



FARM CREDIT

2020

ANNUAL REPORT



FARM CREDIT OF THE VIRGINIAS, ACA

2020 ANNUAL REPORT

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Management

Brad Cornelius	Chief Executive Officer
Michael B. Almond.....	Chief Lending Officer
Pete Cypret	Chief Risk Officer
Melissa Driver.....	Corporate Secretary
A. Katie Frazier	Chief Marketing and External Affairs Officer
Teresa A. Harris	Lending Division Leader – North
Bradley Hewitt	Chief Credit Officer
Michael S. Jonas	Lending Division Leader - South
Justin Weekley	Chief Financial Officer

Board of Directors

Donna M. Brooke-Alt	Chairperson
Donald W. Reese	Vice Chairperson
Ronald L. Bennett	Director
David Wayne Campbell.....	Director
Robert M. Chambers, Jr.	Director
Kevin C. Craun	Director
Charles E. Horn, Jr.	Director
Paul M. House.....	Director
Melody S. Jones	Director
James F. Kinsey	Director
Charles B. Leech, IV.....	Director
Milton L. McPike, Jr.	Director
Alfred W. Stephens, Jr.	Director
John E. Wells	Director

Message from the Chief Executive Officer

I am pleased to report that despite the challenges that 2020 presented, Farm Credit of the Virginias, ACA (Association) rounded out another solid financial year. The Association made great strides in carrying out our mission to support agriculture and our rural communities, and remained focused on helping our customer-owners navigate a challenging agricultural and economic environment.

Farm Credit of the Virginias' net income in 2020 was \$49.2 million, which was \$16.9 million above budget projections. This year's overall net income was approximately \$3.3 million higher than in 2019. The net income was significantly impacted by the special patronage received from the AgFirst Farm Credit Bank, which totaled \$16.0 million in 2020. The Association ended the year with \$1.87 billion in loan volume, an increase over last year.

At the onset of the pandemic, the Association implemented changes to the delivery of our products and services keeping the health of our rural communities and the evolving financial situations of our customer-owners in mind. We leveraged our financial strength and agricultural expertise to serve our members negatively impacted by the Coronavirus pandemic by extending the terms of loan repayments, restructuring members' debt obligations, and offering payment deferments. Our dedicated staff devoted the time necessary to work with customer-owners in order to understand potential shifts in their operations and find solutions that best fit their needs. Additionally, our lenders worked with eligible customer-owners who own small businesses to apply for relief via the Small Business Administration Paycheck Protection Program (SBA PPP). We remain steadfast in prioritizing the health and wellbeing of our members and employees in response to the COVID-19 pandemic.

Each year, the board of directors approves an appropriate level of patronage dividends, carefully balancing the operational goals of the cooperative with the desire to return as much cash to our members as possible. In April 2020, we were pleased to deliver \$35 million to our customer-owners. We were particularly pleased this year to extend those dividends, providing our customer-owners a source of stability and aid during an era of uncertainty.

To support the broader community, each year we make considerable donations to programs and organizations that are dedicated to the future of agriculture and strengthening our rural communities. This year alone, we

returned over \$350,000.00 in charitable contributions to include a host of local initiatives and larger endeavors benefitting both our farmers and rural community members alike.

In 2020, investing in our rural communities included a contribution to the State Fair of Virginia to fund a modern livestock show facility to encourage and enrich youth agricultural participation. In March, the Association carried out an initiative to provide meals and financial support to essential institutions and employees in our communities at the onset of the Coronavirus outbreak. Lastly, our annual Christmas donation, made on behalf of our customer-owners and business affiliates, totaled \$17,500.00 distributed among 19 deserving charities.

The Association also teamed up with our neighboring Farm Credit institutions, MidAtlantic Farm Credit and Colonial Farm Credit, to fight food insecurity in our region by providing financial support to the Federation of Virginia Food Banks, the Mountaineer Food Bank, and the Maryland #HungerHeroes campaign. Our dollars went directly to funding their involvement in the U.S. Department of Agriculture's (USDA) Farmers to Families Food Box Program, established by the Coronavirus Food Assistance Program (CFAP).

The Association prioritizes developing value-added resources to benefit both our customer-owners and the general agricultural community in our footprint through the Farm Credit Knowledge Center. In 2020, we introduced a host of new opportunities and resources that were delivered digitally. Those offerings included, but were not limited to; More than 50 live webinars covering topics ranging from mental health, farm succession planning, and record-keeping; a monthly commodity broadcast; two virtual advocacy conferences featuring nationally recognized agricultural advocates; and a monthly agricultural newsletter.

Further delivering on our objective to enhance virtual offerings to our customer-owners, we launched a new website in 2020 with a host of resources for our members to leverage. The new site affords customer-owners the accessibility to access product and service updates, online banking, and Knowledge Center content in one streamlined location.

As a cooperative, delivering on our mission goes beyond our financial performance. We strive to deliver personalized attention and care in our relationships with

our customer-owners. Our business service teams are dedicated to crafting the best solutions to meet your individual needs. Our consistently high customer satisfaction survey results indicate that these efforts do not go unnoticed, and we value the opportunity to serve you.

Critical to these efforts is a highly capable, committed staff of employees, many of whom have been with our cooperative for decades. We also attract vibrant, talented new employees to our team at all levels. In 2020, despite the pandemic, we were pleased to bring on an influx of new team members to fill roles at all levels of the organization to increase efficiencies association-wide.

A key addition to our senior leadership team in 2020 included the transition of Credit Manager, Brad Hewitt, to the role of Chief Credit Officer. Also, joining our senior leadership team in 2020 was Michael Almond, formerly a Regional Manager for Carolina Farm Credit, to the newly created role of Chief Lending Officer.

Looking ahead to 2021, our #1 priority continues to be meeting the lending needs of our agricultural constituents and the rural communities we serve, come what may. Farm Credit of the Virginias will remain leaders in our field, through good times and bad, by providing extensive local knowledge and agricultural expertise, competitive rates, excellent customer service, and leveraging our strong financial position to provide attractive patronage dividends. We are grateful for our loyal customer-owners and the great industry we serve.

/s/ Brad Cornelius
Chief Executive Officer

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 Farm Credit of the Virginias, 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 Farm Credit of the Virginias, 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.

/s/ Donna M. Brooke-Alt
Chairperson of the Board

/s/ Brad Cornelius
Chief Executive Officer

/s/ Justin Weekley
Chief Financial Officer

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.

/s/ Brad Cornelius
Chief Executive Officer

/s/ Justin Weekley
Chief Financial Officer

March 11, 2021

Consolidated Five - Year Summary of Selected Financial Data

<i>(dollars in thousands)</i>	2020	2019	December 31, 2018	2017	2016
Balance Sheet Data					
Cash	\$ 131	\$ 6,979	\$ 4,700	\$ 5,082	\$ 5,730
Loans	1,869,936	1,788,804	1,850,777	1,844,949	1,798,996
Allowance for loan losses	(16,386)	(16,034)	(15,313)	(17,461)	(14,483)
Net loans	1,853,550	1,772,770	1,835,464	1,827,488	1,784,513
Equity investments in other Farm Credit institutions	17,963	20,527	20,729	20,763	19,698
Other property owned	826	965	1,477	1,221	2,467
Other assets	52,678	44,926	47,281	49,054	46,125
Total assets	\$ 1,925,148	\$ 1,846,167	\$ 1,909,651	\$ 1,903,608	\$ 1,858,533
Notes payable to AgFirst Farm Credit Bank*	\$ 1,418,871	\$ 1,353,895	\$ 1,422,676	\$ 1,437,895	\$ 1,423,922
Accrued interest payable and other liabilities with maturities of less than one year	55,587	56,081	46,597	42,892	43,788
Total liabilities	1,474,458	1,409,976	1,469,273	1,480,787	1,467,710
Capital stock and participation certificates	10,530	10,270	10,426	10,493	10,433
Retained earnings					
Allocated	92,568	92,568	92,568	92,568	92,568
Unallocated	347,632	333,389	337,408	319,790	287,846
Accumulated other comprehensive income (loss)	(40)	(36)	(24)	(30)	(24)
Total members' equity	450,690	436,191	440,378	422,821	390,823
Total liabilities and members' equity	\$ 1,925,148	\$ 1,846,167	\$ 1,909,651	\$ 1,903,608	\$ 1,858,533
Statement of Income Data					
Net interest income	\$ 50,494	\$ 54,106	\$ 57,070	\$ 54,197	\$ 51,160
Provision for loan losses	925	1,000	2,500	3,250	2,750
Noninterest income (expense), net	(325)	(7,125)	(1,949)	5,997	(5,190)
Net income	\$ 49,244	\$ 45,981	\$ 52,621	\$ 56,944	\$ 43,220
Key Financial Ratios					
Rate of return on average:					
Total assets	2.66%	2.47%	2.81%	3.04%	2.43%
Total members' equity	10.75%	10.19%	11.97%	13.89%	11.25%
Net interest income as a percentage of average earning assets	2.78%	2.96%	3.11%	2.96%	2.95%
Net (chargeoffs) recoveries to average loans	(0.032)%	(0.015)%	(0.254)%	(0.015)%	(0.159)%
Total members' equity to total assets	23.41%	23.63%	23.06%	22.21%	21.03%
Debt to members' equity (:1)	3.27	3.23	3.34	3.50	3.76
Allowance for loan losses to loans	0.88%	0.90%	0.83%	0.95%	0.81%
Permanent capital ratio	23.37%	23.59%	22.48%	21.09%	20.75%
Total surplus ratio	**	**	**	**	20.08%
Core surplus ratio	**	**	**	**	20.08%
Common equity tier 1 capital ratio	23.17%	23.39%	22.30%	20.93%	**
Tier 1 capital ratio	23.17%	23.39%	22.30%	20.93%	**
Total regulatory capital ratio	24.04%	24.23%	23.10%	21.72%	**
Tier 1 leverage ratio	23.95%	24.08%	22.84%	21.41%	**
Unallocated retained earnings (URE) and URE equivalents leverage ratio	24.18%	24.33%	23.07%	21.59%	**
Net Income Distribution					
Estimated patronage refunds:					
Cash	\$ 40,000	\$ 50,000	\$ 35,000	\$ 25,000	\$ 15,000

* 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 Farm Credit of the Virginias, 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. 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 Virginia, West Virginia and Maryland. 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 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.farmcreditofvirginias.com, or by calling 1-540-886-3435, extension 5040, or writing Justin Weekley, Farm Credit of the Virginias, P.O. Box 899, Staunton, VA 24402-0899. 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 analysis 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.

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, 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

During 2020, the general economy faced challenges brought on by the COVID-19 pandemic. These challenges resulted in widespread economic disruption throughout the year. In response to the pandemic the Federal Reserve lowered short-term interest rates to a targeted range of 0.00 percent to 0.25 percent. The Federal Reserve also made large purchases of Treasury securities and mortgage-backed securities in an effort to reduce interest rates. The employment market was severely impacted by the pandemic. The unemployment rate peaked in April 2020 at 14.8 percent, with unemployment rates disproportionately increased in industries delivering in-person services. States within our territory ended 2020 with unemployment levels lower than the national average of 6.7 percent based on projected information released by the US Bureau of Labor and Statistics in January 2021. This is meaningful to the Association given our significant concentration for part-time farmers in the loan portfolio. Despite these economic challenges, the Association's loan portfolio ended 2020 in a strong position with 96.66 percent of the total portfolio categorized as acceptable and other assets especially mentioned.

Of the major agricultural commodities served by the Association, some farmers continued to experience difficulty, mainly driven by low commodity prices. Cattle prices, which experienced improved pricing late in 2019 and into early 2020, saw prices decline again, negatively impacting cattle farmers profitability. The forestry and timber industry continued to be negatively affected by tariffs impacting the industry as a result of international trade negotiations that continued during 2020 and were negatively impacted by the pandemic. However, there were areas of improvement in 2020 as compared to prior years. Dairy farmers saw milk prices begin to rebound in 2019 and saw prices begin to stabilize throughout 2020. Additionally, low grain prices continue to help farmers who use feed grain in their operations.

