligible to receive financing under the Farm Credit Act and FCA regulations are able to apply for PPP loans from a District Association. At the time it was passed, the CARES Act provided for loan forgiveness if an employer used at least 75% of the loan for payroll costs and would be reduced proportionally by any reduction in full-time equivalent employees compared to the prior year and a 25% or greater reduction in full-time equivalent employee compensation. Loan payments required under the program can be deferred for up to six months.

On April 23, 2020, Congress passed the PPP and Health Care Enhancement Act that provides $484 billion in additional funding to replenish and supplement key programs under the CARES Act. The Act provides an additional $310 billion for PPP, $60 billion for small business disaster loans and grants, $75 billion for hospital and health care providers and $25 billion for testing.

On June 5, 2020, the President of the United States signed the Paycheck Protection Program Flexibility Act of 2020, which amends the SBA Act and the CARES Act. Specifically, this Act establishes a minimum maturity of five years for a paycheck protection loan with a remaining balance after forgiveness. The bill also extends the "covered period" during which a loan recipient may use such funds for certain expenses while remaining eligible for forgiveness. The extension is to 24 weeks from the date of origination or December 31, 2020, whichever occurs first. The bill also reduces the payroll cost requirements from 75% to 60% and raises the non-payroll portion of a forgivable loan amount from 25% up to 40%.

On August 8, 2020, the PPP was closed and the SBA ceased to accept applications from participating lenders. The Association was approved as a PPP lender and made $149 in loans and recorded approximately $7 in loan-related fee income. At September 30, 2020, the Bank had purchased $149 of these loans. At December 31, 2020, as a result of loan forgiveness, the amount of these SBA loans held and sold to the Bank was $34.

On September 21, 2020, the USDA implemented an expansion to the Coronavirus Food Assistance Program, known as CFAP 2. This program will provide $14 billion of financial support to producers of certain agricultural commodities who face continuing market disruptions and significant marketing costs.

On December 27, 2020, the President of the United States signed the Consolidated Appropriations Act, 2021 (CAA). The CAA includes $900 billion for COVID-19 relief in the form of direct payments to households, jobless aid, support for small businesses and many other stimulus measures. Approximately $13 billion of relief has been designated for the agricultural sector. Also included was the authority of the SBA to make new and additional PPP loans and the CARES Act was modified for this purpose. This Act authorizes funds of $284.5 billion for PPP loans, which includes $35 billion for first-time borrowers. PPP loans under the new law will be open through March 31, 2021.

AGRICULTURAL OUTLOOK

Production agriculture is a cyclical business that is heavily influenced by commodity prices, weather, government policies (including, among other things, tax, trade, immigration, crop insurance and periodic aid), interest rates and various other factors that affect supply and demand.

The COVID-19 pandemic affected the production, consumption and supply chain of production agriculture. Entering 2020, corn and soybean prices were anticipated to be relatively low due to ample beginning stocks, favorable planting conditions, increased crop acreage, and trade uncertainty. Corn prices were also pressured at the onset of 2020 due to the decline in gasoline and ethanol consumption and to a lesser extent due to a lower feed and residual use potential.

The situation for animal and animal products was more challenging than crops. The perishable nature of animal protein production, limited slack in processing and supply chains and abrupt COVID-19 pandemic consumption pattern changes sent animal prices significantly lower early in 2020 as most of the U.S. population faced sheltering in place orders and COVID-19 spread through several processing plants.

The dairy market was especially volatile in the first half of 2020. The highly perishable nature of milk and the biological requirement for dairy cows to be milked daily quickly caused a supply/demand mismatch for the dairy market. Milk prices collapsed in April and May but rapidly reversed in June and July to profitable levels, assisted in part due to United States Department of Agriculture (USDA) direct purchases of dairy products as part of the Coronavirus Food Assistance Program (CFAP).

Crop fundamentals began to turn more supportive for higher prices by late summer due to drought conditions in some growing regions of the United States, a large storm in August that caused widespread crop damage in parts of Iowa and Illinois and lower than expected 2019/2020 USDA corn and soybean ending stock estimates. Also, concerns about dry planting conditions in South America from La Nina contributed to the higher prices for crops. New U.S. soybean and corn export sales to China began to increase significantly in August, offering additional price support. USDA is projecting these factors to reduce 2020/2021 ending stocks from previous forecasts. As of the February 9, 2021 World Agricultural Supply and Demand Estimates (WASDE) report, the soybean stocks-to-use ratio dropped to 2.6 percent and the corn stocks-to-use ratio dropped to 10.3 percent (the lowest levels since 2013/2014), which have contributed to higher crop prices. The higher prices along with strong government direct payments in 2020 should support favorable returns for many crop producers.

The prices for animals and animal products have largely recovered to pre-pandemic levels as processing plants remained open and consumption patterns shifted to higher grocery store sales and restaurants adjusted to increased take-out and delivery, along with limited openings of in-person dining. Increased exports to China, which is rebuilding its hog herd after being decimated by African Swine Fever, has also helped boost pork exports. However, higher grain prices will increase feeding costs for livestock, poultry and dairy producers, which could negatively impact profit margins during 2021.

Although production agriculture has fared better than expected in 2020, uncertainties about the pace of economic recovery and the outlook for production agriculture remain.

The following USDA analysis provides a general understanding of the U.S. agricultural economic outlook. However, this outlook does not take into account all aspects of the Association's business. References to USDA information in this section refer to the U.S. agricultural market data and are not limited to information/data for the Association.

Agricultural production is a major use of land in the United States and the value of farm real estate accounted for 82 percent of the total value of the U.S. farm sector assets for 2020 according to the USDA in its February 5, 2021 forecast. Because real estate is such a significant component of the balance sheet of U.S. farms, the value of farm real estate is a critical measure of the farm sector's financial performance. Changes in farmland values also affect the financial well-being of agricultural producers because farm real estate serves as the principal source of collateral for farm loans.

USDA's most recent forecast anticipates that farm sector equity, the difference between farm sector assets and debt, is predicted to rise 1.3 percent in 2020. Farm real estate value is expected to increase 0.9 percent and non-real estate farm assets are expected to increase 4.5 percent, while farm sector debt is forecast to increase 3.1 percent in 2020. Farm real estate debt as a share of total debt has been rising since 2014 and is expected to account for 64.5 percent of total farm debt in 2020.

The USDA is forecasting farm sector solvency ratios to increase slightly in 2020 to 16.1 percent for the debt-to-equity ratio and 13.8 percent for the debt-to-asset ratio, which represents the highest levels since 2002, but well below the peak of 28.5 percent and 22.2 percent in 1985. Working capital (which is defined as cash and cash convertible assets minus liabilities due to creditors within 12 months) is forecasted to increase 7.8 percent in 2020 to $84 billion from $78 billion in 2019. Although working capital increased, it remains far below the peak of $165 billion in 2012.

The USDA's most recent forecast estimates net farm income (income after expenses from production in the current year; a broader measure of profits) for 2020 at $121.1 billion, a $38.0 billion increase from 2019 and $32.5 billion above the 10-year average. The forecasted increase in net farm income for 2020 compared with 2019 is primarily due to increases in direct government payments of $23.8 billion to $46.3 billion, primarily driven by supplemental and ad hoc disaster assistance related to the COVID-19 pandemic, as well as payments from the Market Facilitation Program (MFP). The MFP was first implemented in 2018 and continued in 2020 to assist farmers impacted by trade disruptions.

The USDA's outlook projects net farm income for 2021 to decrease to $111.4 billion, a $9.7 billion or 8.0 percent decrease from 2020, but $22.8 billion above the 10-year average. The forecasted decrease in net farm income for 2021 is primarily due to an expected decrease in direct government payments of $21.0 billion and an increase in cash expenses of $8.0 billion, partially offset by increases in crop receipts of $11.8 billion and cash receipts for animals and animal products of $8.5 billion. Direct government payments are forecasted to decrease due to lower supplemental and ad hoc disaster assistance related to the COVID-19 pandemic in 2021. The

increase in crop receipts reflects increases in soybeans and corn receipts, while the increase in animals and animal products receipts reflects growth in cattle/calves, hogs and broilers receipts.

Expected agricultural commodity prices can influence production decisions of farmers and ranchers on planted/harvested acreage of crops or inventory of livestock and thus, affect the supply of agricultural commodities. Greater area of planted/harvested acreage and increased crop yields for some crops in recent years have contributed to increased supply, which exceeded demand. Also impacting yields are the growing conditions that are sensitive to weather conditions. Although not generally affected by weather, livestock and dairy prices are linked to crop prices as feed is a significant input cost to these producers.

Global economic conditions influence demand for food and agricultural products, which affects U.S. agricultural trade. Therefore, U.S. exports and imports shift to reflect changes in trade policies, world population and economic growth. Also impacting U.S. agricultural trade is global supplies and prices, changes in the value of the U.S. dollar and the government support for agriculture. Also impacting domestic and global demand are the uncertainties surrounding the COVID-19 pandemic, which have negatively impacted the demand and supply chains for agricultural products.

The following table sets forth the commodity prices per bushel for certain crops, by hundredweight for hogs, milk, and beef cattle, and by pound for broilers and turkeys from December 31, 2017 to December 31, 2020:

Commodity	12/31/20	12/31/19	12/31/18	12/31/17
Hogs	$49.10	$47.30	$43.40	$48.60
Milk	$18.50	$20.70	$16.60	$17.20
Broilers	$0.44	$0.45	$0.51	$0.50
Turkeys	$0.72	$0.62	$0.50	$0.53
Corn	$3.97	$3.71	$3.54	$3.23
Soybeans	$10.50	$8.70	$8.56	$9.30
Wheat	$5.43	$4.64	$5.28	$4.50
Beef Cattle	$108.00	$118.00	$117.00	$118.00

Geographic and commodity diversification across the Association coupled with existing government safety net programs, ad hoc support programs and additional government disaster aid payment for many borrowers help to mitigate the impact in this period of challenging agricultural conditions. While ad hoc government payments to offset the COVID-19 pandemic impacts on agriculture and higher grain prices were beneficial to many agriculture sectors in 2020, uncertainty remains in the outlook for agricultural producers for future periods. Further market disruption from the COVID-19 pandemic, weather or trade could negatively impact the Association's financial performance and credit quality, but it is expected to remain sound overall due to strong capital levels and favorable credit quality position at the end of 2020. Off-farm income support for many borrowers also helps to mitigate the impact of periods of less favorable agricultural conditions. However, agricultural borrowers who are more reliant on off-farm income sources may be more adversely impacted by a weakened general economy.

CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management must make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements. The following is a summary of certain critical policies:

- *Allowance for loan losses* — The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including: economic and political conditions, loan portfolio composition, credit quality, and prior loan loss experience.

  Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record; the prospects for support from any financially responsible guarantor; and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses encompasses various judgments, evaluations, and appraisals with respect to the loans and their underlying security that, by nature, contains elements of uncertainty and imprecision. Changes in the agricultural economy and their borrower repayment capacity will cause these various judgments, evaluations, and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

  Management considers the following factors in determining and supporting the levels of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties in farmland values, commodity prices, exports, government assistance programs, regional economic effects, and weather-related influences. Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include

impaired loans, other property owned (OPO), pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing, and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Association's results of operations.

ECONOMIC CONDITIONS

The COVID-19 pandemic created a global public health and economic crisis in 2020. Mandated closings crippled many US businesses and GDP fell precipitously, specifically in the second quarter. Overall GDP shrank by approximately 3.6% for the year. The housing and real estate market represented one of the few bright spots for the economy as historically low mortgage rates fueled strong demand. The overall US unemployment rate ended the year at 6.7% after peaking in April at 14.7%. South Carolina's unemployment rate ended 2020 at 4.4%.

The pandemic and other forces created a dynamic agricultural economy in 2020. Despite lingering trade tensions with the US, China ramped up grain purchases while domestic crop production estimates for corn and soybeans steadily declined. Good demand combined with smaller than expected crops created an unusual harvest time increase in commodity prices. The livestock industry experienced significant disruptions as the pandemic created supply chain issues for pork and poultry integrators. Despite growth in the housing market and high lumber prices, timber and logging operations were challenged financially as wet conditions in the latter half of the year limited access to many tracts and mills experienced extended shut down periods.

For the year ended December 31, 2020, the credit quality of the loan portfolio improved slightly in comparison to the previous year. Overall, the credit quality of the Association's portfolio is expected to be stable to slightly improving in 2021. The potential for improvement in credit quality is primarily attributed to the increase in commodity prices, which should positively affect profitability for row crop farmers in the Pee Dee Area.

During 2020, the Association continued to follow prudent lending practices and policies in order to strengthen earnings, capital and credit quality. With this course of action, the Association has the tools necessary to weather any difficulties that may come to fruition during 2021. The Association continues to serve our mission, promote agriculture, increase public knowledge of our services, and streamline delivery of our products to enhance our value to our customer owners.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans through numerous product types.

The gross loan volume of the Association as of December 31, 2020 was $536,728, an increase of $5,800 or 1.09 percent as compared to $530,928 at December 31, 2019, and an increase of $41,560 or 8.39 percent as compared to $495,168 at December 31, 2018. Net loans outstanding (gross loans net of the allowance for loan losses) on December 31, 2020 were $524,938, as compared to $518,630 at December 31, 2019, and $482,364 at December 31, 2018. Net loans accounted for 93.36 percent of total assets on December 31, 2020, as compared to 93.32 percent of total assets at December 31, 2019, and 92.95 percent of total assets at December 31, 2018.

The diversification of the Association's loan volume by type for each of the past three years at December 31 is shown in the below table.

	December 31,					
Loan Type	**2020**		**2019**		**2018**	
	(dollars in thousands)					
Real estate mortgage	$ 304,848	56.80 %	$ 282,859	53.28 %	$ 243,247	49.13 %
Production and intermediate term	187,711	34.97	205,283	38.66	216,817	43.79
Loans to cooperatives	4,727	0.88	4,619	0.87	3,152	0.64
Processing and marketing	21,579	4.02	19,000	3.58	16,054	3.24
Farm-related business	10,563	1.97	12,244	2.30	9,399	1.90
Power and water/waste disposal	–	–	1,520	0.29	1,757	0.35
Rural residential real estate	6,332	1.18	4,413	0.83	3,818	0.77
International	944	0.17	944	0.18	856	0.17
Lease receivables	24	0.01	46	0.01	68	0.01
Total	$ 536,728	100.00 %	$ 530,928	100.00 %	$ 495,168	100.00 %

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified. The following tables reflect the geographic locations served and the commodities financed for both core and participation purchased loans.

The geographic distribution of the loan volume by county for the past three years is as follows:

	December 31,		
County	2020	2019	2018
Clarendon	15.2%	14.7%	13.8%
Horry*	10.3	11.6	12.7
Darlington	8.9	8.6	8.6
Sumter	8.3	7.9	8.6
Florence*	8.2	8.1	7.3
Lee	6.5	5.7	6.2
Williamsburg	5.1	5.1	5.2
Dillon	4.1	4.5	5.0
Georgetown	3.5	3.3	3.2
Chesterfield	3.3	3.1	3.6
Marion	2.8	3.8	3.9
Marlboro	1.1	1.2	1.1
Other**	22.7	22.4	20.8
Total	100.0%	100.0%	100.0

**Branch Locations*
***The Other category above consists of loans originated and participated outside our territory.*

Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer.

The major commodities in the Association loan portfolio are shown below. The predominant commodities are field crops, poultry and eggs, forestry and logging, and cash grains, which constitute 64 percent of the entire portfolio.

