AgSouth Farm Credit, ACA

2020 ANNUAL REPORT

IN MEMORY OF JEROME G. PARKER

AgSouth would like to commemorate one of our dedicated leaders, Mr. Jerome G. Parker, who passed away in December of 2020. Mr. Parker served as a member of the Board of Directors from 1987 through 2020. We are incredibly grateful for his unwavering support and leadership in the agriculture industry and dedication to the Association, its Board and Members.

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MESSAGE FROM YOUR CEO

PAT CALHOUN
Chief Executive Officer

On behalf of the board, management and staff of AgSouth Farm Credit, I am pleased to present your 2020 Annual Report and to offer a sincere thank you for your business. Despite the challenges presented by 2020, your cooperative had a record year. Our accomplishments come in large part from your continuing decision to do business the cooperative way with AgSouth. We appreciate very much your loyalty and your choice to use AgSouth to help meet your financial goals.

Net loan volume grew by nearly 5%, ending 2020 in excess of $1.9 billion dollars, an increase of approximately $90 million dollars from 2019. Member equity in the cooperative exceeded $436 million, more than 5% growth from the prior year. Net Earnings for the year were approximately $66.9 million, a record for AgSouth. These earnings were supported by strong core earnings and by a continued special distribution of earnings from AgFirst Farm Credit. We expect this special distribution to moderate going forward and as a result, our earnings should return to more typical levels in the coming years. Your board was also able to declare and distribute a special, all cash patronage of $8 million dollars in 2020 in addition to our other cooperative distributions. Total cash distributions to members from your cooperative in 2020 exceeded $40 million dollars.

LOANS OUTSTANDING
IN MILLIONS

NET INCOME
IN MILLIONS

Speaking of patronage, in light of 2020s strong performance, your board has for the 33rd consecutive year, declared a patronage from 2020s operations. Approximately $40 million of 2020s earnings were designated for this core, important cooperative purpose. It continues to pay to do business with AgSouth where we "put our profits in your pockets"!

Our 2020 annual report features a few articles to add value to your operation or interests. You will also find helpful information about your Association and the services it offers including insurance, residential mortgages and leasing. We also focus on tools available to help make your interaction with AgSouth more efficient. I encourage you to take advantage of many of these products, services and tools to enhance your AgSouth experience.

AgSouth remains strong and committed to agriculture and to rural Georgia & South Carolina. We enter 2021 with a strong balance sheet, adequate reserves and an excellent staff. We are ready for the opportunities and challenges of 2021 and look forward to taking them on with you, our cooperative members.

Finally, I want to finish where I started with a "thank you" for your business. 2020 presented a unique set of obstacles for all of us to navigate. The cooperative way allowed us to meet these challenges together. AgSouth's membership is the foundation of its success. I encourage you to continue to use your cooperative and to refer others to do business here at AgSouth!

Pat Calhoun
Chief Executive Officer

TOTAL MEMBERS EQUITY

IN MILLIONS

TOTAL PATRONAGE

IN MILLIONS*

* 2019's patronage does not include the Special All Cash Distribution of $8 million distributed from 2019 earnings, but declared in 2020.

YOUR LEADERSHIP TEAM

AgSouth Farm Credit is led by a team of Directors and Executive Management with decades of shared financial and agricultural experience. Our Directors are vested in the success of the organization not only because they are leaders, but because they are member-borrowers themselves. You can count on AgSouth's leaders to make sound decisions for the future of our organization and for the next generation of farmers and rural residents.

Jimmy B. Metts
Elected to Board 1978
42 years of service

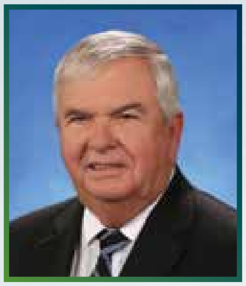
We would like to acknowledge Mr. Jimmy B. Metts, who left the Board of Directors this year after 42 years of service. He represented his region faithfully and served our members well. Thank you, Mr. Metts, for your dedication to the Association.