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, but 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 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 \$2.0 million in loans and recorded approximately \$0.1 million in loan-related fee income. At December 31, 2020, approximately \$1.9 million of PPP loans remained outstanding.

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.

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 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 variable-rate financial instruments with LIBOR exposure at December 31, 2020:

	Due in 2021		Due in 2022 and Thereafter		Total
(dollars in millions)	\$		\$		
Loans	\$	10	\$	45	\$ 55
Direct Note to Bank	\$	8	\$	34	\$ 42

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, 59.90 percent of loans maturing after December 31, 2021 contain fallback language.

LOAN PORTFOLIO

The Association's loan volume was \$1,869,936 at December 31, 2020 compared to \$1,788,804 at December 31, 2019, an increase of \$81,132 or 4.54 percent. The increase in loan volume was primarily driven by increased demand for real estate loans.

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 diversification of the Association loan volume by type for each of the past three years is shown below.

Loan Type	December 31,					
	2020		2019		2018	
	(dollars in thousands)					
Real estate mortgage	\$ 1,438,603	76.93 %	\$ 1,348,734	75.40 %	\$ 1,371,536	74.11 %
Production and intermediate-term	311,889	16.68	335,063	18.73	361,652	19.54
Rural residential real estate	58,183	3.11	57,515	3.22	59,716	3.23
Processing and marketing	39,151	2.09	32,007	1.79	33,143	1.79
Farm-related business	15,077	0.81	11,099	0.62	17,993	0.97
Communication	7,033	0.38	4,386	0.24	6,737	0.36
Total	\$ 1,869,936	100.00 %	\$ 1,788,804	100.00 %	\$ 1,850,777	100.00 %

While we make loans and provide financial related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified.

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

Branch/State	December 31,		
	2020	2019	2018
Abingdon, VA	6%	7%	7%
Bedford, VA	2	2	3
Charlottesville, VA	3	3	3
Chatham, VA	3	3	3
Clarksburg, WV	2	2	2
Culpeper, VA	5	5	6
Elkins, WV	2	2	2
Gate City, VA	1	1	1
Harrisonburg, VA	13	13	13
Leesburg, VA	11	10	10
Lewisburg, WV	2	2	2
Lexington, VA	3	3	3
Moorefield, WV	4	4	4
Oakland, MD	3	3	3
Orange, VA	6	6	5
Ripley, WV	3	3	2
Roanoke, VA	3	3	3
Rocky Mount, VA	3	3	3
Romney, WV	1	1	1
South Boston, VA	2	2	2
Verona, VA	6	7	6
Warrenton, VA	6	5	5
Wytheville, VA	4	4	4
Agribusiness	3	3	5
Special Assets Group	1	1	1
Participation Loans Purchased	2	2	2
Participation Loans Sold	—	—	(1)
	100%	100%	100%

The major commodities in the Association's loan portfolio are shown below. The predominant commodities are livestock, field crops, and timber, which constitute 69 percent of the entire portfolio in 2020.

Commodity Group	December 31,					
	2020		2019		2018	
	(dollars in thousands)					
Livestock	\$ 682,084	36%	\$ 654,270	37%	\$ 669,272	36%
Field Crops	403,532	22	355,094	20	350,015	19
Timber	202,186	11	188,363	11	207,478	11
Poultry	171,991	9	168,768	9	171,119	9
Dairy	146,124	8	168,704	9	181,696	10
Rural Home	59,517	3	59,182	3	61,746	3
Tobacco	14,495	1	17,478	1	20,084	1
Other	190,007	10	176,945	10	189,367	11
Total	\$ 1,869,936	100%	\$ 1,788,804	100%	\$ 1,850,777	100%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a

concentration of livestock producers. Although a large percentage of the loan portfolio is concentrated in these commodities, many of these operations are diversified within their enterprise and/or with crop production that reduces overall risk exposure. Demand for beef, prices of field grains, and international trade are some of the factors affecting the prices of these commodities. To proactively reduce overall risk exposure, the concentration of large loans has decreased over the past few years. The agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. 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.

During 2020, the Association continued to buy and sell loan participations within the System. Loan participations provide a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which may strengthen its capital position.

Loan Participations:	December 31,		
	2020	2019	2018
	<i>(dollars in thousands)</i>		
Participations Purchased			
— FCS Institutions	\$ 42,580	\$ 32,353	\$ 37,322
Participations Sold	(8,754)	(8,410)	(21,261)
Total	\$ 33,826	\$ 23,943	\$ 16,061

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.

The Association sells qualified long-term mortgage loans into the secondary market. For the period ended December 31, 2020, the Association originated loans for resale totaling \$56,188, which were all sold into the secondary market.

MISSION RELATED INVESTMENTS

In October 2005, the FCA authorized AgFirst and the associations to make investments in Rural America Bonds under a three-year pilot period. 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, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas,

community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program is 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. Effective December 31, 2014, the FCA concluded each pilot program approved as part of the Investment in Rural America Bonds program. Each System 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 ended, the FCA can consider future requests on a case-by-case basis.

The Association did not hold any Rural American Bonds during the period of January 1, 2018, thru December 31, 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. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value 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. Appraisals are required for loans of more than \$250. 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	96.66%	97.49%	97.67%
Substandard	3.29%	2.49%	2.30%
Doubtful & Loss	0.05%	0.02%	0.03%
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 Group is responsible for servicing loans classified as high-risk. The high-risk assets, including accrued interest, are detailed below:

High-risk Assets	December 31,		
	2020	2019	2018
	<i>(dollars in thousands)</i>		
Nonaccrual loans	\$ 26,216	\$ 23,947	\$ 22,412
Restructured loans	14,189	4,689	1,883
Accruing loans 90 days past due	—	—	—
Total high-risk loans	40,405	28,636	24,295
Other property owned	826	965	1,477
Total high-risk assets	\$ 41,231	\$ 29,601	\$ 25,772
Ratios			
Nonaccrual loans to total loans	1.40%	1.34%	1.21%
High-risk assets to total assets	2.14%	1.60%	1.35%

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 increased \$2,269 or 9.48 percent in 2020. The increase was mainly due to additional loans being downgraded to nonaccrual status during the year, partially offset by payments received on loans and loans being reinstated into accruing status. Of the \$26,216 in nonaccrual loan volume at December 31, 2020, \$12,375 or 47.20 percent, compared to 48.18 percent and 53.47 percent 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.

Other property owned totaled \$826 at December 31, 2020. This was a decrease of \$139 as compared to December 31, 2019. The decrease was mainly due to properties being sold and fewer properties being acquired during the year. The Association actively markets these properties in order to sell them.

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. The following table presents the activity in the allowance for loan losses for the most recent three years:

Allowance for Loan Losses Activity:	Year Ended December 31,		
	2020	2019	2018
	<i>(dollars in thousands)</i>		
Balance at beginning of year	\$ 16,034	\$ 15,313	\$ 17,461
Charge-offs:			
Real estate mortgage	—	(18)	(225)
Production and intermediate-term	(799)	(474)	(4,699)
Agribusiness	—	(10)	(99)
Rural residential real estate	(19)	—	(12)
Total charge-offs	(818)	(502)	(5,035)
Recoveries:			
Real estate mortgage	99	50	221
Production and intermediate-term	137	160	163
Agribusiness	7	10	—
Rural residential real estate	2	3	3
Total recoveries	245	223	387
Net (charge-offs) recoveries	(573)	(279)	(4,648)
Provision for (reversal of) allowance for loan losses	925	1,000	2,500
Balance at end of year	\$ 16,386	\$ 16,034	\$ 15,313
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.032)%	(0.015)%	(0.254)%

The allowance for loan losses increased during 2020. The 2020 provision for loan losses was recorded in response to an increase in loan volume and financial stress on some accounts in the cattle, dairy, and timber sectors.

The allowance for loan losses by loan type for the most recent three years is as follows:

Allowance for Loan Losses by Type	December 31,		
	2020	2019	2018
	<i>(dollars in thousands)</i>		
Real estate mortgage	\$ 6,665	\$ 6,172	\$ 6,142
Production and intermediate-term	8,869	9,189	7,822
Agribusiness	443	277	980
Communication	60	23	54
Rural residential real estate	349	373	315
Total Allowance	\$ 16,386	\$ 16,034	\$ 15,313

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 as a Percentage of:	December 31,		
	2020	2019	2018
Total loans	0.88%	0.90%	0.83%
Nonaccrual loans	62.50%	66.96%	68.33%

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 and prior years reclassification of loan types as defined by FCA.

RESULTS OF OPERATIONS

The Association's net income was \$49,244 for 2020, \$45,981 for 2019, and \$52,621 for 2018. The increase in net income for 2020 compared to 2019 was mainly due an increase in AgFirst patronage received by the Association. This increase was partially offset by a decrease in net interest income. The decrease in net income for 2019 compared to 2018 was mainly due to a decrease in the AgFirst patronage refund received by the Association, a decrease in net interest income, and a lower Insurance Fund refund.

Interest income was \$90,194 for 2020, \$101,934 for 2019, and \$103,008 for 2018. The decrease in interest income for 2020 compared to 2019 was largely attributable to a decrease in interest rates experienced in 2020 as well as the decline in loan volume experienced in 2019. The decrease in interest income for 2019 compared to 2018 was primarily due to a decrease in interest rates and income recognized from nonaccrual loans.

Net Interest Income

Net interest income was \$50,494 for 2020, \$54,106 for 2019 and \$57,070 for 2018. 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. Net interest income decreased during 2020 compared to 2019 mainly due to compressed margins experienced during the year in response to the declining interest rate environment.

The following table presents the effects of changes in volume, and interest rates, and nonaccrual income on net interest income.

Change in Net Interest Income:

Change in Net Interest Income:				
	Volume*	Rate	Nonaccrual Income	Total
	(dollars in thousands)			
12/31/20 - 12/31/19				
Interest income	\$ (1,855)	\$ (9,885)	\$ —	\$ (11,740)
Interest expense	(695)	(7,433)	—	(8,128)
Change in net interest income	<u>\$ (1,160)</u>	<u>\$ (2,452)</u>	<u>\$ —</u>	<u>\$ (3,612)</u>
12/31/19 - 12/31/18				
Interest income	\$ (368)	\$ 1,111	\$ (1,817)	\$ (1,074)
Interest expense	(721)	2,611	—	1,890
Change in net interest income	<u>\$ 353</u>	<u>\$ (1,500)</u>	<u>\$ (1,817)</u>	<u>\$ (2,964)</u>

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

Noninterest Income

Total noninterest income for the period ended December 31, 2020, totaled \$29,092, an increase of \$8,068 or 38.38 percent, as compared to \$21,024 for 2019.

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,			Increase/(Decrease)	
	2020	2019	2018	2020/ 2019	2019/ 2018
	<i>(dollars in thousands)</i>				
Loan fees	\$ 872	\$ 758	\$ 822	\$ 114	\$ (64)
Fees for financially related services	67	104	140	(37)	(36)
Patronage refund from other Farm Credit Institutions	26,441	18,767	22,432	7,674	(3,665)
FCS Insurance Corporation Refund	355	397	1,673	(42)	(1,276)
Gains on sales of rural home loans	917	709	619	208	90
Gains on sales of premises and equipment, net	118	156	301	(38)	(145)
Gains on other transactions	93	55	4	38	51
Other noninterest income	229	78	72	151	6
Total noninterest income	\$ 29,092	\$ 21,024	\$ 26,063	\$ 8,068	\$ (5,039)

Income from loan fees increased \$114 for 2020 compared to 2019, an increase of 15.04 percent. This increase resulted primarily from the higher number of conversions and new loans recorded in 2020 as compared to 2019.