	December 31,					
Commodity Group	2020		2019		2018	
	(dollars in thousands)					
Field Crops	$ 106,836	20 %	$ 118,068	22 %	$ 119,624	24 %
Poultry & Eggs	79.742	15	67,481	12	65,388	13
Forestry & Logging	78,761	15	86,069	16	61,711	12
Cash Grains	77,139	14	84,979	16	90,196	18
Miscellaneous	71,086	13	52,655	10	41,246	8
General Farms	38,456	7	35,132	6	32,613	6
Livestock & Animal Specialties	33,542	6	34,848	6	34,685	7
Agricultural Services	16,780	3	17,749	3	16,247	3
Horticultural Specialties	8,655	1	10,957	2	7,679	1
Rural Home Loans	6,936	1	5,053	1	4,518	1
Food Preparations	6,789	1	5,629	1	5,287	1
Mission Related Investments	6,380	1	6,600	1	6,235	1
Vegetables & Fruits	4,933	1	4,332	1	8,443	2
Tobacco Stem & Redry	662	1	663	1	513	1
Non-Farm Income	31	1	36	1	41	1
Rural Utilities	–	–	677	1	742	1
Total	$ 536,728	100 %	$ 530,928	100 %	$ 495,168	100 %

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association's largest concentrations based on risk volume are in cash grains, cotton, forestry, and contract poultry. Although a large percentage of the loan portfolio is concentrated in these industries, many of these operations are diversified within their enterprise and/or with crop production and additional sources of income, including non-farm businesses and salaried income, which reduces overall risk exposure. Demand for protein, prices of commodities, and international trade are some of the factors affecting these industries. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

Net loan volume was relatively stable for the twelve months ended December 31, 2020. Originated loan volume decreased due to significant paydowns on operating loans, but these reductions were partially offset by an increase in loans for poultry facilities and real estate. Participations purchased loan volume remained steady while participations sold loan volume fell. Due to effects of the pandemic, the general economy was turbulent in 2020. The agricultural economy was not spared from its impact as outbreaks in meat processing centers disrupted the supply chain for pork and poultry. Restaurant and school closures also cut demand for produce and dairy products. However, not all was bleak for agriculture in 2020 as rising commodity prices and government support increased overall farm income. Economic uncertainty continues as the effects of the pandemic linger; however, the agricultural economy is gradually improving and association volume is expected to remain stable within its twelve counties.

From 2017 through 2020, the Association had a slight increase in participation purchased loans resulting from net advances

and new loan volume. The Association utilizes purchased loans as a means to spread credit concentration risk and realize additional net interest and fee income. The strategy is to purchase accounts with acceptable credit risk to the Association.

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. During 2018 and 2019, the Association had an increase in participations sold loan volume resulting from net advances and new loan volume. However, in 2020, there was a decrease in participation sold loan volume, which resulted from the refinance and paydowns on a large originated sold loan and retaining the sold portion on the refinance of another large originated loan, along with payments on existing volume.

Loan Participations:	December 31, 2020	2019	2018
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 46,478	$ 45,357	$ 44,671
Participations Purchased – Non-FCS Institutions	–	–	–
Participations Sold	(23,144)	(35,418)	(35,051)
Total	$ 23,334	$ 9,939	$ 9,620

The Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests for the period ended December 31, 2020.

To mitigate risk of loan losses, the Association may enter into guarantee arrangements with certain Government Sponsored Enterprises (GSEs), including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. The Association had no loans in the Farmer Mac Long Term Stand-By program as of December 31, 2020, 2019, or 2018. The Association had other federal guaranteed loans in the amount of $4,462 at December 31, 2020, compared to $4,615 at December 31, 2019, and $4,759 at December 31, 2018. In addition, the Association had $87,955 in Farm Services Agency (FSA) guaranteed loans at December 31, 2020, compared to $76,913 at December 31, 2019, and $78,267 at December 31, 2018.

MISSION RELATED INVESTMENTS

During 2005, the FCA initiated an investment program to stimulate economic growth and development in rural areas. The FCA outlined a program to allow System institutions to hold such investments, subject to approval by the FCA on a case-by-case basis. FCA approved the Rural America Bonds pilot under the Mission Related Investments umbrella, as described below.

In October 2005, the FCA authorized AgFirst and the associations to make investments in Rural America Bonds under a three-year pilot period, and in October 2008 approved a continuation of the program. Effective December 31, 2014, the FCA concluded each pilot program approved as part of the Investment in Rural America program. Each institution participating in such programs may continue to hold its investment through the maturity dates for the investments, provided the institution continues to meet all approval conditions. Although the pilot programs are concluded, the FCA can consider future requests on a case-by-case basis. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, economic development, infrastructure, or community development and revitalization projects in rural areas. Examples would include investments in: value-added food and fiber processors/marketers, agribusiness, rural commercial enterprises, community services, schools, hospitals, and municipalities. These along with many other activities that sustain or revitalize rural communities and their economics would be a focus. The objective of this program was to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. These bonds may be classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. As of December 31, 2020, 2019, and 2018, the Association had $5,823, $6,036, and $6,235, respectively, in Rural America Bonds classified as Loans and $7,897, $8,993, and $9,268, respectively, in Rural American Bonds classified as Investments on the Consolidated Balance Sheets.

Refer to Note 4, *Investments,* of the Notes to the Consolidated Financial Statements for additional information regarding the Mission Related Investments.

INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for the purposes of reducing interest rate risk and managing surplus short-term funds. The Bank is responsible for approving the investment policies of the Association. The Bank annually reviews the investment portfolio of every Association that it funds.

During 2014, the Association judged that since there had been no significant sales of the available-for-sale securities for an extended period of time that a held-to-maturity classification more closely reflects the way in which it expects to benefit from the cash flows from those assets. As a result, on October 1, 2014, the Association transferred its remaining available-for-sale investments to a held-to-maturity classification.

For a debt security transferred into the held-to-maturity category, the use of fair value may create a premium or discount that, under amortized cost accounting, shall be amortized thereafter as an adjustment of yield. The investments were transferred to held-to-maturity at fair value with unrealized gains and losses recognized in Other Comprehensive Income (OCI). These OCI amounts will be amortized or accreted to interest income ratably over the remaining life of each individual security in accordance with generally accepted accounting principles (GAAP). The amortization of an unrealized holding gain or loss reported in OCI will offset or mitigate the effect on interest income of the amortization of any premium or discount recorded on transfer to held-to-maturity for each security.

During 2020, investment securities decreased by $1,096. The decrease was mainly due to a payoff in the amount of $832, normal payments in the amount of $249, and the amortization

of the net unrealized gain from the transfer to HTM in the amount of $18. These decreases were partially offset by the partial accretion to interest income of a fee on several investment securities in the amount of $3.

As of December 31, 2020, the majority of the Association's held-to-maturity Mission Related Investments are guaranteed; therefore the risk of credit loss to the Association is reduced. However, as of December 31, 2020, one security was rated as other assets especially mentioned (OAEM), which made this security an ineligible investment under FCA regulation. FCA has been notified of this downgrade as required.

No additional credit impairments were taken in 2018, 2019, or 2020 on any ineligible investment. During 2018, a final settlement payment for the disposition of collateral on a substandard security cleared the remaining credit impairment for that security in the amount of $2,024. No new bonds were added during 2018, 2019, or 2020.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association continues to review the credit quality of the loan portfolio on an ongoing basis. With the approval of the Association Board of Directors, the Association establishes underwriting standards and lending policies that provide direction to loan officers. Underwriting standards include, among other things, an evaluation of:

- Character – borrower integrity and credit history
- Capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income
- Collateral – protection for the lender in the event of default and a potential secondary source of repayment
- Capital – ability of the operation to survive unanticipated risks
- Conditions – intended use of the loan funds

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Long term real estate mortgage loans may be made only in amounts up to 85 percent of the original purchase price or appraised value, the lesser of the two, of the property taken as collateral or up to 97 percent of the purchase price or appraised value, the lesser of the two, if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage as outlined in the previous statement. Evaluations are required for loans with an amortization of 10 years and greater. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

We review the credit quality of the loan portfolio on an ongoing basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System, which is used by all Farm Credit System institutions. Below are the classification definitions.

- 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 facts, conditions, and values that make collection in full highly questionable.
- Loss – Assets are considered uncollectible.

The following table presents selected statistics related to the credit quality of loans including accrued interest at December 31.

Credit Quality	2020	2019	2018
Acceptable & OAEM	96.27%	96.41%	95.60%
Substandard	3.73%	3.59%	4.40%
Doubtful	–%	–%	–%
Total	100.00%	100.00%	100.00%

Nonperforming Assets

The Association's loan portfolio is divided into performing and high-risk categories. A Special Assets Management Department is responsible for servicing loans classified as high-risk. The high-risk assets, including accrued interest, are detailed below:

	December 31,		
High-risk Assets	**2020**	**2019**	**2018**
	(dollars in thousands)		
Nonaccrual loans	$ 11,428	$ 11,604	$ 19,078
Restructured loans	9,000	6,870	6,987
Accruing loans 90 days past due	–	–	–
Total high-risk loans	20,428	18,474	26,065
Other property owned	469	171	822
Total high-risk assets	$ 20,897	$ 18,645	$ 26,887
Ratios			
Nonaccrual loans to total loans	2.13%	2.19%	3.85%
High-risk assets to total assets	3.72%	3.35%	5.18%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased $176 or 1.52% in 2020. The decrease was mainly due to repayments, chargeoffs, the transfer of several core loans to other property owned, and the reinstatement of several core loans to accruing status. The decrease was partially offset by several core loans moving into nonaccrual status along with

several recoveries. Of the $11,428 in nonaccrual volume at December 31, 2020, $2,237 or 19.57% compared to 31.42% and 49.10% at December 31, 2019 and 2018, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

Loan restructuring is available to financially distressed borrowers. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the Association and the borrower.

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio. In addition, the Association has a reserve for unfunded commitments in the amount of $558, which resides in other liabilities.

The following table presents the activity in the allowance for loan losses for each of the past three years at December 31.

	Year Ended December 31,		
Allowance for Loan Losses Activity:	**2020**	**2019**	**2018**
	(dollars in thousands)		
Balance at beginning of year	$ 12,298	$ 12,804	$ 10,844
Charge-offs:			
Real estate mortgage	–	(287)	(299)
Production and intermediate-term	(2,544)	(4,192)	(189)
Agribusiness	(81)	–	–
Total charge-offs	(2,625)	(4,479)	(488)
Recoveries:			
Real estate mortgage	18	19	–
Production and intermediate-term	121	610	79
Agribusiness	2	–	–
Total recoveries	141	629	79
Net (charge-offs) recoveries	(2,484)	(3,850)	(409)
Provision for (reversal of allowance for) loan losses	1,976	3,344	2,369
Balance at end of year	$ 11,790	$ 12,298	$ 12,804
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.464)	(0.747)%	(0.085)%

The loan charge-offs were primarily associated with several large core loans. The recoveries were mainly attributed to several core loans.

Provision for loan loss decreased in 2020 mainly due to a decrease in specific reserves and less chargeoffs during the year.

The allowance for loan losses by loan type for each of the past three years at December 31 is shown in the below table.

	Year Ended December 31,			
	2020		**2019**	
	Amount	**%**	**Amount**	**%**
Real estate mortgage	$ 3,115	26.42%	$ 3,498	28.44%
Production and intermediate-term	7,427	63.00	8,042	65.39
Agribusiness	1,178	9.99	712	5.79
Power and water/waste disposal	38	0.32	18	0.15
Rural residential real estate	26	0.22	22	0.18
International	6	0.05	6	0.05
Lease receivables	–	–	–	–
Total	$ 11,790	100.00%	$ 12,298	100.00%

	For Year Ended December 31,	
	2018	
	Amount	**%**
Real estate mortgage	$ 3,124	24.40%
Production and intermediate-term	9,177	71.67
Agribusiness	463	3.62
Power and water/waste disposal	12	0.09
Rural residential real estate	19	0.15
International	9	0.07
Lease receivables	–	–
Total	$ 12,804	100.00%

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators is shown below:

Allowance for Loan Losses	December 31,		
as a Percentage of:	**2020**	**2019**	**2018**
Total loans	2.20%	2.32%	2.59%
Total high risk loans	57.71%	66.57%	49.12%
Nonaccrual loans	103.17%	105.98%	67.11%

Please refer to Note 3, *Loans and Allowance for Loan Losses*, of the Notes to the Consolidated Financial Statements for further information concerning the allowance for loan losses.

RESULTS OF OPERATIONS

Net income for the year ended December 31, 2020 totaled $12,961, an increase of $4,852 or 59.83 percent as compared to $8,109 for the same period of 2019, and an increase of $4,051 or 45.47 percent as compared to $8,910 for the same period of 2018.

Net Interest Income

Net interest income was $15,343, $14,242, and $12,622 in 2020, 2019, and 2018, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets, and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual Income	Total
		(dollars in thousands)		
12/31/20 - 12/31/19				
Interest income	$ 1,013	$ (2,999)	$ (354)	$ (2,340)
Interest expense	516	(3,957)	–	(3,441)
Change in net interest income	$ 497	$ 958	$ (354)	$ 1,101
12/31/19 - 12/31/18				
Interest income	$ 1,535	$ 1,490	$ 536	$ 3,561
Interest expense	960	981	–	1,941
Change in net interest income	$ 575	$ 509	$ 536	$ 1,620

* *Volume variances can be the result of increased/decreased loan volume or from changes in the percentage composition of assets and liabilities between periods.*

Net interest income increased by $1,101 or 7.73 percent in 2020 compared to 2019 and increased by $2,721 or 21.56 percent compared to 2018. The reason for the increase of $1,101 was due an increase in loan volume and a reduction in overall interest rates with a larger reduction in the direct note rate resulting in increased spreads. This increase in net interest income was partially offset by less income from liquidations and reinstatements of nonaccrual loans in 2020 when compared to 2019.

The Association's net interest income as a percentage of average earning assets was 2.83 percent on December 31, 2020, compared to 2.72 percent on December 31, 2019, and 2.55 percent on December 31, 2018.

Noninterest Income

Noninterest income for each of the three years ended December 31 is shown in the following table:

Noninterest Income	For the Year Ended December 31, 2020	2019	2018	Percentage Increase/(Decrease) 2020/2019	2019/2018
	(dollars in thousands)				
Loan fees	$ 1,112	$ 1,083	$ 914	2.68 %	18.49 %
Fees for financially related services	1,447	1,152	1,178	25.61	(2.21)
Lease Income	2	–	–	–	–
Patronage refund from other Farm Credit Institutions	8,968	6,107	6,655	46.85	(8.23)
Gains (losses) on sales of premises and equipment, net	(4)	37	(1)	(110.81)	138.00
Gains (losses) on other transactions	(49)	(317)	(10)	(84.54)	(130.70)
Insurance Fund refunds	96	98	277	(2.04)	(64.62)
Other noninterest income	2	1	151	100.00	(99.34)
Total noninterest income	$ 11,574	$ 8,161	$ 9,164	41.82%	(10.95)%

The increase in loan fees of $29 for the 2020 year resulted mainly from fees for new loan volume, which also increased in 2020. This increase was partially offset by the decrease in Rural America Bond fees, which is attributed to the reduction in bond volume.

The increase in fees for financially related services was $295. The increase was attributed to the addition of new policies along with Hurricane Endorsements, which were added to existing customers.

Regarding patronage refunds received from other Farm Credit Institutions, the Association received $3,527 in a patronage refund and $5,297 in a special distribution from the Bank for the year ended December 31, 2020, compared to $3,461 and $2,561 for 2019, and $3,197 and $3,364 for 2018, respectively.

The loss of $4 on sales of premises and equipment was mainly due to the disposition of an Association vehicle.

Losses on other transactions decreased $268 for the year ended December 31, 2020. This decrease resulted primarily from a decrease in provision expense on unfunded commitments in the amount of $231.

The decrease in insurance fund refunds was the result of an insurance refund of $96 that occurred in 2020 compared to an insurance refund of $98 received in 2019. These are typically nonrecurring one-time payments.

Noninterest Expense

Noninterest expense for each of the three years ended December 31 is shown in the following table:

Noninterest Expense	For the Year Ended December 31, 2020	2019	2018	Percentage Increase/(Decrease) 2020/2019	2019/2018
	(dollars in thousands)				
Salaries and employee benefits	$ 8,528	$ 7,552	$ 7,381	12.92 %	2.32 %
Occupancy and equipment	456	555	537	(17.84)	3.35
Insurance Fund premiums	366	340	314	7.65	8.28
(Gains) losses on other property owned, net	132	(52)	(43)	(353.85)	(20.93)
Other operating expenses	2,498	2,555	2,312	(2.23)	10.51
Total noninterest expense	$ 11,980	$ 10,950	$ 10,501	9.41 %	4.28 %

Noninterest expense increased $1,030 or 9.41 percent for December 31, 2020 as compared to the same period for 2019 and increased $1,479 or 14.08 percent compared to December 31, 2018.

Salaries and employee benefits increased in 2020, when compared with 2019, primarily due to merit increases, incentive payments, and retirement expenses.

Occupancy and equipment decreased 17.84 percent for the twelve months ended December 31, 2020, compared to the same period of 2019. This decrease was attributed mainly to reduced cost of space maintenance expenses and repairs, which resulted from the restrictions and limited facility access relating to the pandemic. Depreciation expense decreased due to a reclassification of some equipment to data processing, which is included in other operating expenses.