2020 BOARD OF DIRECTORS

Hugh E. Weathers
Chairman
Elected to Board in 1998
22 years of service

H. Frank Ables, Jr.
Vice Chairman
Elected to Board in 2015
5 years of service

Arthur Q. Black
Elected to Board in 1995
25 years of service



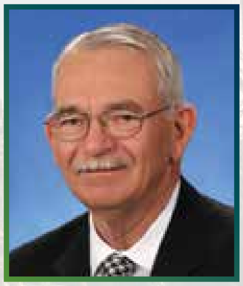
James C. Carter, Jr.
Elected to Board in 1979
41 years of service

David V. Cantley
Elected to Board in 2020
1 year of service

Lee H. DeLoach
Elected to Board in 2002
18 years of service

Sean F. Lennon
Elected to Board in 2017
3 years of service

Phillip E. Love, Jr.
Appointed to Board in 2014
6 years of service



Jerome G. Parker
Elected to Board in 1987
33 years of service

J. Jay Peay
Elected to Board in 2015
5 years of service

William T. Robinson
Elected to Board in 2011
9 years of service

Charles C. Rucks
Elected to Board in 1988
32 years of service

David H. Womack
Appointed to Board in 1991
29 years of service

EXECUTIVE MANAGEMENT

Pat Calhoun
Chief Executive Officer
32 years of service

Stacy Anderson
Chief Credit Officer
17 years of service

Jennifer Davis
Chief Information Officer
27 years of service

Bo Fennell
Chief Financial Officer
3 years of service

Sharmequa Franklin
Chief Human Resources Officer
19 years of service

Robbie Haranda
Chief Lending Officer
33 years of service

Bob Mikell
General Counsel
2 years of service

Debbie Sikes
Chief Compliance and Risk Officer
19 years of service

Christian Taylor
Director of Secondary Market and Financially Related Services
15 years of service

MAKE GOOD FARM DECISIONS WITH RECORD KEEPING

While record-keeping may not be the most fulfilling part of your job, it's one of the most beneficial and essential tasks you will do for your operation. After all, the key to making sound decisions right now is to have as much information at your fingertips as possible. Information leads to knowledge, and knowledge leads to success.

Why Should You Keep Records?

With new financial challenges, demand for transparency and traceability, and ever increasing regulatory requirements, accurate and informative records are an absolute necessity in today's environment.

1. DECISION-MAKING

Keeping accurate financial and production records allow for year-to-year comparisons that help you make wise management decisions, find irregularities in your operation, and identify highly profitable areas. And when analyzing these records, they can help you determine your true profit and loss, and whether you should continue, change or stop production practices.

For example, cattle producers may want to improve efficiencies by keeping records on breeding and calving, weight gain and vaccinations. With an increase in the demand for livestock traceability on the farm, keeping records on individual animals is critical.

Row crop farmers may want to keep records on a field-by-field basis on planting dates, varieties, spray applications and yield and use that information to determine the profitability of individual fields, which drives planting and input application decisions. And regulations today require accurate records of pesticide use.

2. OBTAINING CREDIT

Record-keeping also comes in handy when you need a new loan for your farm. All lending institutions require you to provide financial records to obtain credit. And when you approach a lender with your complete financial records, it will give them a strong impression of you as a farmer.

3. ADDED PROTECTION

Keeping accurate and detailed records offers a certain level of protection for you if there are questions and needs for specific answers. For example, keeping a record of pesticide spray application dates, times, rates, and weather conditions could serve to protect a farmer in the event of a drift accusation. Keeping a record of animal medication date, type and dosage could serve to protect a producer in the event of a disease outbreak or meat contamination.

Ways You Can Record-Keep

Nowadays, technology is providing new ways to keep records and conveniently organize them for future reference and analysis. There are software packages available that greatly improve and even simplify these tasks.

Here are a few options:

- Accounting ledgers and journals
- Excel workbooks using online tutorials
- Software programs like QuickBooks, Quicken, etc.

Gathering and analyzing data on your operation may not be the most exciting part of your day, but doing so will be more beneficial to you in the long run.

HOW WE CAN HELP YOU LIVE YOUR DREAMS

As one of the largest and most successful agricultural cooperatives in the Southeast, AgSouth Farm Credit is always looking for new ways help you live your dreams by providing loans for the rural lifestyle you want to live. We also provide related services that help contribute to your success, like crop insurance and leasing. Your Board of Directors and management work together to ensure the success of our cooperative so we can continue to help our rural communities thrive, one dream at a time. We do that by keeping our rates competitive, paying a healthy patronage distribution, revolving allocated surplus on a timely basis and educating the public and new farmers about agriculture so they can create and live out their own dreams.

Services to Help with Your Success

AgSouth has a variety of products and services to help make living your dream a reality.

LOANS FOR REAL ESTATE

- Large acreage
- Residential lots
- Timberland

LOANS FOR HOMES

- Home purchases
- Home construction
- Home improvements
- Refinances

LOANS FOR AGRICULTURE

- Equipment
- Farm improvements
- Operating expenses
- Barns
- Fencing
- Vehicles
- Livestock
- Personal expenses (for full-time farmers only)

SECONDARY MARKET DIVISION

Our Secondary Market Division, AgSouth Mortgages, offers loans to farmers and non-farmers for:

- Home purchases in town or in the country
- Construction-to-perm loans with one closing at low fixed rates (some restrictions apply)
- Homes for investment purposes
- Second homes
- Vacation properties

MEMBER SERVICES

For more information, please contact your local branch or visit AgSouthFC.com/Products-Services.