The patronage refund from other Farm Credit Institutions increased 40.89 percent for 2020 when compared to 2019. The patronage refund, which was from AgFirst, increased \$7,674 compared to last year. The increase was due to AgFirst increasing its special additional patronage refund paid to the

Association. For 2020 the special patronage refund was \$16,039. For 2019 and 2018, special patronage refund was \$8,141 and \$11,666, respectively. AgFirst paid the special patronage refunds due to its strong financial position.

Gains (losses) on sales of rural home loans totaled \$917, an increase of 29.34 percent when compared to 2019. The increase was the result of additional loans sold into the secondary market as a result of the declining mortgage interest rates experienced in 2020.

Noninterest Expense

Total noninterest expense increased \$1,481 or 5.29 percent for the year ended December 31, 2020, as compared to the same period for 2019.

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,			Increase/(Decrease)	
	2020	2019	2018	2020/ 2019	2019/ 2018
	<i>(dollars in thousands)</i>				
Salaries and employee benefits	\$ 15,093	\$ 13,096	\$ 13,269	\$ 1,997	\$ (173)
Postretirement benefits	4,304	3,846	4,510	458	(664)
Occupancy and equipment	1,383	1,405	1,369	(22)	36
Insurance Fund premiums	1,311	1,252	1,272	59	(20)
(Gains) losses on other property owned, net	109	(1)	71	110	(72)
Other operating expenses	7,288	8,409	7,481	(1,121)	928
Total noninterest expense	\$ 29,488	\$ 28,007	\$ 27,972	\$ 1,481	\$ 35

Salaries and employee benefits increased for 2020 compared to 2019 mainly due to salary adjustments, increases in headcount and higher benefit costs paid by the Association. These increases were partially offset by an increase in deferred origination costs. Postretirement benefits increased by \$458. The increase in postretirement benefits was due to an increase in pension contributions in 2020 as compared to 2019. Refer to Note 9, *Employee Benefit Plans*, for more information concerning the adjustment.

Insurance Fund premiums increased \$59 for 2020 compared to 2019 primarily due to higher premium assessment rate for 2020 compared to 2019.

Income Taxes

The Association recorded a benefit for income taxes of \$(71) for the year ended December 31, 2020, as compared to a provision for income taxes of \$142 for 2019 and a provision of \$40 for 2018. Refer to Note 2, *Summary of Significant Accounting Policies*, and Note 12, *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 Operations Comparisons	For the 12 Months Ended		
	12/31/20	12/31/19	12/31/18
Return on average assets	2.66%	2.47%	2.81%
Return on average members' equity	10.75%	10.19%	11.97%
Net interest income as a percentage of average earning assets	2.78%	2.96%	3.11%
Net (charge-offs) recoveries to average loans	(0.032)%	(0.015)%	(0.254)%

The increase in net income for 2020 drove the return on average assets and return on average members' equity higher when compared to last year.

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 asset/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 \$1,418,871 as compared to \$1,353,895 at December 31, 2019 and \$1,422,676 at December 31, 2018. The average volume of outstanding notes payable to the Bank was \$1,368,090 and \$1,388,276 for the years ended December 31, 2020 and 2019, respectively. Refer to Note 6, *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 participation 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.

On January 15, 2021, the Bank approved a waiver of the Association's event of default under the GFA.

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 or the 90-day London Interbank Offered Rate (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 in 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.

Relationship with the Bank

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

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

Members' equity at December 31, 2020, totaled \$450,690, an increase of \$14,499 or 3.32 percent compared to \$436,191 at December 31, 2019. At December 31, 2019, total members' equity decreased 0.95 percent from the December 31, 2018 total of \$440,378. The increase in 2020 was primarily attributed to the earnings of the Association offset by the estimated cash profit-sharing distribution (patronage dividend) to the Association's member-stockholders. The Association plans to distribute approximately \$40 million of its 2020 net income in cash to its member-stockholders during the second quarter of 2021.

Total capital stock and participation certificates were \$10,530 on December 31, 2020, compared to \$10,270 on December 31, 2019 and \$10,426 on December 31, 2018.

FCA sets minimum regulatory capital requirements for System Banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. Effective January 1, 2017, the regulatory capital requirements for System Banks and associations were modified. The new 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. New regulations replaced core surplus and total surplus ratios with common equity tier 1 (CET1) capital, tier 1 capital, and total capital risk-based capital ratios. The new regulations also include a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio (PCR) remains in effect.

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

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

Calculation of PCR risk-adjusted assets includes the allowance for loan losses as a deduction from risk-adjusted assets. This differs from the other risk-based capital calculations.

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 revolvment, 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 assets less regulatory deductions to tier 1 capital.
- The UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvment less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions to tier 1 capital.

The Association's regulatory ratios are shown in the following table:

	Minimum Requirement with Capital	Capital Ratios as of December 31,		
Ratio	Conservation Buffer	2020	2019	2018
Risk-adjusted ratios:				
CET1 Capital Ratio	7.0%	23.17%	23.39%	22.30%
Tier 1 Capital Ratio	8.5%	23.17%	23.39%	22.30%
Total Capital Ratio	10.5%	24.04%	24.23%	23.10%
Permanent Capital Ratio	7.0%	23.37%	23.59%	22.48%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	5.0%	23.95%	24.08%	22.84%
UREE Leverage Ratio	1.5%	24.18%	24.33%	23.07%

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%	20.75%	20.07%	19.91%	19.88%	16.95%
Total Surplus Ratio	7.00%	20.08%	19.29%	19.15%	18.68%	15.73%
Core Surplus Ratio	3.50%	20.08%	19.29%	19.15%	18.68%	15.73%

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 Notes to 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) 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.

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.

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

	As of December 31, 2020	
<i>(dollars in thousands)</i>	Number of Loans	Amount of Loans
Young	2,672	\$286,990
Beginning	4,427	\$593,293
Small	11,376	\$1,179,480

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. The Association currently has a high penetration in the Young,

Beginning, and Small farm market. As of December 31, 2020, the Association was doing business with 25 percent of the Young farmers, 15 percent of the Beginning farmers, and 10 percent of Small farmers identified by the 2017 Ag Census.

The following strategies and outreach programs have been conducted which allowed the Association to meet its objectives and goals in the young, beginning, and small farmer program:

- Began in 2011, the sponsorship of the Ag Biz Planner financial training program for YBS farmers. This has continued each year through 2020 with a total of 127 participants completing the program since its inception. In 2020, we implemented an online option for those who are program participants and alumni. The portal allows individuals to have access to program materials and additional virtual learning opportunities.
- Began in 2014, the initiation of a Knowledge Center. This provides educational opportunities and resources for all farmers including YBS farmers.
- In 2015, initiate new "Farm Launch" program that is designed primarily for YBS farmers. The program was revised and relaunched in the spring of 2020.
- Support of 4-H, FFA, and Young farmer organizations through sponsorships and donations.
- Sponsor and host, one-day, Farm Management Institute seminar that we elected to partner with our neighboring associations for the virtual offering; these are facilitated by nationally recognized agricultural business consultant, Dr. David Hohl. Total attendance was 250+.
- Sponsor and host a yearlong online Farm Transition and Succession Planning Webinar Series; this series was facilitated by industry experts throughout the association footprint and along the East Coast.
- Developed and implemented a weekly or bi-weekly webinar offering on various sectors within agriculture that could be found amongst the association's footprint from March of 2020 through August of 2020.
- Support Young and Beginning farmers through many youth programs including a Youth Loan program.
- Support numerous trade shows and conferences that benefit YBS borrowers.
- Implemented a newsletter, KConnection, that allows for program awareness, supplemental resources and other knowledge focused offerings.
- Combining of the Farm Credit of the Virginias website as well as the Knowledge Center website took place in 2020. The revision of the website allowed for the enhancement of our YBS resources.

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*, in 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 utilizing common guidance developed across the Farm Credit System. 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: - The allowance related to loans and commitments will most likely change because it will then cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, - An allowance will be established for estimated credit losses on any debt securities, - 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, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report.

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity, all of which are located in Virginia, West Virginia and Maryland:

Location	Description	Form of Ownership
106 Sangers Lane Staunton, VA	Administrative Headquarters	Owned
19292 Lee Highway Abingdon, VA	Branch Operations	Owned
1356-B American Way Court Bedford, VA	Branch Operations	Rented (\$1,600 per month)
1445 E. Rio Road Suite 103 Charlottesville, VA	Branch Operations	Rented (\$2,330 per month)
19651 US Highway 29 Chatham, VA	Branch Operations	Owned
4579 Buckhannon Pike Suite 102 Clarksburg, WV	Branch Operations	Rented (\$2,586 per month)
15574 Ira Hoffman Lane Culpeper, VA	Branch Operations	Owned
308 Railroad Avenue Elkins, WV	Branch Operations	Rented (\$650 per month)
268 E. Jackson Street Gate City, VA	Branch Operations	Owned
4646 South Valley Pike Harrisonburg, VA	Branch Operations	Owned
306 East Market Street Harrisonburg, VA	Processing Center	Owned
27 Fort Evans Road, NE Leesburg, VA	Branch Operations	Owned
880 North Jefferson Street Lewisburg, WV	Branch Operations	Owned
152 Maury River Road Lexington, VA	Branch Operations	Owned
550 South Main Street Moorefield, WV	Branch Operations	Owned

Location	Description	Form of Ownership
13195 Garrett Highway Oakland, MD	Branch Operations	Owned
13284 James Madison Hwy Orange, VA	Branch Operations	Rented (\$1,575 per month)
2112 Ripley Road Ripley, WV	Branch Operations	Rented (\$3,153 per month)
38 Murray Farm Road Roanoke, VA	Branch Operations & Processing Center	Owned
670 Old Franklin Turnpike Rocky Mount, VA	Branch Operations	Owned
452 North High Street Romney, WV	Branch Operations	Owned
4024 Halifax Road South Boston, VA	Branch Operations	Rented (\$2,000 per month)
1557 Commerce Road Suite 202 Verona, VA	Branch Operations	Rented (\$1,850 per month)
516 Fauquier Road Warrenton, VA	Branch Operations	Owned
660 Pepper's Ferry Road Wytheville, VA	Branch Operations & Processing Center	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 intrasystem financial assistance rights 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.

Description of Unincorporated Business Entities

The Association holds an equity investment at December 31 2020, in the following Unincorporated Business Entity (UBE) as an equity interest holder of the limited liability company (LLC). The LLC was 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 the Operating Agreements of the respective LLC.

Entity Name	Entity Purpose
Ethanol Holdings, LLC	Manage Acquired Property

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 at December 31, 2020 and their business experience for the past 5 years.

Senior Officer	Position
Brad Cornelius	<i>Chief Executive Officer</i> , since July 2020. He most recently served as Chief Credit Officer of FCV. Prior to these roles he served as Chief Credit Officer and Chief Executive Officer at other AgFirst Associations.
J. Robert Frazier	<i>Former Interim Chief Executive Officer</i> , March 2020 - July 2020. He most recently served as CEO of MidAtlantic Farm Credit before retiring in 2016 after a 40 year career in Farm Credit and financial services. For the past two years, he has served as a consultant to the Farm Credit of the Virginias Board of Directors.
C. Peery Heldreth, III	<i>Former Chief Executive Officer</i> , January 2017-March 2020. He had previously served as Chief Relationship Officer since 2012 and as Regional Sales and Lending Manager.
Michael B. Almond	<i>Chief Lending Officer</i> , since November 2020. He has 23 years of Farm Credit experience, most recently serving as Regional Lending Manager at another Farm Credit association.
Pete Cypret	<i>Chief Risk Officer</i> , since June, 2019. He has 20 years of risk and analytics experience in bank lending and is a certified Professional Risk Manager.
Melissa Driver	<i>Corporate Secretary</i> , since January 2018. She has 36 years of Farm Credit experience serving in roles of increasing responsibility.
A. Katie Frazier	<i>Chief Marketing and External Affairs Officer</i> , since May 2018. She has 15 years of public affairs experience at the state and federal level, and spent seven years leading a non-profit agricultural trade association in Virginia.
Teresa A. Harris	<i>Lending Division Leader – North</i> , since 2019. She had previously served as Regional Sales and Lending Officer.
Bradley Hewitt	<i>Chief Credit Officer</i> , since August 2020. He has 12 years of Farm Credit experiences in roles of increasing responsibility, most recently serving as a Credit Manager.
Michael S. Jonas	<i>Lending Division Leader – South</i> , since 2019. He had previously served as Regional Sales and Lending Officer and as Business Line Leader.
Justin Weekley	<i>Chief Financial Officer</i> , since October 2018. He is a certified public accountant and has over 10 years of experience in public accounting focusing on the audits of financial statements and internal controls.