Insurance Fund premiums expense increased 7.65 percent for the twelve months ended December 31, 2020, compared to the same period of 2019. This was primarily due to increased loan volume along with an increase in the rate on accruing volume.

The Association had a net loss on other property owned of $132 for the twelve months ended December 31, 2020. This was mainly due to a writedown on an OPO account along with expenses relating to several OPO accounts.

Other operating expenses decreased by 2.23 percent for the twelve months ended December 31, 2020. This decrease was mainly due to a decrease in training, travel, and public member relations due to the restrictions surrounding the COVID-19 pandemic.

Income Taxes

The Association recorded no provision for income taxes for the year ended December 31, 2020, as compared to none for 2019, and a provision of $6 for 2018. Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

Key results of operations comparisons for each of the twelve months ended December 31 are shown in the following table:

Key Results of	For the 12 Months Ended		
Operations Comparisons	12/31/20	12/31/19	12/31/18
Return on average assets	2.34%	1.51%	1.76%
Return on average members' equity	13.78%	8.81%	9.89%
Net interest income as a percentage of average earning assets	2.83%	2.72%	2.55%
Net (charge-offs) recoveries to average loans	(0.464)%	(0.747)%	(0.085)%

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income. Our goals are to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. To meet these goals, the agricultural economy must improve and the Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and liability management. The notes payable are segmented into variable rate and fixed rate components. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

Total notes payable to the Bank at December 31, 2020 was $451,350, as compared to $453,022 at December 31, 2019, and $418,933 at December 31, 2018. The decrease of 0.37 percent when comparing December 31, 2020 to December 31, 2019 was mainly due to declining interest rates while loan volume increased. The increase of 8.14 percent when comparing December 31, 2019 to December 31, 2018 was mainly attributed to an increase in originated loan volume, which was partially offset by a decrease in investment securities. The average volume of outstanding notes payable to the Bank was $451,839, $436,776, and $406,778 for the years ended December 31, 2020, 2019, and 2018, respectively. Refer to Note 6, *Debt - Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses, and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association's ability to participate in the Farmer Mac, investments, and other secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association. The Association did not have any lines of credit from third party financial institutions as of December 31, 2020.

Funds Management

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the

asset/liability management process is to provide stable and rising earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable, and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate, the 30-day London Interbank Offered Rate (LIBOR), or the 90-day LIBOR. Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

The majority of the interest rate risk on the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify, and control risk associated with the loan portfolio.

Future of LIBOR

In 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced its intention to stop persuading or compelling the group of major banks that sustains LIBOR to submit rate quotations after 2021. As a result, it is uncertain whether LIBOR will continue to be quoted after 2021.

The Association has exposure to LIBOR, including in financial instruments that reference LIBOR that mature after 2021. The exposure arises from loans made to customers and the note payable to AgFirst Farm Credit Bank. Alternative reference rates that replace LIBOR may not yield the same or similar economic results over the lives of the financial instruments, which could adversely affect the value of, and return on, instruments held. The LIBOR transition could result in paying higher interest rates on current LIBOR-indexed Systemwide Debt Securities, adversely affect the yield on, and fair value of, loans and investments held that reference LIBOR, and increase the costs of or affect the ability to effectively use derivative instruments to manage interest rate risk. In addition, there could be other ramifications including those that may arise as a result of the need to redeem or terminate such instruments.

Due to the uncertainty regarding the transition of LIBOR-based financial instruments, including when it will happen, the manner in which an alternative reference rate will apply, and the mechanisms for transitioning LIBOR-based instruments to instruments with an alternative rate, the expected financial impact of the LIBOR transition cannot yet be reasonably estimated.

The FCA has issued guidelines for System institutions to follow as they prepare for the expected phase-out of LIBOR. The guidelines direct each System institution to develop a LIBOR transition plan designed to provide an orderly roadmap of actions that will reduce LIBOR exposure over time. The FCA identified the following as important considerations in the development of each entity's transition plan:

- a governance structure to manage the transition,
- an assessment of exposures to LIBOR,
- an assessment of the fallback provisions in contracts and the impact of a LIBOR phase-out under those provisions,
- the establishment of strategies for reducing each type of LIBOR exposure,
- an assessment of the operational processes that need to be changed,
- a communication strategy for customers and shareholders,
- the establishment of a process to stay abreast of industry developments and best practices,
- the establishment of a process to ensure a coordinated approach, to the extent possible, across the District, and
- a timeframe and action steps for completing key objectives.

On November 30, 2020, ICE Benchmark Administration (IBA) (the entity that is responsible for calculating LIBOR) announced that it will consult on its intention to cease the publication of the one-week and two-month USD LIBOR settings immediately following the LIBOR publication on December 31, 2021, and the remaining USD LIBOR settings immediately following the LIBOR publication on June 30, 2023. On the same day, the U.S. prudential regulators (the Federal Reserve Board, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, Consumer Financial Protection Bureau, National Credit Union Administration, and the Conference of the State Bank Supervisors) issued a statement encouraging banks to stop new USD LIBOR issuances by the end of 2021.

On December 18, 2020, the Farm Credit Administration issued a response and guidance noting their agreement with the statement from the U.S. prudential regulators and emphasizing that the IBA proposal is not in any way intended to slow down the transition.

The guidance noted that System institutions should adopt 2021 transition plans with steps and timeframes to accomplish the following:

- reduce LIBOR exposure;
- stop the inflow of new LIBOR volume;
- develop and implement loan products with alternative reference rates;
- assess and, if necessary, revise fallback language on legacy LIBOR indexed loans and contracts;
- adjust operational processes, including accounting and management information systems to handle alternative reference rates; and,
- communicate pending or imminent changes to customers, as appropriate.

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

At this time, it is not known when LIBOR will cease to be available or will become unrepresentative, or if the Secured Overnight Financing Rate (SOFR) will become the only benchmark to replace LIBOR. Because the Association engages in transactions involving financial instruments that

reference LIBOR, these developments could have a material impact on financial results, borrowers, investors, and counterparties.

The following is a summary of Association variable-rate financial instruments with LIBOR exposure at December 31, 2020:

(dollars in thousands)	Due in 2021	Due in 2022 and Thereafter	Total
Loans	$ 1,908	$ 29,783	$ 31,691
Total Assets	$ 1,908	$ 29,783	$ 31,691
Note Payable to AgFirst Farm Credit Bank	1,549	24,193	25,742
Total Liabilities	$ 1,549	$ 24,193	$ 25,742

The LIBOR transition plan includes implementing fallback language into variable-rate financial instruments maturing after December 31, 2021 which provides the ability to move these instruments to another index if the LIBOR market is no longer viable. At December 31, 2020, 73.68 percent of loans maturing after December 31, 2021 contain fallback language.

Relationship with the Bank

The Association's statutory obligation to borrow only from the Bank is discussed in Note 6, *Debt - Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements in this Annual Report.

The Bank's ability to access capital of the Association is discussed in Note 4, *Investments – Equity Investments in Other Farm Credit Institutions*, of the Notes to the Consolidated Financial Statements.

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding Sources" section of this Management's Discussion and Analysis and in Note 6, *Debt - Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements included in this Annual Report.

CAPITAL RESOURCES

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2020 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2020 increased 5.77 percent to $94,257 from the December 31, 2019 total of $89,115. At December 31, 2019, total members' equity increased 1.53 percent from the December 31, 2018 total of $87,775. The increase from prior year was primarily attributed to an increase in retained earnings as well as capital stock and was partially offset by a decrease in accumulated other comprehensive income.

Total capital stock and participation certificates were $1,761 on December 31, 2020, compared to $1,672 on December 31, 2019, and $1,562 on December 31, 2018. The increase from prior year was attributed to a net increase of $141 in unprotected capital stock and participation certificates. This increase was a result of growth in originated loan volume.

FCA sets regulatory capital requirements for System banks and associations. The capital regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. Regulatory ratios include common equity tier 1 (CET1) capital, tier 1 capital, and total capital risk-based ratios. The regulations also include a tier 1 leverage ratio and an unallocated retained earnings (URE) and URE equivalents (UREE) leverage ratio. The permanent capital ratio (PCR) remains in effect.

The ratios are calculated using three-month average daily balances, in accordance with FCA regulations, as follows:

- The CET1 capital ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- The total capital ratio is tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The tier 1 leverage ratio is tier 1 capital, divided by average total assets less regulatory deductions to tier 1 capital.
- The URE and UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average total assets less regulatory deductions to tier 1 capital.

For all periods represented, the Association exceeded minimum regulatory standards for all the ratios.

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2020	2019	2018
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	17.48%	16.72%	17.26%
Tier 1 Capital	6.0%	2.5%	8.5%	17.48%	16.72%	17.26%
Total Capital	8.0%	2.5%	10.5%	18.75%	17.99%	18.52%
Permanent Capital	7.0%	0.0%	7.0%	17.69%	16.91%	17.48%
Non-risk-adjusted ratios:						
Tier 1 Leverage	4.0%	1.0%	5.0%	16.27%	15.60%	16.03%
URE and UREE Leverage	1.5%	0.0%	1.5%	9.24%	8.27%	8.13%

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

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

The following sets forth regulatory Capital ratios as previously reported:

	Regulatory Minimum	2016	2015	2014	2013	2012
Permanent Capital Ratio	7.00%	19.42%	20.83%	21.11%	20.13%	20.22%
Total Surplus Ratio	7.00%	19.10%	20.45%	20.71%	19.69%	19.80%
Core Surplus Ratio	3.50%	16.46%	19.36%	18.38%	18.99%	17.19%

There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

See Note 7, *Members' Equity*, of the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) non-patronage participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of $12,281 in 2020, $7,527 in 2019, and $8,635 in 2018.

YOUNG, BEGINNING AND SMALL (YBS) FARMERS AND RANCHERS PROGRAM

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young*, Beginning** and Small*** farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit. At quarter end, the Association was meeting all of its YBS goals.

The following table outlines the loan volume and number of YBS loans in the loan portfolio for the Association.

	As of December 31, 2020 Number of Loans	Amount of Loans
Young	414	$48,524
Beginning	680	89,927
Small	987	99,240

Note: For purposes of the above table, a loan could be classified in more than one category, depending upon the characteristics of the underlying borrower.

The 2017 USDA Ag census data has been used as a benchmark to measure penetration of the Association's marketing efforts.

Slight differences between the Census and the Association's YBS information are as follows:

- The Census shows young farmers in a group up to age 34, whereas the Association's YBS information shows young farmers up to age 35.
- The Census shows years on present farm up to nine years, whereas the Association's YBS information shows 10 years or less for a beginning farmer.
- The Census data is based on number of farms, whereas the Association's YBS information is based on number of loans.

The 2017 census data indicated that within the Association's chartered territory (counties) there were 4,802 reported farmers

of which by definition 431 or 8.98 percent were Young, 1,344 or 27.99 percent were Beginning, and 4,232 or 88.13 percent were Small. Comparatively, as of December 31, 2020, the demographics of the Association's agricultural portfolio (by definition) are as follows: 414 or 13.13 percent were Young, 680 or 21.57 percent were Beginning, and 987 or 31.30 percent were Small.

The Association is committed to the future success of young, beginning, and small farmers.

- * Young farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.
- ** Beginning farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.
- *** Small farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than $250 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

REGULATORY MATTERS

On September 28, 2020, the Farm Credit Administration adopted a final rule governing the amortization limits for associations. This rule repeals regulatory provisions that impose amortization limits on certain loans and requires associations to address loan amortization in their credit underwriting standards and internal controls. The final rule became effective on November 19, 2020.

On August 25, 2020, the Farm Credit Administration adopted a final rule that amends the criteria to reinstate nonaccrual loans. This rule clarifies the factors that System institutions should consider when categorizing high-risk loans and placing them in nonaccrual status. The rule also revises the criteria by which loans are reinstated to accrual status, and revises the application of the criteria to certain loans in nonaccrual status to distinguish between the types of risk that cause loans to be placed in nonaccrual status. The final rule became effective on October 21, 2020.

On August 13, 2020, the Farm Credit Administration adopted a final rule that amends its investment regulations to allow associations to purchase and hold the portion of certain loans that non-System lenders originate and sell in the secondary market, and that the USDA unconditionally guarantees or insures as to the timely payment of principal and interest. The final rule became effective on December 4, 2020.

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 2, *Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements for recently issued accounting pronouncements.

The following Accounting Standards Updates (ASUs) were issued by the Financial Accounting Standards Board (FASB) but have not yet been adopted:

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

Disclosure Required by Farm Credit Administration Regulations

Description of Business

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered, and related Farm Credit organizations are incorporated herein by reference to Note 1, *Organization and Operations*, of the Consolidated Financial Statements included in this Annual Report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, borrower patronage or dividends, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, concentrations of assets, and changes in patronage policies or practices, if any, is incorporated in *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* included in this Annual Report.

The Association holds an equity investment in the following Unincorporated Business Entities (UBEs) as an equity interest holder of the limited liability company (LLC). The LLCs were organized for the stated purpose of holding and managing unusual or complex collateral associated with former loans, until such time as the assets may be sold or otherwise disposed of pursuant to the terms of Operating Agreements of the respective LLCs.

Each LLC held by the Association as of December 31, 2020, along with the entity type, the state in which it was established, and the ownership percentage is listed below.

Name	Entity Type	State	Entity Purpose	Ownership
A1 Sequatchie Point, LLC	LLC	South Carolina	Manage Acquired Property	27.28%
Pickens County Properties, LLC	LLC	South Carolina	Manage Acquired Property	27.25%

Description of Property

The following table sets forth certain information regarding the principal office properties of the reporting entity, all of which are located in South Carolina:

Location	Description	Form of Ownership
800 Woody Jones Boulevard Florence	Administrative/ Branch	Owned
1720 Mill Pond Road Conway	Branch	Owned

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 11, *Commitments and Contingencies*, of the Consolidated Financial Statements included in this Annual Report.

Description of Capital Structure

Information to be disclosed in this section is incorporated herein by reference to Note 7, *Members' Equity*, of the Consolidated Financial Statements included in this Annual Report.

Description of Liabilities

The description of liabilities, contingent liabilities, and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 6, 9, and 11 of the Consolidated Financial Statements included in this Annual Report.

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

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in this Annual Report and is to be disclosed in this section, is incorporated herein by reference.

Senior Officers

The following represents certain information regarding the senior officers of the Association and their business experience for the past five years:

Name and Title	Term of Office	Term of Office
Kathy S. Heustess, *President and Chief Executive Officer*	11/3/2011 – 12/31/20	Started career with ArborOne in 1989 as Controller. Served as Chief Financial Officer and assumed the role of Chief Operating Officer in 2008. In 2011, assumed the role of President. As of January 2012, assumed the role of Chief Executive Officer. Additionally, serves on a local university foundation board, the Palmetto Agribusiness Council board, and on the Farm Credit Council Services board, compensation committee (chair). Retired effective 12/31/20.
Bryant Sansbury, *Chief Operating Officer*	10/1/2019 – present	Started career with ArborOne in 2013 as a relationship manager. Served as Chief Relationship Manager before assuming his role as Chief Sales and Marketing Officer in July 2019. In October 2019, assumed the role of Chief Operating Officer. Additionally, serves as the commissioner for the Florence County Soil and Water Conservation District. As of 1/1/21, assumed the role of President and Chief Executive Officer.
Tammy G. Smith, *Chief Financial Officer and Treasurer*	1/1/2009 – present	Started career with ArborOne in 1991 as an accountant. Served as Controller and assumed the role of Chief Financial Officer in 2009 and Treasurer in 2010.
Sarah H. Jackson, *Chief Human Resources Officer and Corporate Secretary*	1/1/2018 – present	Started career with ArborOne in 2006 as a financial analyst. Served as a Senior Credit Analyst and Senior Human Resources Administrator / Corporate Secretary. In 2016, assumed the role of Director of Human Resources. As of January 2018, assumed the role of Chief Human Resources Officer.
Leah B. Hollifield, *Chief Credit Officer*	7/1/2019 – present	Started career with ArborOne in 2005 as a credit analyst. Served as the Credit Administrator and Director of Credit Administration before being named Chief Credit Officer in March 2019. As of July 2019, assumed a role on the executive leadership team.

The total amount of compensation (in whole dollars) earned by the CEO and senior officers (excluding the CEO) as a group during the years ended December 31, 2020, 2019, and 2018, is presented in the following tables. The first table presented illustrates actual compensation received in cash in the form of salary and incentive.