- Account Access
- AgSouth Farm Credit Mobile
- AgSweep
- AutoDraft
- Fast Cash
- Member Referral Program

ADDITIONAL SERVICES

For more information, please contact your local branch or visit AgSouthFC.com/Products-Services.

WE MAKE IT EASY TO MANAGE YOUR ACCOUNT

We offer convenient services to help you manage your time and money, even when life is at its busiest. Contact your loan officer or local branch for information and questions about these options.

ACCOUNTACCESS ONLINE PORTAL

- Log in 24/7 to access all of your loan information, including current balance and next payment due date
- Make your loan payment online
- Transfer funds between your line of credit and your bank account
- Review past 16 months' activity
- Download and print your annual loan activity statement
- View & print 1098 & 1099 tax documents
- Sign up at AgSouthFC.com by clicking on AccountAccess at the top in the blue bar

AGSOUTH FARM CREDIT MOBILE APP

- Do everything you can do in AccountAccess when you're away from your computer. Now with fingerprint and facial recognition for extra security.
- Sign up online for AccountAccess first and then download the app from your smartphone

AUTODRAFT

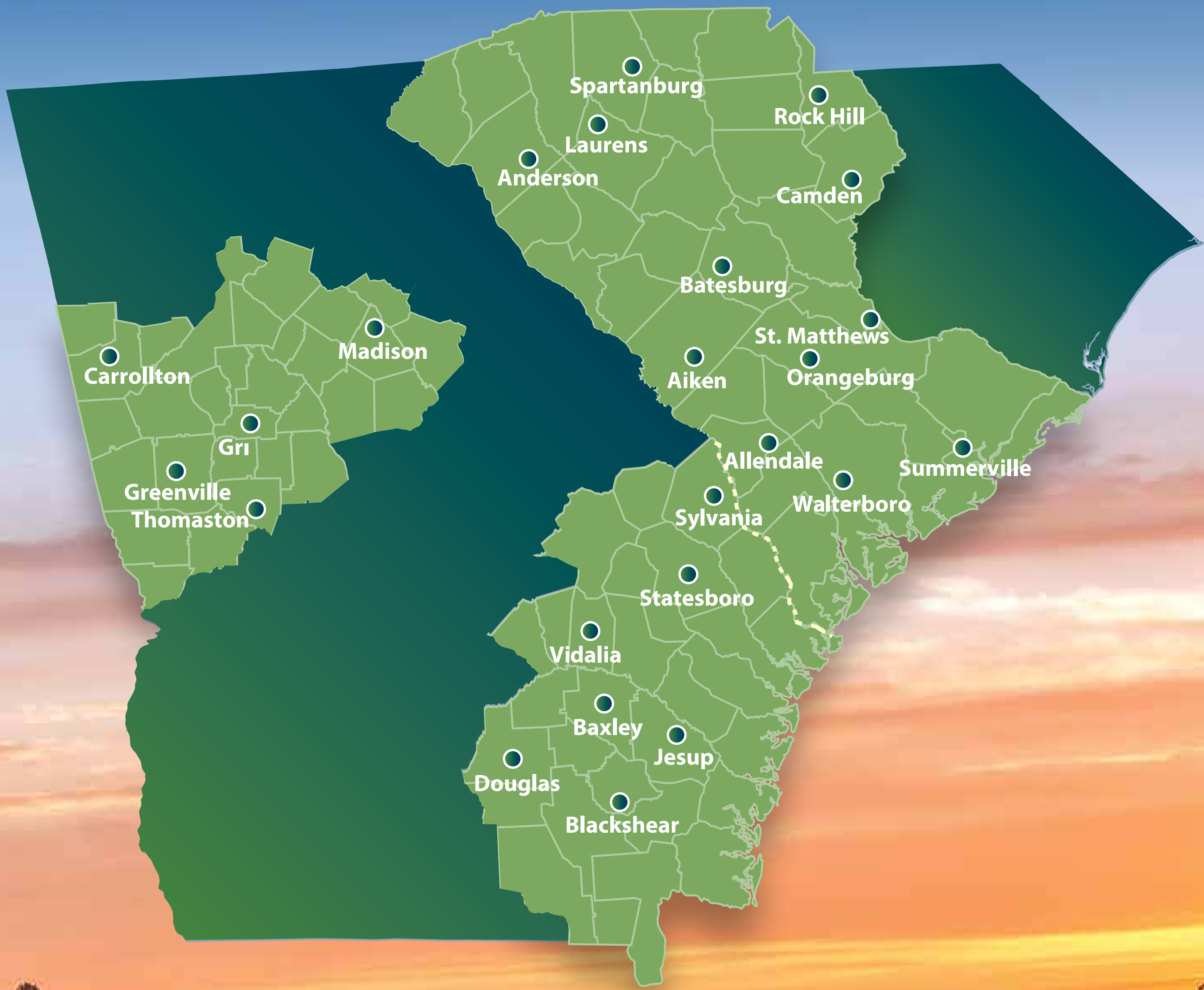
- Automatically deduct your loan payment from your checking or savings account
- Avoid late charges by knowing that your loan payment has been made on time every time
- Flexible draft date
- Contact your loan officer to set up automated payments