Compensation Overview

The Association's compensation philosophy is to pay for performance that supports the Association's short-term and long-term business strategies and enhances the member-shareholders' value in the Association. The overall compensation programs which include base salary, incentive compensation and retirement benefits, are designed to offer competitive pay opportunities to employees and enable the Association to effectively attract, retain and motivate highly qualified employees.

The compensation programs for senior officers include both fixed and variable compensation components. The mix of fixed and variable components is designed to balance the need to motivate senior management and employees to find new business opportunities and to promote the Association's mission to ensure a safe, sound, and dependable source of credit for agriculture and rural America. The fixed component of compensation is the annual salary. The variable component of compensation is an incentive program. The incentive program is designed to promote pay for performance while balancing the needs of the Association to manage risk and promote sound credit decisions. The incentive compensation is paid in two parts. Part of the incentive is paid to employees shortly after the end of the year. This part is referred to as the short-term incentive. The remaining component of the incentive is paid after the completion of three more years and this is the long-term incentive.

The Chief Executive Officer (CEO) and the Internal Audit employees do not participate in the incentive program. Instead the Board of Directors, at its discretion, may award a bonus. Historically, the Board of Directors has used the results of the senior officers' short-term and long-term incentive plan to determine the payout amount.

Salary. The CEO, senior officers and all employees of the Association have a base salary as part of their compensation program. The base salary is determined based on position, responsibilities and performance. The Association strives to provide employees with base salaries that are competitive with respect to the position, as identified in compensation surveys conducted by external compensation consultants, and the need to maintain careful control of salaries and benefits expense. The Board of Directors has delegated the base salaries administration for senior officers to the CEO. The CEO's base salary is reviewed and approved by the Board of Directors.

Short-Term Incentives. The Association provides short-term incentive programs for senior officers and eligible employees. The short-term incentive programs are designed to promote new business development, increased loan volume and revenue growth, and increased Association's net income. These financial measures were selected since they align with our mission and enhance the Association's ability to pay a patronage refund to our member-stockholders. The senior officers' short-term incentive is based on the financial performance of the Association. The senior officers' short-term incentive is reduced if key financial business goals are below established targets. The short-term incentive programs are reviewed and approved annually by the Board of Directors.

The short-term incentive for 2020 was expensed during 2020 with the payment to be made in the first quarter of 2021.

Long-term Incentives. The Association provides a long-term incentive program for senior officers and eligible employees. The long-term incentive plan is designed to motivate and reward eligible employees to meet and exceed financial and performance goals of the Association. The financial and performance goals are return on equity, return on assets, loan portfolio credit quality, efficiency ratio, and level of nonaccrual loan volume. These performance areas are weighted equally. A target goal is set for each financial and performance goal. The incentive amount is determined by the

Association's performance compared to the goals. The long-term incentive for 2020 will be paid during the first quarter of 2024. The payment can be reduced if the financial and performance results for the last year, 2023, are not met. Since the 2020 long-term incentive will be paid out after three years, it will be expensed equally over the next three years. The long-term incentive program is reviewed and approved by the Board of Directors.

Retirement benefits. The Association provides retirement benefits to the CEO, senior management and employees to offer a competitive compensation program.

Employees hired before January 1, 2003, participate in the AgFirst Farm Credit Retirement Plan. The plan is an employer-funded qualified defined benefit pension plan. Benefits under this plan are determined by a formula based on years of service and eligible compensation. Employees are eligible to retire and begin receiving unreduced pension benefits at age 65 or when years of service plus age equal "85". Upon retirement, annual payout is equal to 2.0 percent of the highest three years of average salary, not including incentives, times years of credited service, subject to the Internal Revenue Code limitations.

Employees hired on or after January 1, 2003, but prior to November 4, 2014, participated in the AgFirst Farm Credit Cash Balance Retirement Plan. This plan was a qualified defined contribution pension plan. The plan was terminated as of December 31, 2016 and vested benefits of the plan were distributed to plan participants in 2017.

All employees may participate in the Farm Credit Benefits Alliance 401(k) Plan, a qualified 401(k) defined contribution plan that has employer matching contribution determined by the employee's date of hire. Employees hired prior to January 1, 2003 receive a maximum employer matching contribution equal to \$0.50 for each \$1.00 of employee compensation contributed up to 6.0 percent, subject to the Internal Revenue Code limitation on compensation. Employees hired on or after January 1, 2003, receive a maximum employer matching contribution equal to \$1.00 for each \$1.00 of employee compensation contributed up to 6.0 percent, and employer nonelective contribution equal to 3.0 percent of employee compensation, subject to the Internal Revenue Code limitation on compensation.

Senior officers and other highly compensated employees may participate in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) plan, a non-qualified deferred compensation plan. The purpose of the plan is to allow these employees to defer income taxes on a portion of their compensation until retirement or separation from the Association and to restore benefits limited in the qualified 401(k) plan as a result of restrictions in the Internal Revenue Code. The plan includes a provision for discretionary contributions by the Association.

Employees who choose to defer a portion of their compensation may defer part or all of their base salary, short term incentive, and long term incentive and or bonus. This is shown under the deferred compensation column in the Summary of Compensation table below.

The following Summary of Compensation table includes compensation paid to the CEO and the senior officers and highly compensated individuals as a group, excluding the CEO, during the years ended December 31, 2020, 2019 and 2018:

Name of CEO	Year	Salary	Bonus Short Term	Bonus Long term	Deferred Comp.	Change in Pension Value (1)	Perq/ Other(2)	Total
Brad Cornelius, CEO	2020	\$ 180,557	\$ 52,756	\$ 58,962	\$ —	\$ 313,812	\$ 10,431	\$ 616,518
J. Robert Frazee, Interim CEO	2020	\$ 142,050	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 142,050
C. Peery Heldreth, III, CEO	2020	\$ 64,316	\$ —	\$ —	\$ —	\$ (353,149)	\$ 508,524	\$ 219,691
C. Peery Heldreth, III, CEO	2019	\$ 367,500	\$ 73,500	\$ 73,500	\$ —	\$ 503,236	\$ 13,912	\$ 1,031,648
C. Peery Heldreth, III, CEO	2018	\$ 367,500	\$ —	\$ 73,500	\$ —	\$ 48,164	\$ 12,609	\$ 501,773

Aggregate No. of Senior Officers and Highly Compensated Individuals	Year	Salary	Short Term Incentive	Long Term Incentive	Deferred Comp.	Change in Pension Value (1)	Perq/ Other(2)	Total
10	2020	\$ 1,385,683	\$ 260,425	\$ 275,176	\$ —	\$ 851,243	\$ 45,714	\$ 2,818,241
8	2019	\$ 1,165,936	\$ 254,182	\$ 230,782	\$ —	\$ 1,311,342	\$ 13,161	\$ 2,975,403
9	2018	\$ 1,317,071	\$ 20,000	\$ 221,783	\$ 38,553	\$ 87,746	\$ 26,612	\$ 1,711,765

(1) The change in pension values in 2020 as reflected in the table above, was primarily due to assumption changes, primarily a significant decrease in the discount rate, followed by an increase due to benefit accruals and the passage of time. The change in pension values in 2019 and 2018 was primarily from changes in the actuarial assumptions for discount rate. See further discussion in Note 9, Employee Benefit Plans, of the Financial Statements.

(2) The Perquisites/Other amount disclosed in the above chart include group life insurance, automobile compensation, spousal expense reimbursements for attendance at Association meetings, physical fitness reimbursement, payments for excess annual leave, and for C. Peery Heldreth, III payments made in accordance with a separation agreement.

Pension Benefits for the year ended December 31, 2020,

Pension Benefits Table As of December 31, 2020					
Name of CEO	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2020
Brad Cornelius, CEO	2020	AgFirst Retirement Plan	30	\$ 2,808,763	\$ —
C. Peery Heldreth, III, CEO	2020	AgFirst Retirement Plan	18	\$ 1,019,660	\$ —
				\$ 3,828,423	\$ —
Aggregate No. of Senior Officers and Highly Compensated Individuals					
10	2020	AgFirst Retirement Plans	31*	\$ 5,477,698	\$ —
				\$ 5,477,698	\$ —

*Represents the average years of credit service for the group.

The disclosure of information on the total compensation paid during 2020 to any senior officer as reported in the table above is available and will be disclosed to the shareholders of the institution upon request.

On February 4, 2015, the FCA Board approved the final rule, "Disclosure to Shareholders; Pension Benefit Disclosures". The rule amends FCA regulations to exclude employee compensation from being reported in the Summary Compensation Table if the employee would be considered a "highly compensated employee" solely because of payments related to or change(s) in value of the employee's qualified pension plan provided that the plan was available to all similarly situated employees on the same basis at the time the employee joined the plan. The Association was required to comply with the rule for compensation reported in the table for fiscal year 2015.

Employee Travel Reimbursement

All employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

Defined Benefit-Type Plans

The Association sponsors a non-qualified defined benefit supplemental executive retirement plan for Donald L. Shiflet, retired CEO. The purpose of the non-qualified plan is to provide benefits that supplement the qualified defined benefit plan in which the Association's employees participate. For Mr. Shiflet, compensation in excess of the 401(a)(17) limit and benefits in excess of the 415(b) limit in the qualified defined benefit plan will be made up through the non-qualified plan. As a non-qualified plan, assets have been allocated and separately invested for this plan, but are not isolated from the general creditors of the Association.

Directors

The following chart details the current term of each director and total cash compensation paid for 2020:

DIRECTOR	CURRENT TERM	TOTAL COMPENSATION PAID DURING 2020
Donna M. Brooke-Alt, Chairperson	2018-2021	\$ 36,250
Donald W. Reese, Vice Chairperson	2018-2021	27,250
Melody S. Jones, Chairperson of Audit Committee	2019-2022	28,250
Ronald L. Bennett	2018-2021	18,300
David Wayne Campbell	2019-2022	19,050
Robert M. Chambers, Jr.	2019-2022	22,800
Kevin C. Craun	2017-2020	22,400
Charles E. Horn, Jr.	2020-2023	16,650
Paul M. House	2017-2020	23,500
James F. Kinsey	2018-2021	24,000
Charles B. Leech, IV	2020-2023	21,500
Milton L. McPike, Jr.	2017-2020	13,850
Barry W. Shelor*	2017-2020	4,443
Alfred W. Stephens, Jr.	2017-2020	26,900
John E. Wells	2020-2023	20,550
		<u>\$ 325,693</u>

*Barry W. Shelor's service on the Board ended when he paid off his loans, and the Association redeemed his Class C Common Stock, rendering him ineligible for Board service.