		Received Compensation		
Name of Individual or Number in Group	**Year**	**Salary**	**Incentive**	**Total Received Compensation (a)**
Kathy S. Heustess	2020	$ 368,284	$ 341,197	$ 709,481
Kathy S. Heustess	2019	$ 350,013	$ 168,040	$ 518,053
Kathy S. Heustess	2018	$ 330,013	$ 192,000	$ 522,013
5 Officers	2020	$ 846,098	$ 511,143	$ 1,357,241
7 Officers*	2019	$ 915,707	$ 475,455	$ 1,391,162
6 Officers	2018	$ 836,750	$ 378,930	$ 1,215,680

**The 2019 salary and incentive amounts disclosed in the above chart include a partial year for one officer.*

The table below discloses forms of perquisites and other noncash compensation and these items are described in detail in the subsequent paragraphs, which do not reflect actual cash compensation received by the CEO or officers presented. The total of all cash (a) and noncash (b) compensation for the CEO and officers is also presented here.

		Perquisites and Noncash Compensation			
Name of Individual or Number in Group	**Year**	**Change in Pension***	**Deferred / Perq. ****	**Total Perquisites and Noncash (b)**	**Total Received and Noncash Compensation (a+b)**
Kathy S. Heustess	2020	$ 797,240	$ 80,794	$ 878,034	$ 1,587,515
Kathy S. Heustess	2019	$ 492,401	$ 304,208	$ 796,609	$ 1,314,662
Kathy S. Heustess	2018	$ 62,574	$ 55,237	$ 117,811	$ 639,824
5 Officers	2020	$ 284,414	$ 226,008	$ 510,422	$ 1,867,663
7 Officers***	2019	$ 556,157	$ 65,444	$ 621,601	$ 2,012,763
6 Officers	2018	$ (32,039)	$ 80,040	$ 48,001	$ 1,263,681

** This figure is a third party actuarial determination of the change in the present value of the estimated pension cash flows for employees as of December 31, 2020. This does not represent any actual cash compensation provided to any employee but is simply a change in the calculation that is affected by a number of assumptions and inputs.*

***The Deferred/Perquisites amount disclosed in the above chart includes automobile allowance, deferred compensation, life insurance, and spousal travel.*

****The above chart includes a partial year for one officer who was not employed at December 31, 2019.*

The Association participates in District and multi-district sponsored benefit plans. Change in pension value is considered a part of compensation. The table below illustrates the present value of pension benefits for the CEO and other officers presented. This value represents the third party actuarial determination of the present value of the estimated pension cash flows for employees as of December 31, 2020. This does not represent any actual cash compensation provided to any employee but is simply a calculation that is affected by a number of assumptions and inputs. Actual funds received can differ based on how actual events compare to assumptions used in the calculation.

Pension Benefits Table
As of December 31, 2020

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2020
CEO:					
Kathy S. Heustess	2020	AgFirst Retirement Plan	32.92	$ 3,976,288	$ –
			Total	$ 3,976,288	$ –
Senior Officers					
* 1 Officer, excluding the CEO	2020	AgFirst Retirement Plan	30.83	$ 2,171,739	$ –
			Total	$ 2,171,739	$ –

** Four of the five senior officers are not part of the AgFirst Retirement Plan as they were employed after January 1, 2003.*

In addition to a base salary, all employees are eligible for additional compensation utilizing incentive plans. Specified employees are eligible for individual incentive plans. The executive management is eligible for a long-term incentive plan.

The incentive plans are designed to maximize financial performance while improving the Association's financial position and shareholder wealth providing employees with a competitive total compensation package. The plans' criteria include a balance of credit and financial results. The Board of Directors reviews and approves all the plans and authorizes all incentive payouts. At the discretion of the Board of Directors, an incentive was paid to all eligible staff based on financial results in 2020.

Pro-rata participation is granted to persons who terminate due to death or become disabled during the Plan Year. Employees who are in good standing and provide adequate notice and a mutually agreed upon retirement date may be granted pro-rata participation. No participation in any plan is allowed for persons involuntarily or voluntarily terminating employment prior to the fiscal year end or persons having unsatisfactory performance evaluations or on probation without prior approval from the CEO. New employees receive a pro rata share. The plans are paid based on percentage of salary, and will be paid from the Association's earnings. Bonuses are shown on the financial statements as an expense in the year earned, which may be different than the year of payment.

The 2020 Association plan for all employees included four tiers based on job functionality and three percentage levels of payout based upon a threshold, target, and maximum level. Threshold level is achieved by meeting required key performance indicators (KPIs). Target level is achieved once KPIs plus budgeted net income is met; while the maximum level is achieved by calculating a percentage of every dollar earned over budgeted pre-tax net income. The 2020 plan has "on/off" switches on payout to include Credit Quality, Return on Assets, and Capital ratio requirements to align the plan with the Association's business plan objectives and focus.

The individual incentive plans are specifically for relationship managers, crop insurance agents, and credit analysts to reward based on level of accomplishments and provide variable pay to maintain competitive compensation practices in the financial services industry. The Relationship Managers Plan includes criteria for average daily balance of loan volume outstanding, spreads, fee income, delinquency rate and credit quality. The Crop Insurance Agent Plan includes criteria for commissions collected and any loss/recovery on claims. The Credit Analyst Plan includes criteria for analyzed loan volume during the year, average spreads, fee income, and credit administration of B's and C's by volume.

The long-term plan is based on long-range financial results achieved over a three-year period. The objective of the plan is to reward and retain key decision makers as well as establish long-range goals to protect the Association's viability. Long-term incentive awards are earned over a three year performance period. The 2020 plan is subject to forfeiture based upon the Association's performance during the three-year performance period immediately following the plan year. Specifically, the long-term award will be reduced by an amount equal to one-half of the original award for each subsequent year during the two-year performance period in which any one of the performance thresholds are not achieved.

Disclosure of information on the total compensation paid during 2020 to any senior officer, or to any other individual included in the total, is available to shareholders upon request.

Directors

The following chart details the year the director began serving on the Board, the current term of expiration, and total cash compensation paid for 2020:

DIRECTOR	ORIGINAL YEAR OF ELECTION OR APPOINTMENT	CURRENT TERM EXPIRATION	TOTAL COMPENSATION PAID DURING 2020
William DuPree Atkinson, ***Chairman***	1999	2025	$39,900
John Lee Newman, ***Vice-Chairman***	2008	2026	29,500
Harry B. Durant	1997	2022	28,500
John E. Lay	2017	2023	32,000
J. Whit Player	2011	2023	31,100
Jimmy Poston	1994	2021	31,500
James M. Ward	1998	2024	25,900
Kelly O. Wiseman	2007	2025	33,700
			$252,100

The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years. Committee assignments can change during the year; therefore, service rendered may not cover the full 12 months of 2020.

William DuPree Atkinson, Chairman of the Board, is a self-employed farmer and owner of Atkinson Farms, LLC. He served on the board of Pee Dee Peanut, LLC (peanut purchasing) in which he is an officer and has part ownership interest. He also served on the State Peanut Board (peanuts), the State Tobacco Board (tobacco), Marion County Farm Bureau (insurance), and the AgFirst Farm Credit Bank Legislative Advisory Committee (agriculture). He served on the audit and compensation committees during 2020.

John Lee Newman, Vice Chairman of the Board, is a self-employed farmer and owner of Lee Newman Farms, JLN Services, LLC (planting services), and A & L Farms (poultry). He served on the board of Sumter County Farm Bureau (insurance) and the Sumter County Soil and Water Board (agriculture). He served as Chairman of the Compensation Committee and served on the credit committee during 2020.

Harry B. DuRant, is a self-employed farmer and part owner of Double D Farms. He served as an alternate to the AgFirst Farm Credit Bank District Advisory Committee (agriculture) and serves on the Clemson Extension Advisory Council (education). He served on the credit and governance committees during 2020.

John E. Lay, Chairman of the Credit Committee, retired from AgFirst Farm Credit Bank in February 2016 as Vice President and Treasurer after approximately 34 years of service. He also served on the governance committee during 2020.

J. Whit Player, is a self-employed farmer and owner of J. Whit Player Farm and Player's Stoney Run Farm as well as part owner of Canoe Slough, LLC. He is also a forestry technician with SC Forestry Commission. He served on the board of St. Charles Gin Co. (cotton ginning) in which he is an officer and has part ownership interest. He served on the board of the South Carolina Boll Weevil Eradication Program (agriculture), Pork Chop Welsh Scholarship Board (education), the Carolina Cotton Growers Cooperative Board (cotton), and the AgFirst Farm Credit Bank District Advisory Committee (agriculture). He also served on the audit committee and as Chairman of the Governance Committee during 2020.

Jimmy Poston, is a self-employed farmer and part owner of Triple P Farms. He is also a part owner and board member of Carolina Funeral Home, LLC (death care). He served on the board of Florence County Soil and Water Conservation District (agriculture), the South Carolina Tobacco Grower Association (tobacco) and an alternate to the AgFirst Farm Credit Legislative Advisory Committee (agriculture). He also served on the compensation, credit, and governance committees during 2020.

James M. Ward, is a self-employed farmer and partner of Mickey Ward Farms. He served on the audit and compensation committees during 2020.

Kelly O. Wiseman, Chairman of the Audit Committee, is a certified public accountant with approximately 15 years experience with a major accounting firm. She also served on the compensation committee during 2020.

Subject to approval by the Board, the Association may allow directors honoraria of $1,200 for attendance at meetings or special assignments, except for the Chairman of the Board who receives $1,450. Directors are paid honoraria $500 for committee meetings and $600 if chairman of the committee. Outside directors are paid a $750 quarterly retainer. The directors are paid honoraria on a quarterly basis and includes a payment for each month within the quarter that does not have a scheduled board or special meeting as well. Total compensation paid to directors as a group was $252,100 for 2020. No director received more than $5,000 in non-cash compensation during the year.

The following chart details the number of meetings, other activities, and additional compensation paid for other activities (if applicable) for each director:

Name of Director	Days Served: Regular Board Meetings	Days Served: Other Official Activities*	Committee Assignments**	Comp. Paid for other Activities*
William Dupree Atkinson, *Chairman*	5	26	Audit Committee, Compensation Committee, and AgFirst Farm Credit Bank Legislative Advisory Committee	$ 22,500
John Lee Newman, *Vice-Chairman and Chairman of Compensation Committee*	5	18	Credit Committee and Chairman of the Compensation Committee	15,100
Harry B. Durant	5	17	Credit Committee, Governance Committee, and as Alternate to the AgFirst Farm Credit Bank District Advisory Committee.	14,100
John E. Lay, *Chairman of Credit Committee*	5	17	Governance Committee and Chairman of the Credit Committee	17,600
J. Whit Player, *Chairman of Governance Committee*	5	20	Audit Committee, AgFirst Farm Credit Bank District Advisory Committee, and Chairman of the Governance Committee	16,700
Jimmy Poston,	5	23	Compensation Committee, Governance Committee, Credit Committee, and as Alternate to the AgFirst Farm Credit Bank Legislative Advisory Committee.	17,100
James M. Ward	5	16	Audit Committee and Compensation Committee	11,500
Kelly O. Wiseman, *Chairman of Audit Committee*	5	20	Compensation Committee and Chairman of the Audit Committee	19,300
				$ 133,900

** Includes board committee meetings and other board activities other than regular board meetings.*
*** Assignments are for the full 12 months of 2020 unless otherwise noted.*

Directors and senior officers are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars, laundry, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to shareholders of the Association upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $69,447 for 2020, $77,254 for 2019, and $76,497 for 2018.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 10, *Related Party Transactions,* of the Consolidated Financial Statements included in this Annual Report. There have been no transactions between the Association and senior officers or directors which require reporting per FCA regulations.

Transactions Other Than Loans

There have been no transactions that occurred at any time during the year ended December 31, 2020, between the Association and senior officers or directors, their immediate family members or any organizations with which they are affiliated, which require reporting per FCA regulations. Some directors have transacted business with borrowers of the Association. These transactions were performed at market prices, at an arm's length, and in the normal course of business. There were no transactions with any senior officer or director related to the purchase or retirement of preferred stock of the Association for the year ended December 31, 2020.

Involvement in Certain Legal Proceedings

There were no matters which came to the attention of management or the Board of Directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

Relationship with Independent Auditors

There were no changes in or material disagreements with our independent auditors on any matter of accounting principles or financial statement disclosure during this period.

Aggregate fees paid by the Association for services rendered by its independent auditors for the year ended December 31, 2020 were as follows:

	2020
Independent Auditors	
PricewaterhouseCoopers LLP	
Audit services	$ 78,773
Total	$ 78.773

Audit service fees were for the annual audit of the consolidated financial statements.

Consolidated Financial Statements

The Consolidated Financial Statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 11, 2021 and the report of management, which appear in this Annual Report, are incorporated herein by reference. Copies of the Association's Annual and unaudited Quarterly reports are available upon request free of charge by calling 1-800-741-7332, or writing Sarah Jackson, Corporate Secretary, ArborOne, ACA, P.O. Box 3699, Florence, SC 29502, or accessing the website, ***www.arborone.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's website within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

Since 1972, Farm Credit Administration (FCA) regulations have required that borrower information be held in strict confidence by Farm Credit System (FCS) institutions, their directors, officers, and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA Board adopted a policy that requires FCS institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the Annual Report. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

Credit and Services to Young, Beginning, and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products

Information to be disclosed in this section is incorporated herein by reference to the similarly named section in the *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* section included in this Annual Report to the shareholders.

Shareholder Investment

Shareholder investment in the Association could be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's website at ***www.agfirst.com***. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report, which is available on the Bank's website, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

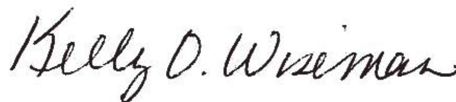
Report of the Audit Committee

The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of **ArborOne, ACA** (Association) and in the opinion of the Board of Directors, each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

The Committee has adopted a written charter that has been approved by the Board of Directors. The Committee has reviewed and discussed the Association's audited financial statements with management, which has primary responsibility for the financial statements.

PricewaterhouseCoopers LLP (PwC), the Association's independent auditors for 2020, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards AU-C 260 and 265 *(The Auditor's Communication With Those Charged With Governance)*. The Committee discussed with PwC its independence from ArborOne, ACA. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Association's Annual Report for 2020. The foregoing report is provided by the following independent directors, who constitute the Committee:



Kelly O. Wiseman
Chairman of the Audit Committee

Members of Audit Committee

William Dupree Atkinson
John Lee Newman
Jimmy Poston

March 11, 2021

Report of Independent Auditors

To the Board of Directors and Management of ArborOne, ACA

We have audited the accompanying consolidated financial statements of ArborOne, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2020, 2019 and 2018, and the related consolidated statements of comprehensive income, of changes in members' equity and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Association's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ArborOne, ACA and its subsidiaries as of December 31, 2020, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Atlanta, Georgia
March 11, 2021

PricewaterhouseCoopers LLP, 1075 Peachtree St NE #2600, Atlanta, GA 30309
T: (678) 419-1000, F: (678) 419 1239, www.pwc.com/us

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2020	2019	2018
Assets			
Cash	**$ 2**	$ 113	$ 48
Investments in debt securities:			
Held to maturity (fair value of $9,153, $9,663, and $9,612, respectively)	**7,897**	8,993	9,268
Loans	**536,728**	530,928	495,168
Allowance for loan losses	**(11,790)**	(12,298)	(12,804)
Net loans	**524,938**	518,630	482,364
Accrued interest receivable	**8,461**	9,891	8,962
Equity investments in other Farm Credit institutions	**6,074**	6,315	5,945
Premises and equipment, net	**3,675**	3,973	3,972
Other property owned	**469**	171	822
Accounts receivable	**9,149**	6,270	6,697
Other assets	**1,578**	1,385	885
Total assets	**$ 562,243**	$ 555,741	$ 518,963
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 451,350**	$ 453,022	$ 418,933
Accrued interest payable	**832**	1,256	1,215
Patronage refunds payable	**6,726**	6,539	7,238
Accounts payable	**1,036**	420	322
Other liabilities	**8,042**	5,389	3,480
Total liabilities	**467,986**	466,626	431,188
Commitments and contingencies (Note 11)			
Members' Equity			
Protected borrower stock	**—**	52	52
Capital stock and participation certificates	**1,761**	1,620	1,510
Retained earnings			
Allocated	**63,700**	59,046	58,095
Unallocated	**28,864**	28,416	28,044
Accumulated other comprehensive income (loss)	**(68)**	(19)	74
Total members' equity	**94,257**	89,115	87,775
Total liabilities and members' equity	**$ 562,243**	$ 555,741	$ 518,963