QUICK PAY

- A centralized and automated payment processing function, which streamlines payments initiated through a member's Internet Bill Payment service

AGSOUTH LOCATIONS

AgSouth serves members through 24 local branch offices in 59 Georgia counties and 34 South Carolina counties.



GEORGIA

BAXLEY
2215 Hatch Pkwy S
Baxley, GA 31513
912 367-7006

BLACKSHEAR
111 Carter Ave.
Blackshear, GA 31516
912 449 4701

CARROLLTON
2520 Hwy. 27 South
Carrollton, GA 30117
770 834 3319

DOUGLAS
204 Bowens Mill Rd.
Douglas, GA 31533
912-384-3200

GREENVILLE
596 S. Talbotton St.
Greenville, GA 30222
706 672-4285

GRIFFIN
1298 Enterprise Way
Griffin, GA 30224
770-228-8958

JESUP
855 Odum Hwy.
Jesup, GA 31545
912 530 7777

MADISON
1691 Lions Club Rd.
Madison, GA 30650
706 342 2352

STATESBORO
40 S. Main St.
Statesboro, GA 30458
912 764 9091

SYLVANIA
302 Mims Rd.
Sylvania, GA 30467
912 564 2468

THOMASTON
620 N. Church St.
Thomaston, GA 30286
706 647 8991

VIDALIA
314 Commerce Way
Vidalia, GA 30474
912 537-4135

SOUTH CAROLINA

AIKEN
951 E. Pine Log Rd.
Aiken, SC 29803
803-648-6818

ALLENDALE
4930 Burton's Ferry Hwy.
Allendale, SC 29810
803 584 3406

ANDERSON
1325 Pearman Dairy Rd.
Anderson, SC 29625
864 226 8507

BATESBURG
109 E. Church St.
Batesburg Leesville, SC 29070
803 532-3841

CAMDEN
951 Hwy. 1 South
Lugoff, SC 29078
803 438-2464

LAURENS
306 Hillcrest Dr.
Laurens, SC 29360
864-984-3379

ORANGEBURG
1880 Joe S. Jeffords Hwy.
Orangeburg, SC 29115
803 534 6546

ROCK HILL
1321 Springdale Rd.
Rock Hill, SC 29730
803 324-1131

SPARTANBURG
101 North Town Dr.
Spartanburg, SC 29303
864 585-0344

ST. MATTHEWS
2630 Colonel Thomson Hwy.
St. Matthews, SC 29135
803-874 3703

SUMMERVILLE
702 Kate Ln.
Summerville, SC 29483
843-821 6758

WALTERBORO
529 Bells Hwy.
Walterboro, SC 29488
843 549 1584

ADMINISTRATIVE OFFICE

STATESBORO, GA – HEADQUARTERS
26 S. Main St.
Statesboro, GA 30458
912 764 9091

VISIT US AT **WWW.AGSOUTHFC.COM** OR CALL
1-844-AGSOUTH TO REACH ANY OFFICE

2020 FINANCIAL RESULTS

AgSouth Farm Credit, ACA

2020 ANNUAL REPORT

Contents

Report of Management

The accompanying Consolidated Financial Statements and related financial information appearing throughout this annual report have been prepared by management of AgSouth Farm Credit, 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 within 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 AgSouth Farm Credit, 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.

Hugh E. Weathers
Chairman of the Board

Pat Calhoun
Chief Executive Officer

Bo Fennell
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.