The following represents certain information regarding the directors of the Association, including their principal occupation for the past five years:

Donna M. Brooke-Alt, Chairperson, is owner/operator and president of Brookedale Farms, LLC, which is a greenhouse, event building and Agri-tainment operation. She serves on the Mineral County FSA Board and the Mineral County Family Resource Network Board. Ms. Brooke-Alt also serves on the Potomac State College Ag Advisory Committee, the Potomac State College Gerstell Ag Development Award Committee and treasurer of Mineral County 4-H/FFA Livestock Association.

Donald W. Reese, Vice Chairperson, is a partner in Reese's Farm Fresh Produce, a retail produce operation in Halifax County, VA. Mr. Reese also teaches agriculture at Halifax County High School.

Ronald L. Bennett operates a dairy farm. Mr. Bennett serves on the Alleghany County Farm Bureau Board and on the Virginia Farm Bureau Dairy Advisory Board.

David Wayne Campbell operates a beef cattle farm consisting of commercial cow-calf and seed stock Herefords and stockers. He is a retired manager for Southern States Cooperative. Mr. Campbell is a Washington County Service Authority board member, serves on the Executive Committee as VP Policy and Industry Affairs for the Virginia Cattlemen's Association, the Virginia Cattlemen's Association Policy and Industry Advocacy Board, Abingdon Feeder Calf Board, Smyth/Washington Cattlemen's Association Board, Southwest Virginia Agricultural Association Board, and the NCBA Animal Welfare Committee.

Robert M. Chambers, Jr. holds an interest in Brooke Farms LLC, and Liberty Equipment Repair Inc. Brooke Farms LLC, consists of crops and beef cows. Mr. Chambers owns and operates CCB Napa Auto and Truck Parts. He is a board member of the Fredericksburg Southern States Petroleum and Orange Madison Cooperative.

Kevin C. Craun owns and operates, with his brother, a 900-acre operation supporting 190 dairy cows, 100 cow/calf pairs and dairy steers. Mr. Craun is a director and chairman of the Shenandoah Valley Soil and Water Conservation District, and a member of the Rockingham County Agriculture Stewardship Committee. Mr. Craun serves as a commissioner of the Virginia State Milk Commission.

Charles E. Horn, Jr. owns and operates Delta Springs LLC, a poultry and replacement dairy heifer farm in Mt. Solon, VA. Mr. Horn currently serves on the Valley Conservation Council board of directors, and has been a member of the North River Ruritan Club for 32 years, currently serving as treasurer.

Paul M. House is president of Kettle Wind Farm, LLC, a grain and sod farm. Mr. House is also a shareholder in Dutchland Farm Inc., a family dairy farm.

Melody S. Jones is an outside director and serves as chairperson of the Audit Committee. She is a self-employed sole practitioner Certified Public Accountant. Ms. Jones is a financial partner of Philippi Women's Investment Club.

James F. Kinsey is owner/manager of Kinsey's Oak Front Farms, which is a 200 head seed stock Angus farm. He is a board member of the West Virginia Cattlemen's Association, a member of the WVU Davis College Visiting Committee and serves on the Wardensville Bull Test Committee. Mr. Kinsey is also a member of the West Virginia Farm Bureau, West Virginia Angus Association, American Angus Association, and Bridgeport United Methodist Church.

Charles B. Leech, IV is an owner/operator of the family's dairy farm, Ingleside Dairy Farm, Inc. Mr. Leech serves as a director on the Rockbridge Farmers' Cooperative Board and a director of Virginia State Dairywomen's Association.

Milton L. McPike, Jr. is an outside director. He is a retired Operations Manager for Cargill, Inc. in Wichita, KS.

Barry W. Shelor raises dairy heifers. He serves on the Board of Directors for Shelor's Dairy, Inc. and Mountain Meadows Dairy, LLC. Mr. Shelor also serves on the Patrick County Farm Bureau Board as vice-president.

Alfred W. Stephens, Jr. is a dairy and beef cow/calf farmer and has a small produce business. Mr. Stephens serves as secretary-treasurer on the Wythe/Bland DHIA and a member of the VA Tech Dairy Science Advisory Board.

John E. Wells is a full-time beef farmer. He is a member of the West Virginia Cattlemen's Association, Wirt County Farm Bureau, is vice president of the Jackson County Calf Pool Cooperative and serves on the AgFirst Farm Credit Council Board. Mr. Wells also serves as director for the Wirt County Group, Inc.

Subject to approval by the board, the Association may allow directors honorarium of \$550 for attendance at meetings, committee meetings, or special assignments, and \$200 for telephone conferences. In addition to the honoraria, the board chairperson was paid a quarterly retainer fee of \$1,500, the audit committee chairperson was paid a quarterly retainer fee of \$1,500 and the directors were paid a quarterly retainer fee of \$1,250.

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		Committee Assignments	Compensation Paid For Other Activities**
	Regular Board Meetings	Other Official Activities*		
Donna M. Brooke-Alt, Chairperson	10	79	Governance Committee, Compensation Committee	\$ 24,550
Donald W. Reese, Vice Chairperson	10	51	Chairperson of Governance Committee, Compensation Committee	16,150
Melody S. Jones, Chairperson of Audit Committee	10	54	Chairperson of Audit Committee	16,050
Ronald L. Bennett	10	21	Risk Management, Sales and Marketing Committee	7,700
David Wayne Campbell	10	21	Risk Management, Sales and Marketing Committee	7,700
Robert M. Chambers, Jr.	10	35	Audit Committee	12,250
Kevin C. Craun	9	43	Audit Committee	12,800
Charles E. Horn, Jr.	10	22	Legislative/Knowledge Center Committee, Risk Management, Sales and Marketing Committee	6,500
Paul M. House	10	45	Audit Committee	12,850
James F. Kinsey	10	47	Legislative/Knowledge Center Committee, Audit Committee	12,550
Charles B. Leech, IV	10	34	Chairperson Compensation Committee, Governance Committee	11,350
Milton L. McPike, Jr.	7	15	Chairperson of Risk Management, Sales and Marketing Committee	3,700
Barry W. Shelor	2	6	Risk Management, Sales and Marketing Committee	2,250
Alfred W. Stephens, Jr.	10	49	Chairperson of Legislative/Knowledge Center Committee, Compensation Committee, Governance Committee	15,750
John E. Wells	10	30	Compensation Committee, Governance Committee	8,450
				\$ 170,600

* Includes board committee meetings and other board activities other than regular board meetings

**Included in the Total Compensation amount in the previous table.

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 \$153,170 for 2020 \$258,917 for 2019, and \$221,668 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 Notes to the Consolidated Financial Statements in this Annual Report.

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. 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 other transactions 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 incurred by the Association for services rendered by its independent auditors for the year ended December 31, 2020 were as follows:

	2020
<i>(dollars in thousands)</i>	
Independent Auditors	
PricewaterhouseCoopers LLP Audit services	\$ 63
Total	\$ 63

Audit 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 1-540-886-3435, extension 5040, or writing Justin Weekley, Farm Credit of the Virginias, P.O. Box 899, Staunton, VA 24402-0899 or accessing the web site, **www.farmcreditofvirginias.com**. The Association prepares an electronic version of the Annual Report which is available on the Association's web site 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 Association's website 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 Association.

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 web site 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 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 Farm Credit of the Virginias, 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 No. 114 (*The Auditor's Communication With Those Charged With Governance*). The Committee discussed with PwC its independence from Farm Credit of the Virginias, ACA. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with 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:

/s/ Melody S. Jones
Chairperson of the Audit Committee

Members of Audit Committee

Robert M. Chambers, Jr.
Kevin C. Craun
Paul M. House
James F. Kinsey

March 11, 2021



Report of Independent Auditors

To the Board of Directors and Management of Farm Credit of the Virginias, ACA

We have audited the accompanying consolidated financial statements of Farm Credit of the Virginias, 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 Farm Credit of the Virginias, 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.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP".

Atlanta, Georgia
March 11, 2021

Consolidated Balance Sheets

(dollars in thousands)	December 31,		
	2020	2019	2018
Assets			
Cash	\$ 131	\$ 6,979	\$ 4,700
Loans	1,869,936	1,788,804	1,850,777
Allowance for loan losses	(16,386)	(16,034)	(15,313)
Net loans	1,853,550	1,772,770	1,835,464
Loans held for sale	2,644	1,175	349
Accrued interest receivable	8,652	9,930	10,518
Equity investments in other Farm Credit institutions	17,963	20,527	20,729
Premises and equipment, net	12,365	11,267	11,552
Other property owned	826	965	1,477
Accounts receivable	26,682	19,029	22,716
Other assets	2,335	3,525	2,146
Total assets	\$ 1,925,148	\$ 1,846,167	\$ 1,909,651
Liabilities			
Notes payable to AgFirst Farm Credit Bank	\$ 1,418,871	\$ 1,353,895	\$ 1,422,676
Accrued interest payable	3,057	3,757	4,033
Patronage refunds payable	40,452	40,491	30,303
Accounts payable	1,427	1,416	2,279
Other liabilities	10,651	10,417	9,982
Total liabilities	1,474,458	1,409,976	1,469,273
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	10,530	10,270	10,426
Retained earnings			
Allocated	92,568	92,568	92,568
Unallocated	347,632	333,389	337,408
Accumulated other comprehensive income (loss)	(40)	(36)	(24)
Total members' equity	450,690	436,191	440,378
Total liabilities and members' equity	\$ 1,925,148	\$ 1,846,167	\$ 1,909,651

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	\$ 90,194	\$ 101,934	\$ 103,008
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	39,700	47,828	45,938
Net interest income	50,494	54,106	57,070
Provision for loan losses	925	1,000	2,500
Net interest income after provision for loan losses	49,569	53,106	54,570
Noninterest Income			
Loan fees	872	758	822
Fees for financially related services	67	104	140
Lease income	6	13	—
Patronage refunds from other Farm Credit institutions	26,441	18,767	22,432
Gains (losses) on sales of rural home loans, net	917	709	619
Gains (losses) on sales of premises and equipment, net	118	156	301
Gains (losses) on other transactions	93	55	4
Insurance Fund refunds	355	397	1,673
Other noninterest income	223	65	72
Total noninterest income	29,092	21,024	26,063
Noninterest Expense			
Salaries and employee benefits	19,397	16,942	17,779
Occupancy and equipment	1,383	1,405	1,369
Insurance Fund premiums	1,311	1,252	1,272
(Gains) losses on other property owned, net	109	(1)	71
Other operating expenses	7,288	8,409	7,481
Total noninterest expense	29,488	28,007	27,972
Income before income taxes	49,173	46,123	52,661
Provision (benefit) for income taxes	(71)	142	40
Net income	\$ 49,244	\$ 45,981	\$ 52,621
Other comprehensive income net of tax			
Employee benefit plans adjustments	(4)	(12)	6
Comprehensive income	\$ 49,240	\$ 45,969	\$ 52,627

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

Consolidated Statements of Changes in Members' Equity

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2017	\$ 10,493	\$ 92,568	\$ 319,790	\$ (30)	\$ 422,821
Comprehensive income			52,621	6	52,627
Capital stock/participation certificates issued/(retired), net	(67)				(67)
Patronage distribution					
Cash			(35,000)		(35,000)
Patronage distribution adjustment			(3)		(3)
Balance at December 31, 2018	\$ 10,426	\$ 92,568	\$ 337,408	\$ (24)	\$ 440,378
Comprehensive income			45,981	(12)	45,969
Capital stock/participation certificates issued/(retired), net	(156)				(156)
Patronage distribution					
Cash			(50,000)		(50,000)
Balance at December 31, 2019	\$ 10,270	\$ 92,568	\$ 333,389	\$ (36)	\$ 436,191
Comprehensive income			49,244	(4)	49,240
Capital stock/participation certificates issued/(retired), net	260				260
Patronage distribution					
Cash			(40,000)		(40,000)
Patronage distribution adjustment			4,999		4,999
Balance at December 31, 2020	\$ 10,530	\$ 92,568	\$ 347,632	\$ (40)	\$ 450,690