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2020	2019	2018
Interest Income			
Loans	**$ 26,412**	$ 28,680	$ 24,861
Investments	**453**	525	782
Total interest income	**26,865**	29,205	25,643
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**11,522**	14,963	13,021
Net interest income	**15,343**	14,242	12,622
Provision for loan losses	**1,976**	3,344	2,369
Net interest income after provision for loan losses	**13,367**	10,898	10,253
Noninterest Income			
Loan fees	**1,112**	1,083	914
Fees for financially related services	**1,447**	1,152	1,178
Lease income	**2**	—	—
Patronage refunds from other Farm Credit institutions	**8,968**	6,107	6,655
Gains (losses) on sales of premises and equipment, net	**(4)**	37	(1)
Gains (losses) on other transactions	**(49)**	(317)	(10)
Insurance Fund refunds	**96**	98	277
Other noninterest income	**2**	1	151
Total noninterest income	**11,574**	8,161	9,164
Noninterest Expense			
Salaries and employee benefits	**8,528**	7,552	7,381
Occupancy and equipment	**456**	555	537
Insurance Fund premiums	**366**	340	314
(Gains) losses on other property owned, net	**132**	(52)	(43)
Other operating expenses	**2,498**	2,555	2,312
Total noninterest expense	**11,980**	10,950	10,501
Income before income taxes	**12,961**	8,109	8,916
Provision for income taxes	**—**	—	6
Net income	**$ 12,961**	$ 8,109	$ 8,910
Other comprehensive income net of tax			
Unrealized gains (losses) on investments:			
Other-than-temporarily impaired	**—**	—	95
Not other-than-temporarily impaired	**(18)**	(18)	(187)
Employee benefit plans adjustments	**(31)**	(75)	41
Other comprehensive income (Note 7)	**(49)**	(93)	(51)
Comprehensive income	**$ 12,912**	$ 8,016	$ 8,859

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2017	$ 53	$ 1,413	$ 57,424	$ 27,867	$ 125	$ 86,882
Comprehensive income				8,910	(51)	8,859
Protected borrower stock issued/(retired), net	(1)					(1)
Capital stock/participation certificates issued/(retired), net		97				97
Patronage distribution						
Cash				(6,167)		(6,167)
Nonqualified retained earnings			2,468	(2,468)		—
Retained earnings retired			(1,865)			(1,865)
Patronage distribution adjustment			68	(98)		(30)
Balance at December 31, 2018	$ 52	$ 1,510	$ 58,095	$ 28,044	$ 74	$ 87,775
Cumulative effect of change in accounting principle				1		1
Comprehensive income				8,109	(93)	8,016
Capital stock/participation certificates issued/(retired), net		110				110
Patronage distribution						
Cash				(5,413)		(5,413)
Nonqualified retained earnings			2,114	(2,114)		—
Retained earnings retired			(1,387)			(1,387)
Patronage distribution adjustment			224	(211)		13
Balance at December 31, 2019	$ 52	$ 1,620	$ 59,046	$ 28,416	$ (19)	$ 89,115
Comprehensive income				**12,961**	**(49)**	**12,912**
Protected borrower stock issued/(retired), net	**(52)**					**(52)**
Capital stock/participation certificates issued/(retired), net		**141**				**141**
Patronage distribution						
Cash				**(5,493)**		**(5,493)**
Nonqualified retained earnings			**6,788**	**(6,788)**		**—**
Retained earnings retired			**(2,370)**			**(2,370)**
Patronage distribution adjustment			**236**	**(232)**		**4**
Balance at December 31, 2020	**$ —**	**$ 1,761**	**$ 63,700**	**$ 28,864**	**$ (68)**	**$ 94,257**

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2020	2019	2018
Cash flows from operating activities:			
Net income	**$ 12,961**	$ 8,109	$ 8,910
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**329**	393	393
Amortization (accretion) of net deferred loan costs (fees)	**(80)**	(38)	(60)
Premium amortization (discount accretion) on investments in debt securities	**(3)**	(2)	(6)
Provision for loan losses	**1,976**	3,344	2,369
(Gains) losses on other property owned	**65**	(133)	(125)
(Gains) losses on sales of premises and equipment, net	**4**	(37)	1
(Gains) losses on other transactions	**49**	317	10
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(149)**	—	—
Proceeds from sales of loans held for sale, net	**149**	—	—
(Increase) decrease in accrued interest receivable	**1,430**	(929)	(1,797)
(Increase) decrease in accounts receivable	**(2,879)**	427	2,042
(Increase) decrease in other assets	**(193)**	(499)	38
Increase (decrease) in accrued interest payable	**(424)**	41	233
Increase (decrease) in accounts payable	**616**	98	(240)
Increase (decrease) in other liabilities	**2,573**	1,517	(2,886)
Total adjustments	**3,463**	4,499	(28)
Net cash provided by (used in) operating activities	**16,424**	12,608	8,882
Cash flows from investing activities:			
Proceeds from maturities of or principal payments received on investments in debt securities, held to maturity	**1,081**	259	4,955
Net (increase) decrease in loans	**(8,703)**	(40,407)	(35,760)
(Increase) decrease in equity investments in other Farm Credit institutions	**241**	(370)	(21)
Purchases of premises and equipment	**(63)**	(394)	(566)
Proceeds from sales of premises and equipment	**28**	37	—
Proceeds from sales of other property owned	**136**	1,619	223
Net cash provided by (used in) investing activities	**(7,280)**	(39,256)	(31,169)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**(1,672)**	34,089	26,535
Protected borrower stock retired	**(52)**	—	(1)
Capital stock and participation certificates issued/(retired), net	**141**	110	97
Patronage refunds and dividends paid	**(5,302)**	(6,099)	(2,612)
Retained earnings retired	**(2,370)**	(1,387)	(1,865)
Net cash provided by (used in) financing activities	**(9,255)**	26,713	22,154
Net increase (decrease) in cash	**(111)**	65	(133)
Cash, beginning of period	**113**	48	181
Cash, end of period	**$ 2**	$ 113	$ 48
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	**$ —**	$ 29	$ —
Receipt of property in settlement of loans	**499**	864	137
Estimated cash dividends or patronage distributions declared or payable	**5,493**	5,413	6,167
Change in unrealized gains (losses) on investments	**(18)**	(18)	(92)
Employee benefit plans adjustments (Note 9)	**31**	75	(41)
Supplemental information:			
Interest paid	**$ 11,946**	$ 14,922	$ 12,788

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** ArborOne, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers. The territory of the Association extends across a diverse agricultural region of the following 12 counties in northeastern South Carolina: *Chesterfield, Clarendon, Darlington, Dillon, Florence, Georgetown, Horry, Lee, Marion, Marlboro, Sumter, and Williamsburg.*

The Association is a lending institution in the Farm Credit System (System), a nationwide network of cooperatively owned banks and associations. It was established by Acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The System specializes in providing financing and related services to qualified borrowers for agricultural and rural purposes.

The nation is served by three Farm Credit Banks (FCBs) and one Agricultural Credit Bank (ACB), (collectively, the System Banks) each of which has specific lending authorities within its chartered territory. The ACB also has additional specific nationwide lending authorities.

Each System Bank serves one or more Agricultural Credit Associations (ACAs) that originate long-term, short-term and intermediate-term loans, Production Credit Associations (PCAs) that originate and service short- and intermediate-term loans, and/or Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans. These associations borrow a majority of the funds for their lending activities from their related bank. System Banks are also responsible for supervising the activities of associations within their districts. AgFirst (Bank) and its related associations (Associations or District Associations) are collectively referred to as the AgFirst District. The District Associations jointly own substantially all of AgFirst's voting stock. As of year-end, the District consisted of the Bank and nineteen District Associations. All nineteen were structured as ACA holding companies, with PCA and FLCA subsidiaries. FLCAs are tax-exempt while ACAs and PCAs are taxable.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of the associations and certain actions by the associations are subject to the prior approval of the FCA and the supervising bank.

The Farm Credit Act also established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured Debt), (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary uses by the Insurance Corporation to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank has been required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its average adjusted outstanding Insured Debt until the assets in the Insurance Fund reach the "secure base amount." The secure base amount is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of the aggregate obligations as the Insurance Corporation at its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums and may return excess funds above the secure base amount to System institutions. However, it must still ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

B. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity and financial services that can be offered by the Association, and the persons eligible to borrow.

The Associations borrow from the Bank and in turn may originate and service short- and intermediate-term loans to their members, as well as long-term real estate mortgage loans.

The Bank primarily lends to the District Associations in the form of a line of credit to fund the Associations' earning assets. These lines of credit (or Direct Notes) are collateralized by a pledge of substantially all of each Association's assets. The terms of the Direct Notes are governed by a General Financing Agreement (GFA) between the Bank and Association. Each advance is structured such that the principal cash flow, repricing characteristics, and underlying index (if any) of the advance match those of the assets being funded. By match-funding the Association loans, the Associations' exposure to interest rate risk is minimized.

In addition to providing funding for earning assets, the Bank provides District Associations with banking and support services such as accounting, human resources, information systems, and marketing. The costs of these support services are included in the cost of the Direct Note, or in some cases billed directly to certain Associations that use a specific service.

The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments, and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or

harvesters of aquatic products, rural residents, and farm-related businesses.

The Association may sell to any System borrowing member, on an optional basis, credit or term life insurance appropriate to protect the loan commitment in the event of death of the debtor(s). The sale of other insurance necessary to protect a member's farm or aquatic unit is permitted, but limited to hail and multi-peril crop insurance, and insurance necessary to protect the facilities and equipment of aquatic borrowers.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Association conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported on the Consolidated Financial Statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results may differ from these estimates.

The accompanying consolidated financial statements include the accounts of the ACA, PCA and FLCA.

Certain amounts in the prior year financial statements may have been reclassified to conform to the current period presentation. Such reclassifications had no effect on net income or total members' equity of prior years.

A. **Cash:** Cash represents cash on hand and on deposit at banks. At the most recent year-end, the Association held no cash in excess of insured amounts.

B. **Loans and Allowance for Loan Losses:** The Association is authorized to make long-term real estate loans with maturities of 5 to 40 years and certain short- and intermediate-term loans for agricultural production or operating purposes with maturities of not more than 10 years.

Loans are carried at their principal amount outstanding adjusted for charge-offs, premiums, discounts, deferred loan fees or costs, and derivative instruments and hedging valuation adjustments, if any. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. The difference in the total investment in a loan and its principal amount may be deferred as part of the carrying amount of the loan and the net difference amortized over the life of the related loan as an adjustment to interest income using the effective interest method.

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan remains contractually past due until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full. A formal restructuring may also cure a past due status.

Loans are generally classified as nonaccrual when principal or interest is delinquent for 90 days (unless adequately collateralized and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in the prior year).

When loans are in nonaccrual status, payments are applied against the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments received in cash may be recognized as interest income. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, and the loan is not classified "doubtful" or "loss." Loans are charged off at the time they are determined to be uncollectible.

In cases where the Association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. A restructured loan constitutes a troubled debt restructuring (TDR) if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified. The allowance for loan losses is a valuation account used to reasonably estimate loan losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss.

The Association considers the following factors, among others, when determining the allowance for loan losses:

- Changes in credit risk classifications
- Changes in collateral values
- Changes in risk concentrations
- Changes in weather-related conditions
- Changes in economic conditions

A specific allowance may be established for impaired loans under Financial Accounting Standards Board (FASB) guidance on accounting by creditors for impairment of a loan. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

A general allowance may also be established under FASB guidance on accounting for contingencies, to reflect estimated probable credit losses inherent in the remainder of the loan portfolio which excludes impaired loans considered under the specific allowance discussed above. A general allowance can be evaluated on a pool basis for those loans with similar characteristics. The level of the general allowance may be based on management's best estimate of the likelihood of default adjusted for other relevant factors reflecting the current environment.

The credit risk rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The Association uses a two-dimensional loan rating model based on internally generated combined system risk rating guidance that incorporates a 14-point risk rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the ratings carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows significantly as a loan moves from a 9 to 10 (other assets especially mentioned) and grows more significantly as a loan moves to a substandard viable level of 11. A substandard non-viable rating of 12 indicates that the probability of default is almost certain. Loans risk rated 13 or 14 are generally written off.

C. **Loans Held for Sale:** Loans are classified as held for sale when there is intent to sell the loans within a reasonable period of time. Loans intended for sale are carried at the lower of cost or fair value.

D. **Other Property Owned (OPO):** Other property owned, consisting of real estate, personal property, and other assets acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income, expenses, and carrying value adjustments related to other property owned are included in Gains (Losses) on Other Property Owned, Net on the Consolidated Statements of Comprehensive Income.

E. **Premises and Equipment:** Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized. Premises and equipment are evaluated for impairment whenever events or circumstances indicate that the carrying value of the asset may not be recoverable.

From time to time, assets classified as premises and equipment are transferred to held for sale for various reasons. These assets are carried in Other Assets at the lower of the recorded investment in the asset or fair value less estimated cost to sell based upon the property's appraised value at the date of transfer. Any write-down of property held for sale is recorded as a loss in the period identified.

F. **Investments:** The Association may hold investments as described below.

Equity Investments in Other Farm Credit System Institutions

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

Investments in Debt Securities

The Association holds certain investment securities, as permitted under the FCA regulations. These investments are classified based on management's intention on the date of purchase and are generally recorded on the Consolidated Balance Sheets as securities on the trade date.

Securities for which the Association has the intent and ability to hold to maturity are classified as held-to-maturity (HTM) and carried at amortized cost. Investment securities classified as available-for-sale (AFS) are carried at fair value with net unrealized gains and losses included as a component of Other Comprehensive Income (OCI). Purchase premiums and discounts are amortized or accreted ratably over the term of the respective security using the interest method. The amortization of premiums on certain purchased callable debt securities that have explicit, noncontingent call features and that are callable at fixed prices on preset dates are amortized to the earliest call date.

For any debt security transferred into the HTM category, the use of fair value may create a premium or discount that, under amortized cost accounting, shall be amortized or accreted thereafter as an adjustment of yield. OCI amounts

resulting from the transfer are also amortized or accreted to interest income ratably over the remaining life of each individual security as an adjustment of yield.

Other Equity Investments
Any equity securities with a readily determinable fair value are carried at fair value with unrealized gains and losses included in earnings. Equity securities without a readily determinable fair value are carried at cost less any impairment.

The Association holds minority equity interests in a Rural Business Investment Company (RBIC). This investment is carried at cost less any impairment, plus or minus adjustments resulting from any observable price changes.

Other Investments
As discussed in Note 8, certain investments, consisting primarily of mutual funds, are held in trust and investment accounts and are reported at fair value. Holding period gains and losses are included within Noninterest Comprehensive Income on the Consolidated Statements of Income and the balance of these investments is included in Other Assets on the accompanying Consolidated Balance Sheets.

Impairment
The Association reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. As mentioned above, changes in the fair value of AFS investments are reflected in OCI, unless the investment is deemed to be other-than-temporarily impaired (OTTI). Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a *credit loss*). If the Association intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but the Association does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and is separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is charged to current earnings, with the remainder of the loss amount recognized in OCI.

In subsequent periods, if the present value of cash flows expected to be collected is less than the amortized cost basis, the Association will record additional OTTI and adjust the yield of the security prospectively. The amount of total OTTI for an AFS security that previously was impaired is determined as the difference between its carrying amount prior to the determination of OTTI and its fair value.

At acquisition, and at each reporting date thereafter, the appropriateness of the classification of the Association's investment securities is reassessed. If an entity does not have the intent and ability to hold securities to maturity, their classification as HTM would not be appropriate. Likewise, if securities are reclassified from AFS in one period, judgment is required in determining when circumstances have changed such that management can assert with a greater degree of credibility that it now has the intent and ability to hold securities to maturity. These determinations are made by management on a case by case basis. The transfer of a security between categories of investments is accounted for at fair value.

Investment Income
Interest on investment securities, including amortization of premiums and accretion of discounts, is included in Interest Income. Realized gains and losses from the sales of investment securities are recognized in current earnings using the specific identification method.

Dividends from Investments in Other Farm Credit Institutions are generally recorded as patronage income and included in Noninterest Income.

G. **Voluntary Advance Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as other liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.

H. **Employee Benefit Plans:** The Association participates in District and multi-district sponsored benefit plans. These plans may include defined benefit final average pay retirement, defined benefit cash balance retirement, defined benefit other postretirement benefits, and defined contribution plans.