Pat Calhoun
Chief Executive Officer

Bo Fennell
Chief Financial Officer

March 11, 2021

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	**2020**	**2019**	**December 31,** **2018**	**2017**	**2016**
Balance Sheet Data					
Cash	**$ 133**	$ 5,853	$ 5,026	$ 4,949	$ 5,160
Investments in debt securities	**3,950**	5,010	5,280	5,533	7,057
Loans	**1,921,622**	1,835,096	1,793,452	1,710,098	1,631,945
Allowance for loan losses	**(17,357)**	(16,361)	(15,444)	(14,815)	(14,183)
Net loans	**1,904,265**	1,818,735	1,778,008	1,695,283	1,617,762
Equity investments in other Farm Credit institutions	**22,469**	24,527	24,151	23,568	22,847
Other property owned	**1,170**	4,019	4,627	3,669	3,289
Other assets	**75,844**	65,633	67,770	67,839	66,868
Total assets	**$ 2,007,831**	$1,923,777	$1,884,862	$1,800,841	$1,722,983
Notes payable to AgFirst Farm Credit Bank*	**$ 1,538,795**	$1,481,914	$1,461,549	$1,405,074	$1,342,601
Accrued interest payable and other liabilities with maturities of less than one year	**32,535**	31,029	33,321	30,276	41,682
Total liabilities	**1,571,330**	1,512,943	1,494,870	1,435,350	1,384,283
Protected borrower stock	**—**	—	—	—	2
Capital stock and participation certificates	**10,626**	10,012	9,567	9,097	8,493
Retained earnings					
Allocated	**139,757**	131,801	126,003	121,876	118,570
Unallocated	**286,811**	269,553	254,648	234,892	212,028
Accumulated other comprehensive income (loss)	**(693)**	(532)	(226)	(374)	(393)
Total members' equity	**436,501**	410,834	389,992	365,491	338,700
Total liabilities and members' equity	**$ 2,007,831**	$1,923,777	$1,884,862	$1,800,841	$1,722,983
Statement of Income Data					
Net interest income	**$ 64,886**	$ 62,771	$ 60,692	$ 59,050	$ 57,582
Provision for loan losses	**1,687**	1,349	581	2,738	1,072
Noninterest income (expense), net	**3,755**	(8,947)	(6,598)	(1,049)	(16,409)
Net income	**$ 66,954**	$ 52,475	$ 53,513	$ 55,263	$ 40,101
Key Financial Ratios					
Rate of return on average:					
Total assets	**3.47%**	2.81%	2.94%	3.15%	2.40%
Total members' equity	**16.29%**	13.34%	14.49%	16.21%	12.21%
Net interest income as a percentage of average earning assets	**3.47%**	3.48%	3.45%	3.49%	3.58%
Net (chargeoffs) recoveries to average loans	**(0.037)%**	(0.024)%	0.003%	(0.125)%	0.001%
Total members' equity to total assets	**21.74%**	21.36%	20.69%	20.30%	19.66%
Debt to members' equity (:1)	**3.60**	3.68	3.83	3.93	4.09
Allowance for loan losses to loans	**0.90%**	0.89%	0.86%	0.87%	0.87%
Permanent capital ratio	**21.03%**	21.21%	20.20%	19.38%	20.55%
Total surplus ratio	**	**	**	**	20.01%
Core surplus ratio	**	**	**	**	16.11%
Common equity tier 1 capital ratio	**14.49%**	14.75%	13.93%	13.14%	**
Tier 1 capital ratio	**14.49%**	14.75%	13.93%	13.14%	**
Total regulatory capital ratio	**21.81%**	21.97%	20.92%	20.10%	**
Tier 1 leverage ratio	**13.90%**	14.04%	13.22%	12.51%	**
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**13.76%**	13.90%	13.06%	12.32%	**
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 20,000**	$ 11,160	$ 10,133	$ 9,720	$ 8,545
Qualified allocated retained earnings	**—**	—	—	—	1,339
Nonqualified allocated retained earnings	**28,001**	26,040	23,644	22,681	18,599

** 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 AgSouth Farm Credit, 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 Georgia and South Carolina. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be 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.agsouthfc.com***, or by calling 1-912-489-4842, extension 2674, or writing Bo Fennell, CFO, P.O. Box 718, Statesboro, GA 30459. The Association prepares an electronic version of the Annual Report, which is available on the Association's website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the Association's website, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

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

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

AGRICULTURAL OUTLOOK

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 US 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 $8.2 million in loans and recorded approximately $330 thousand in loan-related fee income. At December 31, 2020, approximately $4.9 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

ECONOMIC CONDITIONS

AgSouth loan activity continued to be strong during the fourth quarter of 2020. To date, the pandemic has had no significant impact on the Association's ability to deliver loan products and service to our member-borrowers. The Association has not seen any unusual activity in unfunded commitments that would be attributable to the pandemic crisis at this time. The combined fiscal year 2021 omnibus appropriations and COVID-19 relief bill was signed in late December of 2020, resulting in more aid to farmers over the first six months of 2021. The Association continues to work with its customers under the expanded Paycheck Protection Program (PPP).