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	\$ 49,244	\$ 45,981	\$ 52,621
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	897	917	850
Amortization (accretion) of net deferred loan costs (fees)	1,438	947	322
Provision for loan losses	925	1,000	2,500
(Gains) losses on other property owned	82	(27)	52
(Gains) losses on sales of premises and equipment, net	(118)	(156)	(301)
(Gains) losses on sales of rural home loans, net	(917)	(709)	(619)
(Gains) losses on other transactions	(93)	(55)	(4)
Changes in operating assets and liabilities:			
Origination of loans held for sale	(56,189)	(37,402)	(39,672)
Proceeds from sales of loans held for sale, net	55,637	37,285	41,330
(Increase) decrease in accrued interest receivable	1,278	588	(391)
(Increase) decrease in accounts receivable	(7,653)	3,687	2,343
(Increase) decrease in other assets	1,190	(1,379)	192
Increase (decrease) in accrued interest payable	(700)	(276)	399
Increase (decrease) in accounts payable	11	(863)	(867)
Increase (decrease) in other liabilities	329	484	(860)
Total adjustments	(3,883)	4,041	5,274
Net cash provided by (used in) operating activities	45,361	50,022	57,895
Cash flows from investing activities:			
Net (increase) decrease in loans	(83,165)	60,172	(11,536)
(Increase) decrease in equity investments in other Farm Credit institutions	2,564	202	34
Purchases of premises and equipment	(2,001)	(918)	(2,331)
Proceeds from sales of premises and equipment	124	442	372
Proceeds from sales of other property owned	73	1,108	424
Net cash provided by (used in) investing activities	(82,405)	61,006	(13,037)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	64,976	(68,781)	(15,219)
Capital stock and participation certificates issued/(retired), net	260	(156)	(67)
Patronage refunds and dividends paid	(35,040)	(39,812)	(29,954)
Net cash provided by (used in) financing activities	30,196	(108,749)	(45,240)
Net increase (decrease) in cash	(6,848)	2,279	(382)
Cash, beginning of period	6,979	4,700	5,082
Cash, end of period	\$ 131	\$ 6,979	\$ 4,700
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	\$ 22	\$ 575	\$ 738
Estimated cash dividends or patronage distributions declared or payable	40,000	50,000	35,000
Employee benefit plans adjustments (Note 9)	4	12	(6)
Supplemental information:			
Interest paid	\$ 40,400	\$ 48,104	\$ 45,539
Taxes (refunded) paid, net	40	40	48

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:** Farm Credit of the Virginias, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in forty-six counties in the state of Virginia, forty-eight counties in the state of West Virginia, and two counties in the state of Maryland as follows:

Virginia: Counties of Albemarle, Alleghany, Arlington, Augusta, Bath, Bedford, Bland, Botetourt, Buchanan, Carroll, Craig, Culpeper, Dickenson, Fairfax, Fauquier, Floyd, Franklin, Giles, Grayson, Greene, Halifax, Henry, Highland, Lee, Loudoun, Madison, Montgomery, Nelson, Orange, Patrick, Pittsylvania, Prince William, Pulaski, Rappahannock, Roanoke, Rockbridge, Rockingham, Russell, Scott, Smyth, Spotsylvania, Stafford, Tazewell, Washington, Wise, and Wythe;

West Virginia: Counties of Barbour, Boone, Braxton, Cabell, Calhoun, Clay, Doodridge, Fayette, Gilmer, Grant, Greenbrier, Hampshire, Hardy, Harrison, Jackson, Kanawha, Lewis, Lincoln, Logan, Marion, Mason, McDowell, Mercer, Mineral, Mingo, Monongalia, Monroe, Nicholas, Pendleton, Pleasants, Pocahontas, Preston, Putnam, Raleigh, Randolph, Ritchie, Roane, Summers, Taylor, Tucker, Tyler, Upshur, Wayne, Webster, Wetzel, Wirt, Wood, and Wyoming; and

Maryland: Counties of Allegany and Garrett.

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 AgFirst 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 lending agreement 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 in 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 incurred 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 incurred 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 in 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.

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 Income on the Consolidated Statements of Comprehensive Income and the balance of these investments is included in Other Assets on the accompanying Consolidated Balance Sheets.

Investment Income

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 in 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 acts as lessor in certain contractual arrangements. The contracts 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 in 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 in 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 a material 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 the Association. 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.

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 outstanding at period end follows:

	December 31,		
	2020	2019	2018
Real estate mortgage	\$ 1,438,603	\$ 1,348,734	\$ 1,371,535
Production and intermediate-term	311,889	335,063	361,653
Processing and marketing	39,151	32,007	33,143
Farm-related business	15,077	11,099	17,993
Communication	7,033	4,386	6,737
Rural residential real estate	58,183	57,515	59,716
Total loans	\$ 1,869,936	\$ 1,788,804	\$ 1,850,777

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	\$ 11,343	\$ 3,475	\$ —	\$ —	\$ —	\$ —	\$ 11,343	\$ 3,475
Production and intermediate-term	15,479	5,279	278	—	—	—	15,757	5,279
Processing and marketing	8,436	—	—	—	—	—	8,436	—
Communication	7,044	—	—	—	—	—	7,044	—
Total	\$ 42,302	\$ 8,754	\$ 278	\$ —	\$ —	\$ —	\$ 42,580	\$ 8,754

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	\$ 8,706	\$ 3,984	\$ —	\$ —	\$ —	\$ —	\$ 8,706	\$ 3,984
Production and intermediate-term	13,105	4,426	273	—	—	—	13,378	4,426
Processing and marketing	5,861	—	11	—	—	—	5,872	—
Communication	4,397	—	—	—	—	—	4,397	—
Total	\$ 32,069	\$ 8,410	\$ 284	\$ —	\$ —	\$ —	\$ 32,353	\$ 8,410

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	\$ 10,075	\$ 16,412	\$ —	\$ —	\$ —	\$ —	\$ 10,075	\$ 16,412
Production and intermediate-term	13,870	4,849	305	—	—	—	14,175	4,849
Processing and marketing	5,464	—	21	—	—	—	5,485	—
Farm-related business	836	—	—	—	—	—	836	—
Communication	6,751	—	—	—	—	—	6,751	—
Total	\$ 36,996	\$ 21,261	\$ 326	\$ —	\$ —	\$ —	\$ 37,322	\$ 21,261

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,				December 31,		
	2020	2019	2018		2020	2019	2018
Real estate mortgage:				Communication:			
Acceptable	94.51%	93.90%	94.24%	Acceptable	100.00%	100.00%	100.00%
OAEM	2.97	3.77	3.49	OAEM	—	—	—
Substandard/doubtful/loss	2.52	2.33	2.27	Substandard/doubtful/loss	—	—	—
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
Production and intermediate-term:				Rural residential real estate:			
Acceptable	89.80%	90.62%	90.86%	Acceptable	96.63%	95.58%	96.18%
OAEM	5.95	6.04	6.06	OAEM	1.97	2.20	2.49
Substandard/doubtful/loss	4.25	3.34	3.08	Substandard/doubtful/loss	1.40	2.22	1.33
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
Processing and marketing:				Total loans:			
Acceptable	57.59%	89.80%	81.83%	Acceptable	93.02%	93.25%	93.49%
OAEM	13.94	10.20	18.17	OAEM	3.68	4.28	4.18
Substandard/doubtful/loss	28.47	—	—	Substandard/doubtful/loss	3.30	2.47	2.33
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
Farm-related business:							
Acceptable	92.61%	88.67%	99.09%				
OAEM	5.98	8.42	—				
Substandard/doubtful/loss	1.41	2.91	0.91				
	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	\$ 8,878	\$ 4,520	\$ 13,398	\$ 1,431,280	\$ 1,444,678
Production and intermediate-term	2,032	5,761	7,793	306,337	314,130
Processing and marketing	346	—	346	38,877	39,223
Farm-related business	152	27	179	14,986	15,165
Communication	—	—	—	7,033	7,033
Rural residential real estate	750	107	857	57,502	58,359
Total	\$ 12,158	\$ 10,415	\$ 22,573	\$ 1,856,015	\$ 1,878,588

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	\$ 7,067	\$ 3,703	\$ 10,770	\$ 1,344,267	\$ 1,355,037
Production and intermediate-term	3,329	4,596	7,925	330,465	338,390
Processing and marketing	11	—	11	32,066	32,077
Farm-related business	149	—	149	10,999	11,148
Communication	—	—	—	4,386	4,386
Rural residential real estate	567	251	818	56,878	57,696
Total	\$ 11,123	\$ 8,550	\$ 19,673	\$ 1,779,061	\$ 1,798,734

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	\$ 8,658	\$ 3,446	\$ 12,104	\$ 1,366,093	\$ 1,378,197
Production and intermediate-term	3,679	3,946	7,625	357,527	365,152
Processing and marketing	—	—	—	33,191	33,191
Farm-related business	150	15	165	17,921	18,086
Communication	—	—	—	6,738	6,738
Rural residential real estate	1,626	82	1,708	58,223	59,931
Total	\$ 14,113	\$ 7,489	\$ 21,602	\$ 1,839,693	\$ 1,861,295

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

	December 31,		
	2020	2019	2018
Nonaccrual loans:			
Real estate mortgage	\$ 15,263	\$ 14,173	\$ 13,875
Production and intermediate-term	10,169	9,062	8,260
Processing and marketing	347	—	—
Farm-related business	156	324	165
Rural residential real estate	281	388	112
Total	<u>\$ 26,216</u>	<u>\$ 23,947</u>	<u>\$ 22,412</u>
Accruing restructured loans:			
Real estate mortgage	\$ 2,727	\$ 2,093	\$ 1,364
Production and intermediate-term	1,159	2,596	519
Processing and marketing	10,228	—	—
Farm-related business	48	—	—
Rural residential real estate	27	—	—
Total	<u>\$ 14,189</u>	<u>\$ 4,689</u>	<u>\$ 1,883</u>
Accruing loans 90 days or more past due:			
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Performing impaired loans:			
Real estate mortgage	\$ 923	\$ 596	\$ 983
Production and intermediate-term	116	143	956
Rural residential real estate	—	19	—
Total	<u>\$ 1,039</u>	<u>\$ 758</u>	<u>\$ 1,939</u>
Total nonperforming loans	\$ 41,444	\$ 29,394	\$ 26,234
Other property owned	826	965	1,477
Total nonperforming assets	<u>\$ 42,270</u>	<u>\$ 30,359</u>	<u>\$ 27,711</u>
Nonaccrual loans as a percentage of total loans	1.40%	1.34%	1.21%
Nonperforming assets as a percentage of total loans and other property owned	2.26%	1.70%	1.50%
Nonperforming assets as a percentage of capital	<u>9.38%</u>	<u>6.96%</u>	<u>6.29%</u>

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	\$ 12,375	\$ 11,537	\$ 12,433
Past due	13,841	12,410	9,979
Total	<u>\$ 26,216</u>	<u>\$ 23,947</u>	<u>\$ 22,412</u>
Impaired accrual loans:			
Performing	\$ 1,039	\$ 758	\$ 1,939
Restructured	14,189	4,689	1,883
90 days or more past due	—	—	—
Total	<u>\$ 15,228</u>	<u>\$ 5,447</u>	<u>\$ 3,822</u>
Total impaired loans	<u>\$ 41,444</u>	<u>\$ 29,394</u>	<u>\$ 26,234</u>
Additional commitments to lend	<u>\$ 1,005</u>	<u>\$ 17</u>	<u>\$ 16</u>