Defined Contribution Plans
Substantially all employees are eligible to participate in the defined contribution Farm Credit Benefit Alliance (FCBA) 401(k) Plan, subsequently referred to as the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. Company contributions to the 401(k) Plan are expensed as funded.

The Association also offers a FCBA supplemental 401(k) plan for certain key employees. This plan is nonqualified. Company contributions are expensed as funded.

Additional information may be found in Note 9.

Multiemployer Defined Benefit Plans
Substantially all employees hired before January 1, 2003 may participate in the AgFirst Farm Credit Retirement Plan (Plan), which is a defined benefit plan and considered multiemployer under FASB accounting guidance. The Plan is noncontributory and includes eligible Association and District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes.

In addition to pension benefits, the Association provides certain health care and life insurance benefits for retired employees (other postretirement benefits) through a multi-district sponsored retiree healthcare plan. Substantially all employees are eligible for those benefits when they reach early retirement age while working for the Association. Authoritative accounting guidance requires the accrual of the expected cost of providing these benefits to an employee, their beneficiaries and covered dependents during the years the employee renders service necessary to become eligible for benefits.

Since the foregoing plans are multiemployer, the Association does not apply the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements. Rather, the effects of this guidance are reflected in the Annual Information Statement of the Farm Credit System.

Additional information may be found in Note 9 and in the Notes to the Annual Information Statement of the Farm Credit System.

Single Employer Defined Benefit Plan
The Association also sponsors a single employer defined benefit supplemental retirement plan for certain key employees. This plan is nonqualified; therefore, the associated liabilities are included on the Association's Consolidated Balance Sheets in Other Liabilities.

The foregoing defined benefit plan is considered single employer, therefore the Association applies the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements. See Note 9 for additional information.

I. **Income Taxes:** The Association evaluates tax positions taken in previous and current years according to FASB guidance. A tax position can result in a permanent reduction of income taxes payable, a deferral of income taxes otherwise currently payable to future years, or a change in the expected realizability of deferred tax assets. The term tax position also encompasses, but is not limited to, an entity's status, including its status as a pass-through entity or tax-exempt entity.

The Association is generally subject to Federal and certain other income taxes. As previously described, the ACA holding company has two wholly-owned subsidiaries, a PCA and a FLCA. The FLCA subsidiary is exempt from federal and state income taxes as provided in the Farm Credit Act. The ACA holding company and the PCA subsidiary are subject to federal, state and certain other income taxes.

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income.

The Association accounts for income taxes under the asset and liability method, recognizing deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

The Association records a valuation allowance at the balance sheet dates against that portion of the Association's deferred tax assets that, based on management's best estimates of future events and circumstances, more likely than not (a likelihood of more than 50 percent) will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the expected patronage program, which reduces taxable earnings.

J. **Due from AgFirst Farm Credit Bank:** The Association records patronage refunds from the Bank and certain District Associations on an accrual basis.

K. **Valuation Methodologies:** FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. This guidance also 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. It prescribes three levels of inputs that may be used to measure fair value.

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

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

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

The Association may use the Bank, internal resources or third parties to obtain fair value prices. Quoted market prices are generally used when estimating fair values of any assets or liabilities for which observable, active markets exist.

A number of methodologies may be employed to value items for which an observable active market does not exist. Examples of these items include: impaired loans, other property owned, and certain derivatives, investment securities and other financial instruments. Inputs to these valuations can involve estimates and assumptions that require a substantial degree of judgment. Some of the

assumptions used include, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing, and liquidation values. The use of different assumptions could produce significantly different asset or liability values, which could have material positive or negative effects on results of operations.

Additional information may be found in Note 8.

L. **Off-Balance-Sheet Credit Exposures:** The credit risk associated with commitments to extend credit and letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee.

Letters of credit are commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party.

M. **Revenue Recognition:** The Association generates income from multiple sources.

Financial Instruments
The largest source of revenue for the Association is interest income. Interest income is recognized on an accrual basis driven by nondiscretionary formulas based on written contracts, such as loan agreements or securities contracts. Credit-related fees, including letter of credit fees, finance charges and other fees are recognized in Noninterest Income when earned. Other types of noninterest revenues, such as service charges, professional services and broker fees, are accrued and recognized into income as services are provided and the amount of fees earned is reasonably determinable.

Contracts with Customers
The Association maintains contracts with customers to provide support services in various areas such as accounting, lending transactions, consulting, insurance, and information technology. As most of the contracts are to provide access to expertise or system capacity that the Association maintains, there are no material incremental costs to fulfill these contracts that should be capitalized. The Association also does not generally incur costs to obtain contracts. Revenue is recognized to reflect the transfer of goods and services to customers in an amount equal to the consideration the Association receives or expects to receive.

Gains and Losses from Nonfinancial Assets
Any gains or losses on sales of Premises and Equipment and OPO are included as part of Noninterest Income or Expense. These gains and losses are recognized, and the nonfinancial asset is derecognized, when the Association has entered into a valid contract with a noncustomer and transferred control of the asset. If the criteria to meet the definition of a contract have not been met, the Association does not derecognize the nonfinancial asset and any consideration received is recognized as a liability. If the criteria for a contract are subsequently met, or if the consideration received is or becomes nonrefundable, a gain or loss may be recognized at that time.

N. **Leases:** A contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration is generally considered a lease.

Lessee
Contracts entered into are evaluated at inception to determine if they contain a lease. Assets and liabilities are recognized on the Consolidated Balance Sheets to reflect the rights and obligations created by any contracts that do. These contracts are then classified as either operating or finance leases.

In the course of normal operations, the Association may enter into leases for various business purposes. Generally, leases are for terms of three to five years and may include options to extend or terminate the arrangement. Any options are assessed individually to determine if it is reasonably certain they will be exercised.

Right-of-use (ROU) assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make the payments arising from the lease. ROU assets and lease liabilities are initially recognized based on the present value of lease payments over the lease term. Lease expense for operating leases is recognized on a straight-line basis over the lease term. Lease expense for finance leases is recognized on a declining basis over the lease term.

ROU assets are included on the Consolidated Balance Sheets in Premises and Equipment for finance leases and Other Assets for operating leases. Lease liabilities are included in Other Liabilities on the Consolidated Balance Sheets. Leases with an initial term of 12 months or less are not recorded on the Consolidated Balance Sheets and lease expense is recognized over the lease term.

Lessor
The Association may act as lessor in certain contractual arrangements which relate to office space in an owned property and are considered operating leases. Generally, leases are for terms of three to five years and may include options to extend or terminate the arrangement.

Lease income is recognized on a straight-line basis over the lease term. Lease and nonlease components are accounted for separately on the Consolidated Statements of Comprehensive Income. Any initial direct costs are deferred and recognized as an expense over the lease term on the same basis as lease income. Any taxes assessed by a governmental authority are excluded from consideration as variable payments.

Lease receivables and income are included in Accounts Receivable on the Consolidated Balance Sheets and Lease Income on the Consolidated Statements of Comprehensive Income.

O. **Accounting Standards Updates (ASUs):** In October 2020, the FASB issued ASU 2020-10 Codification Improvements. The amendments represent changes to

clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The Update moves or references several disclosure requirements from Section 45 - Other Presentation Matters to section 50 - Disclosures. It also includes minor changes to other guidance such as Cash Balance Plans, Unusual or Infrequent Items, Transfers and Servicing, Guarantees, Income Taxes, Foreign Currency, Imputation of Interest, Not For Profits and Real Estate Projects. The amendments are not expected to have any impact on the statements of financial condition and results of operations.

In March 2020, the FASB issued ASU 2020-04 Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. In response to concerns about structural risks of interbank offered rates (IBORs), and, particularly, the risk of cessation of the London Interbank Offered Rate (LIBOR), regulators around the world have undertaken reference rate reform initiatives to identify alternative reference rates that are more observable or transaction-based and less susceptible to manipulation. The amendments in this Update provide optional guidance for a limited time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The amendments provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The guidance applies only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. The expedients and exceptions do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022. The amendments are elective and were effective upon issuance for all entities. Adoption of this guidance had no impact on the statements of financial condition and results of operations.

In January 2020, the FASB issued ASU 2020-01 Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815. The amendments clarify certain interactions between the guidance on accounting for certain equity securities under Topic 321, the guidance on accounting for investments under the equity method in Topic 323, and the guidance in Topic 815. The Update could change how an entity accounts for an equity security under the measurement alternative or a forward contract or purchased option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method of accounting or the fair value option in accordance with Topic 825, Financial Instruments. The amendments are intended to improve current GAAP by reducing diversity in practice and increasing comparability of the accounting for these interactions. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted, including early adoption in an interim period. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

In December 2019, the FASB issued ASU 2019-12 Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The amendments simplify the accounting for income taxes by removing the following exceptions:

- Exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items (for example, discontinued operations or other comprehensive income),
- Exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment,
- Exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary, and
- Exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year.

The amendments also simplify the accounting for income taxes by doing the following:

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

For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

In April 2019, the FASB issued ASU 2019-04 Codification Improvements to Topic 326 Financial Instruments—Credit Losses, Topic 815 Derivatives and Hedging, and Topic 825 Financial Instruments. The amendments in this Update clarify, correct, and improve various aspects of the guidance in the following Updates related to financial

instruments: ASU 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities, ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and ASU 2017-12 Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The items addressed generally are not expected to have a significant effect on current accounting practice or to create a significant administrative cost for most entities. For entities that have not yet adopted the amendments in ASU 2016-13, the effective dates and transition requirements for the amendments related to this Update are the same as the effective dates and transition requirements in ASU 2016-13. The transition adjustment includes adjustments made as a result of an entity developing or amending its accounting policy upon adoption of the amendments in this Update for determining when accrued interest receivables are deemed uncollectible and written off. For entities that have adopted the amendments in ASU 2017-12 as of the issuance date of this Update, the effective date is as of the beginning of the first annual period beginning after the issuance date of this Update. For those entities, early adoption is permitted, including adoption on any date on or after the issuance of this Update. The amendments in this Update related to ASU 2016-01 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim period following the issuance of this Update as long as the entity has adopted all of the amendments in ASU 2016-01. The amendments in this Update should be applied on a modified-retrospective transition basis by means of a cumulative-effect adjustment to the opening retained earnings balance in the statement of financial position as of the date an entity adopted all of the amendments in ASU 2016-01. Adoption of the guidance related to ASU 2016-01 and ASU 2017-12 did not have an impact on the statements of financial condition or results of operations. Any possible effects the Credit Losses guidance may have on the statements of financial condition and results of operations will be evaluated along with implementation of ASU 2016-13.

In August 2018, the FASB issued ASU 2018-15 Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this Update. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period, for all entities. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The guidance was adopted on a prospective basis in 2020 and did not have a material impact on the statements of financial condition or results of operations.

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

Recent Accounting Policy Elections: The Association made certain accounting policy elections related to the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and recent guidance and clarifications from the Farm Credit Administration (FCA).

In March 2020, the CARES Act, which provides relief from certain requirements under GAAP, was signed into law. Section 4013 of the CARES Act grants entities temporary relief from the accounting and disclosure requirements for troubled debt restructurings (TDRs) and if certain criteria are met these loan modifications may not need to be classified as TDRs. In response to the CARES Act, the FCA issued guidance allowing for temporary relief from accounting and disclosure requirements for TDRs. The Association adopted this relief for qualifying loan modifications. This TDR guidance applied to modifications made beginning March 1, 2020 and terminated on December 31, 2020.

The Association elected to account for lease concessions related to the effects of the COVID-19 pandemic, consistent with how those concessions would be accounted for under Topic 842, as though enforceable rights and obligations for those concessions had previously existed, regardless of whether they explicitly exist in the contract. Consequently, the Association will not analyze each contract to determine whether enforceable rights and obligations for concessions exist in the contract and will not apply the lease modification guidance in Topic 842 to those contracts. Any deferrals will be accounted for as variable lease payments. This election, from the FASB Staff interpretation of Topic 842, is only available for concessions related to the effects of the COVID-19 pandemic that do not result in a substantial increase in the rights of the lessor or the obligations of the lessee.

Note 3 — Loans and Allowance for Loan Losses

For a description of the Association's accounting for loans, including impaired loans, and the allowance for loan losses, see Note 2 subsection B above.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation which exists in outstanding loans. The Association manages credit risk associated with lending activities through an assessment of the credit risk

profile of an individual obligor. The Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the Board of Directors.

The credit risk management process begins with an analysis of the obligor's credit history, repayment capacity and financial position. Repayment capacity focuses on the obligor's ability to repay the obligation based on cash flows from operations or other sources of income, including non-farm income. Real estate mortgage loans must be secured by first liens on the real estate collateral. As required by FCA regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures.

The credit risk rating process for loans uses a two-dimensional structure, incorporating a 14-point probability of default scale (see further discussion in Note 2 subsection B above) and a separate scale addressing estimated percentage loss in the event of default. The loan rating structure incorporates borrower risk and transaction risk. Borrower risk is the risk of loss driven by factors intrinsic to the borrower. The transaction risk or facility risk is related to the structure of a credit (tenor, terms, and collateral).

The Association's loan portfolio, which includes purchased interests in loans, has been segmented by the following loan types as defined by the FCA:

- Real estate mortgage loans — loans made to full-time or part-time farmers secured by first lien real estate mortgages with maturities from five to thirty years. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.
- Production and intermediate-term loans — loans to full-time or part-time farmers that are not real estate mortgage loans. These loans fund eligible financing needs including operating inputs (such as labor, feed, fertilizer, and repairs), livestock, living expenses, income taxes, machinery or equipment, farm buildings, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically one year or less.
- Intermediate-term loans are made for a specific term, generally greater than one year and less than or equal to ten years.
- Loans to cooperatives — loans for any cooperative purpose other than for communication, power, and water and waste disposal.
- Processing and marketing loans — loans for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.
- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.
- Rural residential real estate loans — loans made to individuals, who are not farmers, to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans are generally secured by a first lien on the property.
- Communication loans — loans primarily to finance rural communication providers.
- Power loans — loans primarily to finance electric generation, transmission and distribution systems serving rural areas.
- Water and waste disposal loans — loans primarily to finance water and waste disposal systems serving rural areas.
- International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.
- Lease receivables — the net investment for all finance leases such as direct financing leases, leveraged leases, and sales-type leases.
- Other (including Mission Related) — additional investments in rural America approved by the FCA on a program or a case-by-case basis. Examples of such investments include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans follows:

	December 31,		
	2020	2019	2018
Real estate mortgage	$ 304,848	$ 282,860	$ 243,247
Production and intermediate-term	187,711	205,283	216,817
Loans to cooperatives	4,727	4,618	3,152
Processing and marketing	21,579	19,000	16,054
Farm-related business	10,563	12,244	9,399
Power and water/waste disposal	–	1,520	1,757
Rural residential real estate	6,332	4,413	3,818
International	944	944	856
Lease receivables	24	46	68
Total loans	$ 536,728	$ 530,928	$ 495,168

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

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are collateralized by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in loan to value ratios in excess of the regulatory maximum.

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

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

December 31, 2019	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 12,961	$ 11,174	$ –	$ –	$ –	$ –	$ 12,961	$ 11,174
Production and intermediate-term	15,320	2,648	–	–	–	–	15,320	2,648
Loans to cooperatives	4,289	–	–	–	–	–	4,289	–
Processing and marketing	10,049	21,596	–	–	–	–	10,049	21,596
Farm-related business	262	–	–	–	–	–	262	–
Power and water/waste disposal	1,530	–	–	–	–	–	1,530	–
International	946	–	–	–	–	–	946	–
Total	$ 45,357	$ 35,418	$ –	$ –	$ –	$ –	$ 45,357	$ 35,418

December 31, 2018	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 10,447	$ 11,094	$ –	$ –	$ –	$ –	$ 10,447	$ 11,094
Production and intermediate-term	20,342	2,782	–	–	–	–	20,342	2,782
Loans to cooperatives	2,496	–	–	–	–	–	2,496	–
Processing and marketing	7,422	21,175	–	–	–	–	7,422	21,175
Farm-related business	1,342	–	–	–	–	–	1,342	–
Power and water/waste disposal	1,765	–	–	–	–	–	1,765	–
International	857	–	–	–	–	–	857	–
Total	$ 44,671	$ 35,051	$ –	$ –	$ –	$ –	$ 44,671	$ 35,051

The recorded investment in a 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.