The January 2021 National Agricultural Statistics Service's (NASS) *Annual Crop Production Report* for Georgia showed 2020 corn for grain production totaling 70.2 million bushels, an increase of 25.4 percent from 2019. Cotton production for 2020 was at 2.2 million bales, down 20.4 percent from 2019. Peanut production was up 19.2 percent from 2019 at 3.28 billion pounds. Soybean production for 2020 was up 56.2 percent from 2019 at 3.9 million bushels. Tobacco production for 2020 was up slightly from prior year at 19.3 million pounds.

The January 2021 NASS *Annual Crop Production Report* for South Carolina showed 2020 corn for grain production totaling 50.2 million bushels, an increase of 35.2 percent from 2019. Cotton production for 2020 decreased by 197,000 bales, down 39.6 percent from 2019. Peanut production was up 18.3 percent from 2019 at 278.8 million pounds. Soybean production for 2020 was up 28.2 percent from 2019 at 10.5 million bushels. Tobacco production for 2020 was down 46.7 percent from 2019 at 8.4 million pounds.

As reported with the January 21, 2021 NASS *Preliminary Pecan Production Report*, Georgia had the highest utilized production (in-shell basis) at 142 million pounds. This production accounted for 47.0 percent of total US production.

Conditions for Georgia's onion crop for week ending November 29, 2020 indicated 54 percent of the crop had been transplanted. At that point in time, the crop was slightly ahead as compared to the five year average.

The January 25, 2021 NASS *Milk Production Report* indicated milk production for the fourth quarter of 2020 in the United States totaled 55.6 billion pounds, up 3 percent for the same period in 2019. Total number of milk cows in the US, on average, was at 9.43 million head, 81,000 head more than fourth quarter 2019. For Georgia, both milk production and milk cows were mostly unchanged. South Carolina was at approximately 90 percent of milk production and milk cows compared to the same period in 2019.

The January 29, 2021 NASS *Cattle Inventory Report* shows all cattle and calves in the United States as of January 1, 2021 totaled 93.6 million head, down slightly from the 93.8 million head on January 1, 2020. All cattle and calves in Georgia remained unchanged from January 1, 2020 at 1.1 million head. South Carolina inventory at 330,000 head is down 2.9 percent from January 2020.

As shown in the December 30, 2020 NASS *Broiler Hatchery Report*, domestic broiler growers placed 183 million chicks for meat production for the week ending December 26, 2020, down 3.0 percent from a year ago. Georgia's placements were 25.1 million, down 9.3 percent from 2019. South Carolina chick placements were 5.9 million, up 15.1 percent from the same week in 2019.

The January 12, 2021 NASS *Winter Wheat Seedings Report* showed the seeded area for 2021 at 32 million acres, up 5 percent from 2020. Georgia seedings are estimated at 170,000 acres, an 11 percent decrease from 2020. South Carolina is again estimated at 110,000 acres for 2021.

As reported by *TimberMart-South* for the fourth quarter of 2020, stumpage markets across the South experienced price increases for all major product types, with the exception of Hardwood Sawtimber. The average Pine Sawtimber price increased $1.53 per ton in the fourth quarter of 2020. The average per ton price for Hardwood Sawtimber has fallen each of the last four quarters. Softwood lumber prices fell in October and November but surged in December. The December Random Lengths Southern Pine Composite was at $661 per thousand board feet, up $326 year over year. The hardwood lumber index was up $118 year over year.

According to the *US Census*, total US housing starts year-to-date through November 2020 totaled 1.26 million units, up 7 percent compared to the same period in 2019. Remodeling and improvement expenditures were up 18 percent from the same period in 2019.

The *Conference Board Leading Economic Index (LEI)* for the US increased 0.3 percent in December to 109.5 following a 0.7 percent increase in November and a 0.9 percent increase in October. The Conference Board stated, "While the resurgence of COVID-19 and weak labor markets remain barriers to growth, The Conference Board expects the economy to expand by at least 2.0 percent (annual rate) in Q1 and then gain momentum throughout the year" in 2021. A January 12, 2021 press release by The Conference Board reported that "global consumer confidence increased in the fourth quarter of 2020, driven largely by an improved outlook for personal finances-which, in many regions, reflect unprecedented fiscal measures in response to COVID-19. Prospects for jobs and spending intentions saw smaller improvements in Q4."

For December 2020, *The Department of Labor* reported an increase in unemployment rates year over year in both Georgia and South Carolina. However, it is noted that the unemployment rate in both states has improved throughout 2020. The 2020 ending unemployment rate was 5.6 percent and 4.6 percent, for Georgia and South Carolina, respectively. The US unemployment rate in December was 6.7 percent.