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	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans:					
With a related allowance for credit losses:					
Real estate mortgage	\$ 2,137	\$ 2,246	\$ 37	\$ 2,031	\$ 93
Production and intermediate-term	3,774	4,741	1,418	3,586	164
Processing and marketing	—	—	—	—	—
Farm-related business	74	69	27	71	3
Rural residential real estate	81	82	45	77	4
Total	\$ 6,066	\$ 7,138	\$ 1,527	\$ 5,765	\$ 264
With no related allowance for credit losses:					
Real estate mortgage	\$ 16,776	\$ 19,835	\$ —	\$ 15,944	\$ 731
Production and intermediate-term	7,670	11,886	—	7,290	335
Processing and marketing	10,575	10,583	—	10,050	461
Farm-related business	130	233	—	123	6
Rural residential real estate	227	334	—	216	9
Total	\$ 35,378	\$ 42,871	\$ —	\$ 33,623	\$ 1,542
Total impaired loans:					
Real estate mortgage	\$ 18,913	\$ 22,081	\$ 37	\$ 17,975	\$ 824
Production and intermediate-term	11,444	16,627	1,418	10,876	499
Processing and marketing	10,575	10,583	—	10,050	461
Farm-related business	204	302	27	194	9
Rural residential real estate	308	416	45	293	13
Total	\$ 41,444	\$ 50,009	\$ 1,527	\$ 39,388	\$ 1,806

	December 31, 2019			Year Ended December 31, 2019	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans:					
With a related allowance for credit losses:					
Real estate mortgage	\$ 4,095	\$ 4,396	\$ 202	\$ 3,967	\$ 197
Production and intermediate-term	4,975	5,986	1,923	4,818	239
Farm-related business	—	—	—	—	—
Rural residential real estate	137	137	57	133	6
Total	\$ 9,207	\$ 10,519	\$ 2,182	\$ 8,918	\$ 442
With no related allowance for credit losses:					
Real estate mortgage	\$ 12,767	\$ 15,512	\$ —	\$ 12,365	\$ 612
Production and intermediate-term	6,826	10,218	—	6,613	328
Farm-related business	324	458	—	314	16
Rural residential real estate	270	395	—	261	13
Total	\$ 20,187	\$ 26,583	\$ —	\$ 19,553	\$ 969
Total impaired loans:					
Real estate mortgage	\$ 16,862	\$ 19,908	\$ 202	\$ 16,332	\$ 809
Production and intermediate-term	11,801	16,204	1,923	11,431	567
Farm-related business	324	458	—	314	16
Rural residential real estate	407	532	57	394	19
Total	\$ 29,394	\$ 37,102	\$ 2,182	\$ 28,471	\$ 1,411

	December 31, 2018			Year Ended December 31, 2018		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	
Impaired loans:						
With a related allowance for credit losses:						
Real estate mortgage	\$ 4,136	\$ 4,362	\$ 501	\$ 4,896	\$ 516	
Production and intermediate-term	6,091	7,482	1,085	7,210	759	
Farm-related business	16	15	16	18	2	
Rural residential real estate	83	83	31	98	10	
Total	\$ 10,326	\$ 11,942	\$ 1,633	\$ 12,222	\$ 1,287	
With no related allowance for credit losses:						
Real estate mortgage	\$ 12,086	\$ 14,667	\$ –	\$ 14,305	\$ 1,505	
Production and intermediate-term	3,644	6,136	–	4,312	454	
Farm-related business	149	292	–	177	19	
Rural residential real estate	29	158	–	34	4	
Total	\$ 15,908	\$ 21,253	\$ –	\$ 18,828	\$ 1,982	
Total impaired loans:						
Real estate mortgage	\$ 16,222	\$ 19,029	\$ 501	\$ 19,201	\$ 2,021	
Production and intermediate-term	9,735	13,618	1,085	11,522	1,213	
Farm-related business	165	307	16	195	21	
Rural residential real estate	112	241	31	132	14	
Total	\$ 26,234	\$ 33,195	\$ 1,633	\$ 31,050	\$ 3,269	

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*	Communication	Rural Residential Real Estate	Total
Activity related to the allowance for credit losses:						
Balance at December 31, 2019	\$ 6,172	\$ 9,189	\$ 277	\$ 23	\$ 373	\$ 16,034
Charge-offs	—	(799)	—	—	(19)	(818)
Recoveries	99	137	7	—	2	245
Provision for loan losses	393	342	160	37	(7)	925
Balance at December 31, 2020	\$ 6,664	\$ 8,869	\$ 444	\$ 60	\$ 349	\$ 16,386
Balance at December 31, 2018	\$ 6,142	\$ 7,822	\$ 980	\$ 54	\$ 315	\$ 15,313
Charge-offs	(18)	(474)	(10)	—	—	(502)
Recoveries	50	160	10	—	3	223
Provision for loan losses	(2)	1,681	(703)	(31)	55	1,000
Balance at December 31, 2019	\$ 6,172	\$ 9,189	\$ 277	\$ 23	\$ 373	\$ 16,034
Balance at December 31, 2017	\$ 6,160	\$ 10,296	\$ 575	\$ 80	\$ 350	\$ 17,461
Charge-offs	(225)	(4,699)	(99)	—	(12)	(5,035)
Recoveries	221	163	—	—	3	387
Provision for loan losses	(14)	2,062	504	(26)	(26)	2,500
Balance at December 31, 2018	\$ 6,142	\$ 7,822	\$ 980	\$ 54	\$ 315	\$ 15,313
Allowance on loans evaluated for impairment:						
Individually	\$ 37	\$ 1,418	\$ 27	\$ —	\$ 45	\$ 1,527
Collectively	6,627	7,451	417	60	304	14,859
Balance at December 31, 2020	\$ 6,664	\$ 8,869	\$ 444	\$ 60	\$ 349	\$ 16,386
Individually	\$ 202	\$ 1,923	\$ —	\$ —	\$ 57	\$ 2,182
Collectively	5,970	7,266	277	23	316	13,852
Balance at December 31, 2019	\$ 6,172	\$ 9,189	\$ 277	\$ 23	\$ 373	\$ 16,034
Individually	\$ 501	\$ 1,085	\$ 16	\$ —	\$ 31	\$ 1,633
Collectively	5,641	6,737	964	54	284	13,680
Balance at December 31, 2018	\$ 6,142	\$ 7,822	\$ 980	\$ 54	\$ 315	\$ 15,313
Recorded investment in loans evaluated for impairment:						
Individually	\$ 18,913	\$ 11,444	\$ 10,779	\$ —	\$ 308	\$ 41,444
Collectively	1,425,765	302,686	43,609	7,033	58,051	1,837,144
Balance at December 31, 2020	\$ 1,444,678	\$ 314,130	\$ 54,388	\$ 7,033	\$ 58,359	\$ 1,878,588
Individually	\$ 16,862	\$ 11,801	\$ 324	\$ —	\$ 407	\$ 29,394
Collectively	1,338,175	326,589	42,901	4,386	57,289	1,769,340
Balance at December 31, 2019	\$ 1,355,037	\$ 338,390	\$ 43,225	\$ 4,386	\$ 57,696	\$ 1,798,734
Individually	\$ 16,222	\$ 9,735	\$ 165	\$ —	\$ 112	\$ 26,234
Collectively	1,361,975	355,417	51,112	6,738	59,819	1,835,061
Balance at December 31, 2018	\$ 1,378,197	\$ 365,152	\$ 51,277	\$ 6,738	\$ 59,931	\$ 1,861,295

*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 \$25,498, \$31,708, and \$37,559 at December 31, 2020, 2019, and 2018, respectively. Fees paid for such guarantee commitments totaled \$15, \$22, and \$29 for 2020, 2019, and 2018, respectively. 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	\$ 63	\$ 3,161	\$ –	\$ 3,224	
Production and intermediate-term	–	1,070	–	1,070	
Processing and marketing	–	11,971	–	11,971	
Farm related business	–	47	–	47	
Total	\$ 63	\$ 16,249	\$ –	\$ 16,312	
Post-modification:					
Real estate mortgage	\$ 63	\$ 3,190	\$ –	\$ 3,253	\$ –
Production and intermediate-term	–	1,070	–	1,070	–
Processing and marketing	–	11,971	–	11,971	–
Farm related business	–	47	–	47	–
Total	\$ 63	\$ 16,278	\$ –	\$ 16,341	\$ –

Year Ended December 31, 2019					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 123	\$ 467	\$ 353	\$ 943	
Production and intermediate-term	85	2,674	259	3,018	
Total	\$ 208	\$ 3,141	\$ 612	\$ 3,961	
Post-modification:					
Real estate mortgage	\$ 123	\$ 438	\$ 353	\$ 914	\$ –
Production and intermediate-term	85	2,772	298	3,155	–
Total	\$ 208	\$ 3,210	\$ 651	\$ 4,069	\$ –

Year Ended December 31, 2018					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 2,003	\$ 910	\$ –	\$ 2,913	
Production and intermediate-term	1,934	1,016	–	2,950	
Total	\$ 3,937	\$ 1,926	\$ –	\$ 5,863	
Post-modification:					
Real estate mortgage	\$ 2,003	\$ 870	\$ –	\$ 2,873	\$ (6)
Production and intermediate-term	1,934	743	–	2,677	–
Total	\$ 3,937	\$ 1,613	\$ –	\$ 5,550	\$ (6)

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.

Defaulted troubled debt restructurings	Year Ended December 31,		
	2020	2019	2018
Real estate mortgage	\$ 820	\$ –	\$ –
Production and intermediate-term	339	122	131
Processing and marketing	347	–	–
Total	\$ 1,506	\$ 122	\$ 131

The following table provides information at each 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	\$ 6,260	\$ 5,282	\$ 4,776	\$ 3,533	\$ 3,189	\$ 3,412
Production and intermediate-term	5,517	6,467	4,796	4,358	3,871	4,277
Processing and marketing	10,574	—	—	346	—	—
Farm related business	48	—	—	—	—	—
Rural residential real estate	27	16	18	—	16	18
Total loans	\$ 22,426	\$ 11,765	\$ 9,590	\$ 8,237	\$ 7,076	\$ 7,707
Additional commitments to lend	\$ 1,003	\$ 17	\$ —			

Note 4 — Investments

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 \$17,109 for 2020, \$19,673 for 2019 and \$19,874 for 2018. The Association owned 6.35 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 \$854 in investments 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	\$ 4,185	\$ 4,042	\$ 4,151
Buildings and improvements	10,659	9,543	9,706
Furniture and equipment	6,680	6,194	5,914
	21,524	19,779	19,771
Less: accumulated depreciation	9,159	8,512	8,219
Total	\$ 12,365	\$ 11,267	\$ 11,552

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, which will be included in interest expense. The interest rate is periodically adjusted by the Bank based upon an agreement between the Bank and the Association.

The weighted average interest rates on the variable rate advances were 1.48 percent for LIBOR-based loans and 1.57 percent for Prime-based loans, and the weighted average remaining maturities were 5.4 years and 1.9 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 2.78 percent, and the weighted average remaining maturity was 14.9 years at December 31, 2020. The weighted-average interest rate on all interest-bearing notes payable was 2.62 percent and the weighted-average remaining maturity was 13.3 years at December 31, 2020. Gross notes payable consists of approximately 13.51 percent variable rate and 86.49 percent fixed rate portions, representing a match-funding of the Association's loan volume at December 31, 2020. Notes payable to the Bank, as reflected on the Consolidated Balance Sheets, also includes a credit which reduces the note payable and corresponding interest expense. 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.

On January 15, 2021, the Bank approved a waiver of the Association's events of default under 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. 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 Common 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 a minimum of 2 percent of the loan amount or \$1 thousand, or such higher amount as determined by the Board. 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.