The following table shows loans and related accrued interest classified under the FCA Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of:

	December 31,		
	2020	2019	2018
Real estate mortgage:			
Acceptable	93.39%	91.56%	91.39%
OAEM	4.68	6.62	5.59
Substandard/doubtful/loss	1.93	1.82	3.02
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	86.57%	84.80%	86.44%
OAEM	6.86	9.01	6.93
Substandard/doubtful/loss	6.57	6.19	6.63
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	94.53%	93.75%	100.00%
OAEM	5.47	6.25	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	58.53%	80.53%	96.67%
OAEM	24.49	9.81	3.33
Substandard/doubtful/loss	16.98	9.66	–
	100.00%	100.00%	100.00%

	December 31,		
	2020	2019	2018
Power and water/waste disposal:			
Acceptable	–%	44.50%	100.00%
OAEM	–	55.50	–
Substandard/doubtful/loss	–	–	–
	–%	100.00%	100.00%
Rural residential real estate:			
Acceptable	95.66%	93.49%	92.18%
OAEM	4.34	6.50	7.82
Substandard/doubtful/loss	–	0.01	–
	100.00%	100.00%	100.00%
International:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Lease receivables:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Total loans:			
Acceptable	90.45%	88.73%	89.70%
OAEM	5.82	7.68	5.91
Substandard/doubtful/loss	3.73	3.59	4.39
	100.00%	100.00%	100.00%

The following tables provide an aging analysis of past due loans and related accrued interest as of:

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

	December 31, 2019				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 898	$ 2,850	$ 3,748	$ 283,787	$ 287,535
Production and intermediate-term	1,267	4,519	5,786	204,246	210,032
Loans to cooperatives	–	–	–	4,622	4,622
Processing and marketing	–	–	–	19,226	19,226
Farm-related business	–	–	–	12,367	12,367
Power and water/waste disposal	–	–	–	1,521	1,521
Rural residential real estate	101	–	101	4,327	4,428
International	–	–	–	945	945
Lease receivables	–	–	–	47	47
Total	$ 2,266	$ 7,369	$ 9,635	$ 531,088	$ 540,723

	December 31, 2018				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 1,219	$ 2,640	$ 3,859	$ 243,164	$ 247,023
Production and intermediate-term	1,893	4,655	6,548	214,996	221,544
Loans to cooperatives	–	–	–	3,155	3,155
Processing and marketing	–	–	–	16,280	16,280
Farm-related business	–	–	–	9,512	9,512
Power and water/waste disposal	–	–	–	1,758	1,758
Rural residential real estate	151	–	151	3,681	3,832
International	–	–	–	858	858
Lease receivables	–	–	–	68	68
Total	$ 3,263	$ 7,295	$ 10,558	$ 493,472	$ 504,030

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

	December 31,		
	2020	2019	2018
Nonaccrual loans:			
Real estate mortgage	$ 4,206	$ 4,282	$ 5,266
Production and intermediate-term	7,204	7,322	13,812
Farm-related business	18	–	–
Total	$ 11,428	$ 11,604	$ 19,078
Accruing restructured loans:			
Real estate mortgage	$ 6,273	$ 6,421	$ 6,655
Production and intermediate-term	2,703	402	264
Lease receivables	24	47	68
Total	$ 9,000	$ 6,870	$ 6,987
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 20,428	$ 18,474	$ 26,065
Other property owned	469	171	822
Total nonperforming assets	$ 20,897	$ 18,645	$ 26,887
Nonaccrual loans as a percentage of total loans	2.13%	2.19%	3.85%
Nonperforming assets as a percentage of total loans and other property owned	3.89%	3.51%	5.42%
Nonperforming assets as a percentage of capital	22.17%	20.92%	30.63%

The following table presents information relating to impaired loans (including accrued interest) as defined in Note 2:

	December 31,		
	2020	2019	2018
Impaired nonaccrual loans:			
Current as to principal and interest	$ 2,237	$ 3,646	$ 9,368
Past due	9,191	7,958	9,710
Total	$ 11,428	$ 11,604	$ 19,078
Impaired accrual loans:			
Restructured	$ 9,000	$ 6,870	$ 6,987
90 days or more past due	–	–	–
Total	$ 9,000	$ 6,870	$ 6,987
Total impaired loans	$ 20,428	$ 18,474	$ 26,065
Additional commitments to lend	$ 528	$ 207	$ 298

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

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

	December 31, 2019			Year Ended December 31, 2019	
Impaired Loans	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 3,465	$ 3,566	$ 404	$ 3,960	$ 198
Production and intermediate-term	3,964	4,076	699	4,531	226
Total	$ 7,429	$ 7,642	$ 1,103	$ 8,491	$ 424
With no related allowance for credit losses:					
Real estate mortgage	$ 7,238	$ 8,117	$ –	$ 8,273	$ 413
Production and intermediate-term	3,760	7,547	–	4,296	215
Rural residential real estate	–	10	–	–	–
Lease receivables	47	46	–	53	3
Total	$ 11,045	$ 15,720	$ –	$ 12,622	$ 631
Total:					
Real estate mortgage	$ 10,703	$ 11,683	$ 404	$ 12,233	$ 611
Production and intermediate-term	7,724	11,623	699	8,827	441
Rural residential real estate	–	10	–	–	–
Lease receivables	47	46	–	53	3
Total	$ 18,474	$ 23,362	$ 1,103	$ 21,113	$ 1,055

	December 31, 2018			Year Ended December 31, 2018	
Impaired Loans	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 4,399	$ 4,468	$ 415	$ 4,286	$ 93
Production and intermediate-term	8,605	8,669	2,650	8,385	182
Total	$ 13,004	$ 13,137	$ 3,065	$ 12,671	$ 275
With no related allowance for credit losses:					
Real estate mortgage	$ 7,522	$ 9,362	$ –	$ 7,331	$ 159
Production and intermediate-term	5,471	6,228	–	5,331	116
Rural residential real estate	–	14	–	–	–
Lease receivables	68	68	–	66	1
Total	$ 13,061	$ 15,672	$ –	$ 12,728	$ 276
Total:					
Real estate mortgage	$ 11,921	$ 13,830	$ 415	$ 11,617	$ 252
Production and intermediate-term	14,076	14,897	2,650	13,716	298
Rural residential real estate	–	14	–	–	–
Lease receivables	68	68	–	66	1
Total	$ 26,065	$ 28,809	$ 3,065	$ 25,399	$ 551

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivables	Total
Activity related to the allowance for credit losses:								
Balance at December 31, 2019	$ 3,498	$ 8,042	$ 712	$ 18	$ 22	$ 6	$ –	$ 12,298
Charge-offs	–	(2,544)	(81)	–	–	–	–	(2,625)
Recoveries	18	121	2	–	–	–	–	141
Provision for loan losses	(403)	1,810	545	20	4	–	–	1,976
Loan type reclassification	2	(2)	–	–	–	–	–	–
Balance at December 31, 2020	$ 3,115	$ 7,427	$ 1,178	$ 38	$ 26	$ 6	$ –	$ 11,790
Balance at December 31, 2018	$ 3,124	$ 9,177	$ 463	$ 12	$ 19	$ 9	$ –	$ 12,804
Charge-offs	(287)	(4,192)	–	–	–	–	–	(4,479)
Recoveries	19	610	–	–	–	–	–	629
Provision for loan losses	642	2,447	249	6	3	(3)	–	3,344
Balance at December 31, 2019	$ 3,498	$ 8,042	$ 712	$ 18	$ 22	$ 6	$ –	$ 12,298
Balance at December 31, 2017	$ 2,879	$ 7,432	$ 377	$ 14	$ 22	$ 9	$ 111	$ 10,844
Charge-offs	(299)	(189)	–	–	–	–	–	(488)
Recoveries	–	79	–	–	–	–	–	79
Provision for loan losses	544	1,855	86	(2)	(3)	–	(111)	2,369
Balance at December 31, 2018	$ 3,124	$ 9,177	$ 463	$ 12	$ 19	$ 9	$ –	$ 12,804
Allowance on loans evaluated for impairment:								
Individually	$ 394	$ 361	$ –	$ –	$ –	$ –	$ –	$ 755
Collectively	2,721	7,066	1,178	38	26	6	–	11,035
Balance at December 31, 2020	$ 3,115	$ 7,427	$ 1,178	$ 38	$ 26	$ 6	$ –	$ 11,790
Individually	$ 404	$ 699	$ –	$ –	$ –	$ –	$ –	$ 1,103
Collectively	3,094	7,343	712	18	22	6	–	11,195
Balance at December 31, 2019	$ 3,498	$ 8,042	$ 712	$ 18	$ 22	$ 6	$ –	$ 12,298
Individually	$ 415	$ 2,650	$ –	$ –	$ –	$ –	$ –	$ 3,065
Collectively	2,709	6,527	463	12	19	9	–	9,739
Balance at December 31, 2018	$ 3,124	$ 9,177	$ 463	$ 12	$ 19	$ 9	$ –	$ 12,804
Recorded investment in loans evaluated for impairment:								
Individually	$ 10,479	$ 9,907	$ 18	$ –	$ –	$ –	$ 24	$ 20,428
Collectively	298,691	181,433	37,252	–	6,352	945	–	524,673
Balance at December 31, 2020	$ 309,170	$ 191,340	$ 37,270	$ –	$ 6,352	$ 945	$ 24	$ 545,101
Individually	$ 10,703	$ 7,724	$ –	$ –	$ –	$ –	$ 47	$ 18,474
Collectively	276,832	202,308	36,215	1,521	4,428	945	–	522,249
Balance at December 31, 2019	$ 287,535	$ 210,032	$ 36,215	$ 1,521	$ 4,428	$ 945	$ 47	$ 540,723
Individually	$ 11,921	$ 14,076	$ –	$ –	$ –	$ –	$ 68	$ 26,065
Collectively	235,102	207,468	28,947	1,758	3,832	858	–	477,965
Balance at December 31, 2018	$ 247,023	$ 221,544	$ 28,947	$ 1,758	$ 3,832	$ 858	$ 68	$ 504,030

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

To mitigate risk of loan losses, the Association may enter into guarantee arrangements with certain GSEs, including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was $92,417, $81,528, and $83,026 at December 31, 2020, 2019, and 2018, respectively. Fees paid for such guarantee commitments totaled less than $1 for each of the years presented. These amounts are classified as noninterest expense.

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

	Year Ended December 31, 2020				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 79	$ –	$ 79	
Production and intermediate-term	–	2,612	413	3,025	
Total	$ –	$ 2,691	$ 413	$ 3,104	
Post-modification:					
Real estate mortgage	$ –	$ 98	$ –	$ 98	$ –
Production and intermediate-term	–	2,720	413	3,133	–
Total	$ –	$ 2,818	$ 413	$ 3,231	$ –

	Year Ended December 31, 2019				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 193	$ –	$ 193	
Production and intermediate-term	–	397	–	397	
Total	$ –	$ 590	$ –	$ 590	
Post-modification:					
Real estate mortgage	$ –	$ 206	$ –	$ 206	$ –
Production and intermediate-term	–	414	–	414	
Total	$ –	$ 620	$ –	$ 620	$ –

	Year Ended December 31, 2018				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Production and intermediate-term	$ –	$ 2,412	$ –	$ 2,412	
Total	$ –	$ 2,412	$ –	$ 2,412	
Post-modification:					
Production and intermediate-term	$ –	$ 2,415	$ –	$ 2,415	$ –
Total	$ –	$ 2,415	$ –	$ 2,415	$ –

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

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

	Year Ended December 31,		
Defaulted Troubled Debt Restructurings	**2020**	**2019**	**2018**
Real estate mortgage	$ –	$ 190	$ –
Production and intermediate-term	329	282	96
Total	$ 329	$ 472	$ 96

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

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2020	**2019**	**2018**	**2020**	**2019**	**2018**
Real estate mortgage	$ 6,463	$ 6,610	$ 6,655	$ 190	$ 189	$ –
Production and intermediate-term	3,438	1,037	3,663	735	635	3,399
Lease receivables	24	47	68	–	–	–
Total loans	$ 9,925	$ 7,694	$ 10,386	$ 925	$ 824	$ 3,399
Additional commitments to lend	$ –	$ –	$ –			

Note 4 — Investments

Investments in Debt Securities

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have different eligibility requirements. At December 31, 2020, the Association held one RAB with a fair value totaling $185 whose credit quality had deteriorated beyond the program limits.

A summary of the amortized cost and fair value of HTM investment securities follows:

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

	December 31, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 8,993	$ 670	$ –	$ 9,663	5.90%

	December 31, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 9,268	$ 350	$ (6)	$ 9,612	5.90 %

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

	December 31, 2020		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	–	–	–
After five years through ten years	–	–	–
After ten years	7,897	9,153	5.77
Total	$ 7,897	$ 9,153	5.77%

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

An investment is considered impaired if its fair value is less than its cost. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified. The Association had no investments in a continuous unrealized loss position for the years ended December 31, 2020 and December 31, 2019.

	December 31, 2018			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ –	$ –	$ 460	$ (6)

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

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

Based on the results of all analyses, the Association has recognized no credit-related other-than-temporary impairment for the years presented and no accretion to interest income of previously recognized credit impairment was recorded. The final settlement payment for the disposition of collateral for one substandard security in December of 2018 cleared the remaining credit impairment in the amount of $2,024.

Since the Association does not intend to sell these other-than-temporarily impaired debt securities and is not more likely than not to be required to sell before recovery, the total other-than temporary impairment is reflected on the Consolidated Statements of Income with: (1) a net other-than-temporary impairment amount related to estimated credit loss, and (2) an amount relating to all other factors, recognized as a reclassification to or from Other Comprehensive Income.

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

The following schedule details the activity related to cumulative credit losses on investments recognized in earnings:

	For the Year Ended December 31,		
	2020	2019	2018
Amount related to credit loss-beginning balance	$ –	$ –	$ 2,024
Additions for initial credit impairments	–	–	–
Additions for subsequent credit impairments	–	–	–
Reductions for increases in expected cash flows	–	–	–
Reductions for securities sold, settled, or matured	–	–	(2,024)
Amount related to credit loss-ending balance	–	–	–
Life to date incurred credit losses			–
Remaining unrealized credit losses	$ –	$ –	$ –

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

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association's investment in the Bank totaled $5,715 for 2020, $5,988 for 2019 and $5,568 for 2018. The Association owned 2.12 percent of the issued stock of the Bank as of December 31, 2020 net of any reciprocal investment. As of that date, the Bank's assets totaled $36.3 billion and shareholders' equity totaled $2.5 billion. The Bank's earnings were $418 million for 2020. In addition, the Association had investments of $359 related to other Farm Credit institutions at December 31, 2020.

Note 5 — Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2020	2019	2018
Land	$ 1,212	$ 1,212	$ 1,212
Buildings and improvements	3,407	3,398	3,398
Furniture and equipment	1,856	1,868	1,837
	6,475	6,478	6,447
Less: accumulated depreciation	2,800	2,505	2,475
Total	$ 3,675	$ 3,973	$ 3,972

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank
Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The borrowing relationship is established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The GFA has a one year term which expires on December 31 and is renewable each year. The Association has no reason to believe the GFA will not be renewed upon expiration. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2020, the Association's notes payable were within the specified limitations.

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving lines of credit are governed by the GFA. Interest rates on both variable and fixed rate advances are generally established loan-by-loan based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. In the event of prepayment of any portion of a fixed rate advance, the Association may incur a prepayment penalty in accordance with the terms of the GFA and which will be included in interest expense. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and the Association.

The weighted average interest rates on the variable rate advances were 1.44 percent for LIBOR-based loans and 1.57 percent for Prime-based loans, and the weighted average remaining maturities were 4.4 years and 1.6 years, respectively, at December 31, 2020. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 2.45 percent, and the weighted average remaining maturity was 11.1 years at December 31, 2020. The weighted-average interest rate on all interest-bearing notes payable was 2.20 percent and the weighted-average remaining maturity was 8.6 years at December 31, 2020. Variable rate and fixed rate notes payable represent approximately 11.62 percent and 88.38 percent, respectively, of total notes payable at December 31, 2020. The weighted average maturities described above are related to matched-funded loans. The Direct Note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below:

A. **Protected Borrower Equity:** Protection of certain borrower equity is provided under the Farm Credit Act which requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates and allocated equities which were outstanding as of January 6,

1988, or were issued or allocated prior to October 6, 1988. If an Association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

B. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm-related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to the lesser of $1 thousand or 2 percent of the amount of the loan. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

   The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

C. **Regulatory Capitalization Requirements and Restrictions:** An FCA regulation empowers it to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

   There are currently no prohibitions in place that would prevent the Association from retiring stock, distributing earnings, or paying dividends per the statutory and regulatory restrictions, and the Association has no reason to believe any such restrictions may apply in the future.