The *Federal Reserve* has indicated it will continue to buy government bonds until the economy makes substantial progress. The Fed also continues to reiterate that it expects to keep its benchmark short-term interest rate near zero through at least 2023.

LOAN PORTFOLIO

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

The diversification of the Association loan volume by type for each of the past three years is shown in the table below. See Note 3, *Loans and Allowance for Loan Losses,* in the Notes to the Financial Statements for information on these classification revisions.

	December 31,					
Loan Type	**2020**		**2019**		**2018**	
	(dollars in thousands)					
Real estate mortgage	$ 1,457,592	75.85%	$ 1,364,772	74.37%	$ 1,336,239	74.51%
Production and intermediate-term	326,901	17.01	350,390	19.09	348,156	19.41
Processing and marketing	24,636	1.28	21,951	1.20	21,505	1.20
Farm-related business	24,650	1.28	25,608	1.40	23,992	1.34
Rural residential real estate	87,663	4.56	71,960	3.92	63,124	3.52
Other	180	.02	415	.02	436	.02
Total	$ 1,921,622	100.00%	$ 1,835,096	100.00%	$ 1,793,452	100.00%

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified. The geographic distribution of the loan volume by branch for the past three years is as follows:

Branch	12/31/20	12/31/19	12/31/18
Aiken	2.39%	2.32%	2.16%
Allendale	2.77	2.93	2.75
Anderson	6.88	6.65	6.63
Batesburg	5.55	5.76	5.53
Baxley	2.58	2.91	3.37
Blackshear	5.69	5.02	5.77
Camden	3.90	3.53	3.25
Carrollton	3.61	3.06	2.78
Corporate	1.20	1.05	.79
Douglas	7.31	7.70	7.52
Greenville	4.35	4.44	4.82
Griffin	1.87	1.80	1.72
Jesup	1.70	1.79	1.68
Laurens	5.28	4.90	5.02
Madison	8.87	9.72	9.74
Orangeburg	4.13	4.41	4.01
Rock Hill	3.99	4.12	3.94
Spartanburg	3.84	3.85	3.81
St. Matthews	1.02	1.26	1.45
Statesboro	6.72	7.20	7.47
Summerville	3.63	3.70	3.71
Sylvania	1.99	2.10	1.87
Thomaston	3.54	3.61	3.66
Vidalia	2.68	2.62	3.12
Walterboro	3.66	2.95	2.99
SAM	.85	.60	.44
	100.00%	100.00%	100.00%

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

The major commodities in the Association loan portfolio are shown below. Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the non-farm income of borrowers. The predominant commodities are timber, forest products; broilers; turkeys; eggs; cotton; beef cattle, pasture; feed grains, soybeans and hay; horses; blueberries, fruits and nuts; timber processing and harvesting; sod, nursery and horticulture; and peanuts. These commodities constitute approximately 87 percent of the entire portfolio. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are diversified within their enterprise and/or with crop production which reduces overall risk exposure.

	December 31,					
Commodity Group	2020		2019		2018	
	(dollars in thousands)					
Timber, Forest Products	$ 725,395	38%	$ 655,641	36%	$ 638,560	36%
Broilers	236,916	12	226,561	12	220,001	12
Beef Cattle, Pasture	154,598	8	143,199	8	136,447	8
Feed Grains, Soybeans & Hay	145,998	8	130,291	7	124,520	7
Cotton	133,981	7	155,524	8	160,381	9
Rural Home	86,788	5	70,770	4	61,867	3
Horses	72,527	4	72,342	4	69,693	4
Other	64,475	3	70,644	4	65,246	4
Blueberries, Fruits & Nuts	63,291	3	63,911	4	63,508	4
Landlords	48,301	2	49,547	3	47,750	3
Timber Processing & Harvesting	40,309	2	38,763	2	42,619	2
Peanuts	31,732	2	30,772	2	35,486	2
Sod, Nursery, & Horticulture	29,509	2	30,543	2	29,551	1
Vegetables & Tomatoes	27,448	1	24,609	1	21,212	1
Dairy	14,137	1	17,184	1	19,687	1
Onions	13,932	1	15,183	1	15,824	1
Turkeys	13,100	1	14,716	1	14,141	1
Eggs	10,898	–	12,069	–	12,128	1
Tobacco	5,297	–	9,082	–	11,548	–
Hogs	2,990	–	3,745	–	3,283	–
Total	$ 1,921,622	100%	$ 1,835,096	100%	$ 1,793,452	100%

The Association holds a concentration of large loans, but 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 diverse farming operations in the Association's territory.