- B. 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 revolvment, 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 revolvment 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:

	Minimum	Capital	Minimum Requirement	Capital Ratios as of December 31,		
Ratio	Requirement	Conservation	with Capital			
		Buffer*	Conservation Buffer	2020	2019	2018
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	23.17%	23.39%	22.30%
Tier 1 Capital	6.0%	2.5%	8.5%	23.17%	23.39%	22.30%
Total Capital	8.0%	2.5%	10.5%	24.04%	24.23%	23.10%
Permanent Capital	7.0%	0.0%	7.0%	23.37%	23.59%	22.48%
Non-risk-adjusted ratios:						
Tier 1 Leverage	4.0%	1.0%	5.0%	23.95%	24.08%	22.84%
URE and UREE Leverage	1.5%	0.0%	1.5%	24.18%	24.33%	23.07%

* 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.

- C. **Description of Equities:** The Association is authorized to issue or have outstanding Class D Preferred Stock, Classes A and C Common Stock, 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	1,954,306	\$ 9,771
Participation Certificates/Nonvoting	No	151,796	759
Total Capital Stock and Participation Certificates		2,106,102	\$ 10,530

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.

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.

Nonqualified retained surplus is considered to be permanently invested in the Association and as such, there is no plan to revolve or retire this surplus. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2020, allocated members' equity consisted of \$92,568 of nonqualified retained surplus.

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.

The patronage distributions accrued at year-end are based on estimates. The actual amounts distributed may vary from these estimates. Differences are reflected as distribution adjustments in the Consolidated Statements of Changes in Members' Equity.

Dividends

Dividends may be paid on stock and participation certificates as determined by the Board's resolution. Dividends may not be paid on common stock and participation certificates during any fiscal year with respect to which the Association has obligated itself to distribute earnings on a patronage basis pursuant to the bylaws. The rate of dividend paid on Class D Preferred Stock for any fiscal year may not be less than the rate of dividend paid on common stock or participation certificates for such year. All dividends shall be paid on a per share basis. Dividends on common stock and participation certificates shall be noncumulative without preference between classes.

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.

Transfer

Common stocks and participation certificates may be transferred to persons or entities eligible to purchase or hold such equities under the bylaws. Class D Preferred

Stock may be transferred in the manner set forth in the resolution authorizing its issuance.

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. Nonqualified allocated members equity beginning with the most recent allocation
2. Qualified allocated members equity beginning with the most recent allocation
3. Classes A and C Common Stock and Participation Certificates
4. Class 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 Class D Preferred Stock until an amount equal to the aggregate par value of shares of Class D Preferred Stock then outstanding has been distributed to the holders;
2. Holders of Class A Stock, Class C Stock, and Participation Certificates pro rata in proportion to the number of shares or units each such class of stock and participation certificates then outstanding until an amount equal to the aggregate par value (or face value) of such shares or units has been distributed to the holders;
3. Holders of Allocated Surplus to the extent evidenced by qualified written notices of allocation, pro rata, on the basis of the oldest allocations first, until an amount equal to the total account has been distributed to such holders;
4. Holders of Allocated Surplus to the extent evidenced by nonqualified written notice of allocation, pro rata, on the basis of the oldest allocations first, until an amount equal the total account has been distributed to such holders;
5. Any remaining assets of the Association after such distributions shall be distributed to Patrons, past and present, in proportion to which the aggregate patronage of each such Patron bears to the total patronage of all such parties insofar as practicable, unless as otherwise provided by law.

D. Accumulated Other Comprehensive Income (AOCI):

Changes in Accumulated Other Comprehensive Income by Component (a)				
For the Year Ended December 31,				
	2020	2019	2018	
Employee Benefit Plans:				
Balance at beginning of period	\$ (36)	\$ (24)	\$ (30)	
Other comprehensive income before reclassifications	(6)	(13)	5	
Amounts reclassified from AOCI	2	1	1	
Net current period OCI	(4)	(12)	6	
Balance at end of period	\$ (40)	\$ (36)	\$ (24)	

Reclassifications Out of Accumulated Other Comprehensive Income (b)				
For the Year Ended December 31,				
	2020	2019	2018	Income Statement Line Item
Defined Benefit Pension Plans:				
Periodic pension costs	\$ (2)	\$ (1)	\$ (1)	See Note 9.
Amounts reclassified	\$ (2)	\$ (1)	\$ (1)	

(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.

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 were collateral-dependent. Specific reserves were established for these loans when the value of the collateral, less estimated cost to sell, was 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.

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				
<u>Recurring Measurements</u>										
Assets:										
Assets held in trust funds	\$	1,766	\$	1,766	\$	—	\$	—	\$	1,766
Recurring Assets	\$	1,766	\$	1,766	\$	—	\$	—	\$	1,766
Liabilities:										
Recurring Liabilities	\$	—	\$	—	\$	—	\$	—	\$	—
<u>Nonrecurring Measurements</u>										
Assets:										
Impaired loans	\$	4,539	\$	—	\$	—	\$	4,539	\$	4,539
Other property owned		826		—		—		911		911
Nonrecurring Assets	\$	5,365	\$	—	\$	—	\$	5,450	\$	5,450
<u>Other Financial Instruments</u>										
Assets:										
Cash	\$	131	\$	131	\$	—	\$	—	\$	131
Loans		1,851,655		—		—		1,873,227		1,873,227
Other Financial Assets	\$	1,851,786	\$	131	\$	—	\$	1,873,227	\$	1,873,358
Liabilities:										
Notes payable to AgFirst Farm Credit Bank	\$	1,418,871	\$	—	\$	—	\$	1,439,084	\$	1,439,084
Other Financial Liabilities	\$	1,418,871	\$	—	\$	—	\$	1,439,084	\$	1,439,084

December 31, 2019						
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	
<u>Recurring Measurements</u>						
Assets:						
Assets held in trust funds	\$ 1,916	\$ 1,916	\$ –	\$ –	\$ 1,916	
Recurring Assets	\$ 1,916	\$ 1,916	\$ –	\$ –	\$ 1,916	
Liabilities:						
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –	
<u>Nonrecurring Measurements</u>						
Assets:						
Impaired loans	\$ 7,025	\$ –	\$ –	\$ 7,025	\$ 7,025	
Other property owned	965	–	–	1,061	1,061	
Nonrecurring Assets	\$ 7,990	\$ –	\$ –	\$ 8,086	\$ 8,086	
<u>Other Financial Instruments</u>						
Assets:						
Cash	\$ 6,979	\$ 6,979	\$ –	\$ –	\$ 6,979	
Loans	1,766,920	–	–	1,772,462	1,772,462	
Other Financial Assets	\$ 1,773,899	\$ 6,979	\$ –	\$ 1,772,462	\$ 1,779,441	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$ 1,353,895	\$ –	\$ –	\$ 1,357,422	\$ 1,357,422	
Other Financial Liabilities	\$ 1,353,895	\$ –	\$ –	\$ 1,357,422	\$ 1,357,422	

December 31, 2018						
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	
<u>Recurring Measurements</u>						
Assets:						
Assets held in trust funds	\$ 1,964	\$ 1,964	\$ –	\$ –	\$ 1,964	
Recurring Assets	\$ 1,964	\$ 1,964	\$ –	\$ –	\$ 1,964	
Liabilities:						
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –	
<u>Nonrecurring Measurements</u>						
Assets:						
Impaired loans	\$ 8,693	\$ –	\$ –	\$ 8,693	\$ 8,693	
Other property owned	1,477	–	–	1,625	1,625	
Nonrecurring Assets	\$ 10,170	\$ –	\$ –	\$ 10,318	\$ 10,318	
<u>Other Financial Instruments</u>						
Assets:						
Cash	\$ 4,700	\$ 4,700	\$ –	\$ –	\$ 4,700	
Loans	1,827,120	–	–	1,793,940	1,793,940	
Other Financial Assets	\$ 1,831,820	\$ 4,700	\$ –	\$ 1,793,940	\$ 1,798,640	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$ 1,422,676	\$ –	\$ –	\$ 1,397,861	\$ 1,397,861	
Other Financial Liabilities	\$ 1,422,676	\$ –	\$ –	\$ 1,397,861	\$ 1,397,861	

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.

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	\$ 5,450	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
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment rates 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 to be filed. 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 in 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 \$2,642 for 2020, \$2,407 for 2019, and \$3,189 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, and 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 in 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 \$478 for 2020, \$510 for 2019, and \$480 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. 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 \$1,184, \$930, and \$841 for the years ended December 31, 2020, 2019, and 2018, respectively. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2002.

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, \$(4), \$(12) and \$6, respectively, 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 \$119 and a net under-funded status of \$119 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 \$5, \$5, and \$6 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 \$9,015. During 2020, \$3,222 of new loans were made and repayments totaled \$3,441. 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, \$203,002 of commitments to extend credit and no commercial letters of credit were outstanding. At December 31, 2020, there was no reserve for unfunded commitments included in Other Liabilities in the Consolidated Balance Sheets.

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 \$85 with expiration dates ranging from January 1, 2021 to December 19, 2021. The maximum potential amount of future payments that may be required under these guarantees was \$85.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2020	2019	2018
Current:			
Federal	\$ (55)	\$ 103	\$ 34
State	(16)	39	6
	(71)	142	40
Deferred:			
Federal	—	—	—
State	—	—	—
	—	—	—
Total provision (benefit) for income taxes	\$ (71)	\$ 142	\$ 40

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	\$ 10,326	\$ 9,686	\$ 11,059
State tax, net	(2)	7	7
Patronage distributions	(8,400)	(8,400)	(7,350)
Tax-exempt FLCA earnings	(1,859)	(1,253)	(2,787)
Change in valuation allowance	(97)	(15)	(1,098)
Other	(39)	117	209
Deferred tax rate change	—	—	—
Provision (benefit) for income taxes	\$ (71)	\$ 142	\$ 40

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

	December 31,		
	2020	2019	2018
Deferred income tax assets:			
Allowance for loan losses	\$ 2,194	\$ 2,309	\$ 1,941
Annual leave	132	339	337
Nonaccrual loan interest	807	629	462
Pensions and other postretirement benefits	434	471	485
Deferred incentive	—	—	262
Gross deferred tax assets	3,567	3,748	3,487
Less: valuation allowance	(2,940)	(3,036)	(3,052)
Gross deferred tax assets, net of valuation allowance	627	712	435
Deferred income tax liabilities:			
Loan origination fees	(556)	(487)	(370)
Pensions and other postretirement benefits	—	—	—
Depreciation	(71)	(225)	(65)
Gross deferred tax liability	(627)	(712)	(435)
Net deferred tax asset (liability)	\$ —	\$ —	\$ —

At December 31, 2020, deferred income taxes have not been provided by the Association on approximately \$1.6 million 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 \$2,940, \$3,036, and \$3,052 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	\$ 12,949	\$ 12,501	\$ 12,283	\$ 12,761	\$ 50,494
Provision for (reversal of allowance for) loan losses	—	1,000	225	(300)	925
Noninterest income (expense), net	(4,363)	(4,025)	(3,831)	11,894	(325)
Net income	\$ 8,586	\$ 7,476	\$ 8,227	\$ 24,955	\$ 49,244

	2019				
	First	Second	Third	Fourth	Total
Net interest income	\$ 13,822	\$ 13,529	\$ 13,445	\$ 13,310	\$ 54,106
Provision for (reversal of allowance for) loan losses	4,000	(3,750)	250	500	1,000
Noninterest income (expense), net	(3,579)	(3,583)	(3,839)	3,876	(7,125)
Net income	\$ 6,243	\$ 13,696	\$ 9,356	\$ 16,686	\$ 45,981

	2018				
	First	Second	Third	Fourth	Total
Net interest income	\$ 13,946	\$ 13,902	\$ 13,979	\$ 15,243	\$ 57,070
Provision for (reversal of allowance for) loan losses	500	500	1,000	500	2,500
Noninterest income (expense), net	(2,674)	(4,119)	(3,333)	8,177	(1,949)
Net income	\$ 10,772	\$ 9,283	\$ 9,646	\$ 22,920	\$ 52,621

Note 14 — Subsequent Events

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



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