   The capital regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. Regulatory ratios include common equity tier 1 (CET1) capital, tier 1 capital, and total capital risk-based ratios. The regulations also include a tier 1 leverage ratio and an unallocated retained earnings (URE) and URE equivalents (UREE) leverage ratio. The permanent capital ratio (PCR) remains in effect.

   The ratios are calculated using three-month average daily balances, in accordance with FCA regulations, as follows:

   - The CET1 capital ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, and paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
   - The tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
   - The total capital ratio is tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, and allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
   - The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
   - The tier 1 leverage ratio is tier 1 capital, divided by average total assets less regulatory deductions to tier 1 capital.
   - The URE and UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average total assets less regulatory deductions to tier 1 capital.

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2020	2019	2018
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	17.48%	16.72%	17.26%
Tier 1 Capital	6.0%	2.5%	8.5%	17.48%	16.72%	17.26%
Total Capital	8.0%	2.5%	10.5%	18.75%	17.99%	18.52%
Permanent Capital	7.0%	0.0%	7.0%	17.69%	16.91%	17.48%
Non-risk-adjusted ratios:						
Tier 1 Leverage	4.0%	1.0%	5.0%	16.27%	15.60%	16.03%
URE and UREE Leverage	1.5%	0.0%	1.5%	9.24%	8.27%	8.13%

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

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

D. **Description of Equities:** The Association is authorized to issue or have outstanding Classes A and D Preferred Stock; Classes A, B and C Common Stock; Classes B and C Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association's business. All stock and participation certificates have a par or face value of five dollars ($5.00) per share.

The Association had the following shares outstanding at December 31, 2020:

Class	Protected	Shares Outstanding Number	Aggregate Par Value
C Common/Voting	No	327,006	1,635
C Participation Certificates/Nonvoting	No	25,140	126
Total Capital Stock and Participation Certificates		352,146	$ 1,761

Protected common stock and participation certificates are retired at par or face value in the normal course of business. At-risk common stock and participation certificates are retired at the sole discretion of the Board at book value not to exceed par or face amounts, provided the minimum capital adequacy standards established by the Board are met.

Retained Earnings

The Association maintains an unallocated retained earnings account and an allocated retained earnings account. The minimum aggregate amount of these two accounts is determined by the Board. At the end of any fiscal year, if the retained earnings accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board. Unallocated retained earnings are maintained for each borrower to permit liquidation on a patronage basis.

The Association maintains an allocated retained earnings account consisting of earnings held and allocated to borrowers on a patronage basis. In the event of a net loss for any fiscal year, such allocated retained earnings account will be subject to full impairment in the order specified in the bylaws beginning with the most recent allocation.

The Association has a first lien and security interest on all retained earnings account allocations owned by any borrowers, and all distributions thereof, as additional collateral for their indebtedness to the Association. When the debt of a borrower is in default or is in the process of final liquidation by payment or otherwise, the Association, upon approval of the Board, may order any and all retained earnings account allocations owned by such borrower to be applied on the indebtedness.

Allocated equities shall be retired solely at the discretion of the Board provided that minimum capital standards established by the FCA and the Board are met. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2020, allocated members' equity consisted of $1,639 of qualified surplus, $37,154 of nonqualified allocated surplus, and $24,907 of nonqualified retained surplus.

Dividends

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 20 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Classes A or D Preferred Stock or on all classes of stock and participation certificates.

The rate of dividends paid on Class A Preferred Stock for any fiscal year may not be less than the rate of dividends paid on Classes A, B and C Common Stock or participation certificates for such year. The rate of dividends on Classes A, B and C Common Stock and participation certificates shall be at the same rate per share.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. No dividends were declared by the Association for any of the periods included in these Consolidated Financial Statements.

Patronage Distributions

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patronage distributions are based on the proportion of the borrower's interest to the amount of interest earned by the Association on its total loans unless another proportionate patronage basis is approved by the Board.

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members' equity account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash.

Transfer

Classes A and D Preferred, Classes A, B and C Common Stocks, and Classes B and C Participation Certificates may be transferred to persons or entities eligible to purchase or hold such equities.

Impairment

Any net losses recorded by the Association shall first be applied against unallocated members' equity. To the extent that such losses would exceed unallocated members' equity, such losses would be applied consistent with the Association's bylaws and distributed pro rata to each share and/or unit outstanding in the class, in the following order:

1. Class C Common Stock and Class C Participation Certificates
2. Classes A and B Common Stock and Class B Participation Certificates
3. Classes A and D Preferred Stock

Liquidation

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities should be distributed to the holders of the outstanding stock and participation certificates in the following order:

1. Holders of Classes A and D Preferred Stock
2. Holders of Classes A and B Common Stock and Class B Participation Certificates
3. Holders of Class C Common Stock and Class C Participation Certificates
4. Holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed
5. Holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed
6. Any remaining assets of the Association after such distributions shall be distributed to past and present patrons on a patronage basis, to the extent practicable.

E. **Accumulated Other Comprehensive Income (AOCI):**

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

	For the Year Ended December 31,		
	2020	**2019**	**2018**
Unrealized Gains (Losses) on Investments:			
Balance at beginning of period	$ 282	$ 300	$ 392
Other comprehensive income before reclassifications	–	–	–
Amounts reclassified from AOCI	(18)	(18)	(92)
Net current period OCI	(18)	(18)	(92)
Balance at end of period	264	282	300
Employee Benefit Plans:			
Balance at beginning of period	(301)	(226)	(267)
Other comprehensive income before reclassifications	(44)	(84)	31
Amounts reclassified from AOCI	13	9	10
Net current period OCI	(31)	(75)	41
Balance at end of period	(332)	(301)	(226)
Accumulated Other Comprehensive Income:			
Balance at beginning of period	(19)	74	125
Other comprehensive income before reclassifications	(44)	(84)	31
Amounts reclassified from AOCI	(5)	(9)	(82)
Net current period OCI	(49)	(93)	(51)
	$ (68)	$ (19)	$ 74

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*			
	For the Year Ended December 31,			
	2020	2019	2018	Income Statement Line Item
Investment Securities:				
Amortization	$ 18	$ 18	$ 92	Interest income on investments
Amounts reclassified	18	18	92	
Defined Benefit Pension Plans:				
Periodic pension costs	(13)	(9)	(10)	See Note 9.
Amounts reclassified	(13)	(9)	(10)	
Total reclassifications for the period	$ 5	$ 9	$ 82	

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

Note 8 — Fair Value Measurement

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

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

Estimating the fair value of the Association's equity investments in the Bank and other Farm Credit institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities.

The classifications within the fair value hierarchy (See Note 2) are as follows:

Level 1
Assets held in trust funds related to deferred compensation plans are classified as Level 1. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace. These funds may be redeemed on any business day on which the New York Stock Exchange is open for regular trading.

For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2
The Association had no Level 2 assets and liabilities measured at fair value on a recurring basis.

Level 3
Because no active market exists for the Association's accruing loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans currently would be made to borrowers with similar credit risk. The loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves. Certain loans evaluated for impairment under FASB guidance have fair values based upon the underlying collateral, as the loans are collateral-dependent. Specific reserves are established for these loans when the value of the collateral, less estimated cost to sell, is less than the principal balance of the loan. 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.

Notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

Other property owned is classified as a Level 3 asset. The fair value is generally determined using formal appraisals of each individual property. These assets are held for sale. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Other property owned consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure and is carried as an asset held for sale, which is generally not its highest and best use. These properties are part of the Association's credit risk mitigation efforts, not its ongoing business. In addition, FCA regulations require that these types of property be disposed of within a reasonable period of time.

For commitments to extend credit, the estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics; therefore, the related credit risk is not significant.

The fair value of investments in debt securities is estimated by discounting expected future cash flows using prevailing rates for similar instruments at the measurement date.

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

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

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

	December 31, 2019				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 1,159	$ 1,159	$ –	$ –	$ 1,159
Recurring Assets	$ 1,159	$ 1,159	$ –	$ –	$ 1,159
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 6,326	$ –	$ –	$ 6,326	$ 6,326
Other property owned	171	–	–	187	187
Nonrecurring Assets	$ 6,497	$ –	$ –	$ 6,513	$ 6,513
Other Financial Instruments					
Assets:					
Cash	$ 113	$ 113	$ –	$ –	$ 113
Investments in debt securities, held-to-maturity	8,993	–	–	9,663	9,663
Loans	512,304	–	–	512,899	512,899
Other Financial Assets	$ 521,410	$ 113	$ –	$ 522,562	$ 522,675
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 453,022	$ –	$ –	$ 455,474	$ 455,474
Other Financial Liabilities	$ 453,022	$ –	$ –	$ 455,474	$ 455,474

	December 31, 2018				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 704	$ 704	$ –	$ –	$ 704
Recurring Assets	$ 704	$ 704	$ –	$ –	$ 704
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 9,939	$ –	$ –	$ 9,939	$ 9,939
Other property owned	822	–	–	887	887
Nonrecurring Assets	$ 10.761	$ –	$ –	$ 10.826	$ 10.826
Other Financial Instruments					
Assets:					
Cash	$ 48	$ 48	$ –	$ –	$ 48
Investments in debt securities, held-to-maturity	9,268	–	–	9,612	9,612
Loans	472,425	–	–	464,880	464,880
Other Financial Assets	$ 481,741	$ 48	$ –	$ 474,492	$ 474,540
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 418,933	$ –	$ –	$ 415,125	$ 415,125
Other Financial Liabilities	$ 418,933	$ –	$ –	$ 415,125	$ 415,125

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

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

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

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

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 6,198	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

Note 9 — Employee Benefit Plans

The Association participates in three District sponsored qualified benefit plans. These plans include a multiemployer defined benefit pension plan, the AgFirst Farm Credit Retirement Plan, which is a final average pay plan (FAP Plan). In addition, the Association participates in a multiemployer defined benefit other postretirement benefits plan (OPEB Plan), the Farm Credit Benefits Alliance (FCBA) Retiree and Disabled Medical and Dental Plan, and a defined contribution 401(k) plan (401(k) Plan), the FCBA 401(k) Plan. The risks of participating in these multiemployer plans are different from single employer plans in the following aspects:

1. Assets contributed to multiemployer plans by one employer may be used to provide benefits to employees of other participating employers.
2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
3. If the Association chooses to stop participating in some of its multiemployer plans, the Association may be required to contribute to eliminate the underfunded status of the plan.

The District's multiemployer plans are not subject to ERISA and no Form 5500 is required. As such, the following information is neither available for nor applicable to the plans:

1. The Employer Identification Number (EIN) and three-digit Pension Plan Number.
2. The most recent Pension Protection Act (PPA) zone status. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.
3. The "FIP/RP Status" indicating whether a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.
4. The expiration date(s) of collective-bargaining agreement(s).

The FAP Plan covers employees hired prior to January 1, 2003 and includes other District employees that are not employees of the Association. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included on the Association's Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. FAP Plan expenses included in employee benefit costs on the Association's Statements of Comprehensive Income were $895 for 2020, $783 for 2019, and $1,046 for 2018. At December 31, 2020, 2019, and 2018, the total liability balance for the FAP Plan was $114,449, $129,713, and $94,491, respectively. The FAP Plan was 89.63 percent, 87.55 percent, 89.56 percent funded to the projected benefit obligation as of December 31, 2020, 2019, and 2018, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Association or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included on the Association's Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs on the Association's Statements of Comprehensive Income were $208 for 2020, $189 for 2019, and $189 for 2018. The total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition was $219,990, $209,531, and $181,820 at December 31, 2020, 2019, and 2018, respectively.

The Association also participates in the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2002. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $403, $341, and $324 for the years ended December 31, 2020, 2019, and 2018, respectively.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2020, 2019, and 2018,

$(31), $(75) and $41 has been recognized as a net debit, a net debit and a net credit to AOCI to reflect these elements.

Additional information for the above may be found in the Notes to the Annual Information Statement of the Farm Credit System.

In addition to the multiemployer plans described above, the Association sponsors nonqualified supplemental retirement and 401(k) plans. The supplemental retirement plan is unfunded and had a projected benefit obligation of $696 and a net under-funded status of $696 at December 31, 2020. Assumptions used to determine the projected benefit obligation as of December 31, 2020 included a discount rate of 2.60 percent. The expenses of these nonqualified plans included in noninterest expenses were $38, $35, and $37 for 2020, 2019, and 2018, respectively.

Note 10 — Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedule, and collateral, as those prevailing at the time for comparable transactions with unaffiliated borrowers.

Total loans to such persons at December 31, 2020 amounted to $10,131. During 2020, $10,842 of new loans and advances were made and repayments totaled $7,524. In the opinion of management, none of these loans outstanding at December 31, 2020 involved more than a normal risk of collectibility.

Note 11 — Commitments and Contingencies

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

In the normal course of business, the Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers. These financial instruments may include commitments to extend credit or letters of credit.

The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2020, $107,833 of commitments to extend credit and no commercial letters of credit were outstanding. A reserve for unfunded commitments of $558 was included in Other Liabilities on the Consolidated Balance Sheets at December 31, 2020.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2020, standby letters of credit outstanding totaled $807 with expiration dates ranging from January 1, 2021 to December 12, 2023. The maximum potential amount of future payments that may be required under these guarantees was $807.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2020	2019	2018
Current:			
Federal	$ –	$ –	$ 6
State	–	–	–
	–	–	6
Deferred:			
Federal	–	–	–
State	–	–	–
	–	–	–
Total provision (benefit) for income taxes	$ –	$ –	$ 6

The provision (benefit) for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

	December 31,		
	2020	2019	2018
Federal tax at statutory rate	$ 2,722	$ 1,703	$ 1,872
State tax, net	–	–	–
Patronage distributions	(1,153)	(1,137)	(1,295)
Tax-exempt FLCA earnings	(1,704)	(517)	(1,121)
Change in valuation allowance	160	(42)	662
Change due to graduated rate on nonpat income	–	–	–
Deferred tax rate change	–	–	–
NOL Carryforward	–	–	(13)
Other	(25)	(7)	(99)
Provision (benefit) for income taxes	$ –	$ –	$ 6

Deferred tax assets and liabilities are comprised of the following at:

	December 31, 2020	2019	2018
Deferred income tax assets:			
Allowance for loan losses	$ 2,211	$ 2,155	$ 2,380
Nonaccrual loan interest	591	437	493
Other property owned writedown	–	3	25
NOL Carryforward	196	257	–
Loan origination fees	29	15	11
Gross deferred tax assets	3,027	2,867	2,909
Less: valuation allowance	(3,027)	(2,867)	(2,909)
Gross deferred tax assets, net of valuation allowance	–	–	–
Deferred income tax liabilities:	–	–	–
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2020, deferred income taxes have not been provided by the Association on approximately $50 of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of $3,027, $2,867 and $2,909 as of December 31, 2020, 2019 and 2018, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2020 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense.

The tax years that remain open for federal and major state income tax jurisdictions are 2017 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

2020	First	Second	Third	Fourth	Total
Net interest income	$ 3,789	$ 3,796	$ 3,911	$ 3,847	$ 15,343
Provision for (reversal of allowance for) loan losses	380	651	537	408	1,976
Noninterest income (expense), net	(993)	(1,172)	(760)	2,519	(406)
Net income	$ 2,416	$ 1,973	$ 2,614	$ 5,958	$ 12,961

2019	First	Second	Third	Fourth	Total
Net interest income	$ 3,504	$ 3,293	$ 3,564	$ 3,881	$ 14,242
Provision for (reversal of allowance for) loan losses	821	719	(236)	2,040	3,344
Noninterest income (expense), net	(926)	(868)	(1,553)	558	(2,789)
Net income	$ 1,757	$ 1,706	$ 2,247	$ 2,399	$ 8,109

2018	First	Second	Third	Fourth	Total
Net interest income	$ 2,941	$ 3,062	$ 3,368	$ 3,251	$ 12,622
Provision for (reversal of allowance for) loan losses	507	146	1,099	617	2,369
Noninterest income (expense), net	(826)	(1,170)	(789)	1,442	(1,343)
Net income	$ 1,608	$ 1,746	$ 1,480	$ 4,076	$ 8,910

Note 14 — Subsequent Events

The Association evaluated subsequent events and determined that there were none requiring disclosure through March 11, 2021, which was the date the financial statements were issued.

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