Loan volume increased to $1,921,622 from $1,835,096 between December 31, 2019 and December 31, 2020. The increase of $86,526, or 4.72 percent, for the twelve months ended December 31, 2020, is primarily attributed to an increase in draws on operating funds, an increase in term loans originated, and the closing of several large transactions during the year. Loan volume increased from $1,793,452 at December 31, 2018 to $1,835,096 at December 31, 2019. This was an increase of $41,644 or 2.32 percent between those two reporting periods.

The short-term portfolio, heavily influenced by seasonal operating-type loans, normally reaches a peak balance in August and rapidly declines into the first quarter of the next year as commodities are marketed and proceeds are applied to repay operating loans.

During 2020, the Association activity in the purchasing of loan participations outside the System decreased, but purchases within the System increased. The purchase of participation loans increased between the periods ended December 31, 2019 and December 31, 2020 by 3.37 percent or $567. This includes purchases from both Farm Credit System (FCS) Institutions and Non-FCS Institutions. The increase is attributed to new participations purchased offset by normal payments and payoffs of participations purchased during the reporting period.

Loans sold increased 13.71 percent or $54,392 from $396,748 to $451,140 between the periods ended December 31, 2019 and December 31, 2020. The increase in sold loans is linked to several large participated transactions closed during the year. Selling participations in larger credits provides a means for the Association to spread credit risk, concentration risk and realize interest and fee income, which may strengthen the capital position. Between the same periods in 2018 and 2019, loans sold increased 44.14 percent.

	December 31,		
Loan Participations	**2020**	**2019**	**2018**
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 14,486	$ 13,096	$ 7,971
Participations Purchased – Non-FCS Institutions	2,907	3,730	4,175
Participations Sold	(451,140)	(396,748)	(275,259)
Total	$ (433,747)	$ (379,922)	$ (263,113)

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 $260,162, which were sold into the secondary market. For the years ended December 31, 2019 and 2018, loans sold into the secondary market totaled $197,971 and $154,475, respectively. At December 31, 2020, there was $3,274 classified as loans held for sale on the Association's balance sheet. The increase in loans sold from 2019 to 2020 and 2018 to 2019 was the result of a lower interest rate environment and an increase in refinancing activity.

The Association also participates in the Farmer Mac Long - Term Stand By program. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2020, the Association had loans totaling $2,857 which were 100 percent guaranteed by Farmer Mac. The Association additionally originated portions of loans that are guaranteed by the United States Department of Agriculture. These loans are held for the purposes of reducing interest rate risk and managing surplus short-term funds as allowable under FCA regulations. During the years ended December 31, 2020, 2019, and 2018 the balance of these loans, including the unamortized premium, was $179,173, $180,702, and $181,496, respectively.

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 and the program was extended to 2017. 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.

These bonds may be classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. As of December 31, 2020, 2019 and 2018 the Association had $3,950, $5,010 and, $6,100 respectively, in Rural America Bonds. At December 31, 2020, all bonds held by the Association were classified as investments on the Consolidated Balance Sheet.

Effective December 31, 2018, the FCA concluded each pilot program approved as part of the Investment in Rural America Bonds program. Institutions participating in such programs may continue to hold its investment through the maturity dates of the investments, provided the institution continues to meet all approval conditions. Although the pilot programs have concluded, the FCA can consider future requests on a case-by-case basis.

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 adversity

- Conditions – intended use of the loan funds and loan terms

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 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.

The Association reviews 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	98.81%	98.93%	99.27%
Substandard/Doubtful/Loss	1.19%	1.07%	0.73%
Total	100.00%	100.00%	100.00%

The marginal decrease in Acceptable and OAEM percentage of volume can be linked to the increase in the amount of loans that have become distressed. Workouts can include payments and paydowns that result in moving the asset back to an acceptable quality or restructuring of the credit. The Association recognizes that there may be situations where borrowers need to sell assets to repay debt. While the underlying collateral may not be the sole repayment source, in some cases, borrowers have been attempting to sell collateral in order to pay down or liquidate their debt to the Association.

Nonperforming Assets

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

	Year Ended December 31,		
Nonperforming Assets	**2020**	**2019**	**2018**
	(dollars in thousands)		
Nonaccrual loans	$ 15,280	$ 17,022	$ 12,093
Restructured loans	5,136	5,158	6,988
Accruing loans 90 days past due	–	–	–
Total nonperforming loans	20,416	22,180	19,081
Other property owned	1,170	4,019	4,627
Total nonperforming assets	$ 21,586	$ 26,199	$ 23,708
Ratios			
Nonaccrual loans to total loans	.80%	.93%	.67%
Nonperforming assets as a percentage of total loans and other property owned	1.12%	1.42%	1.32%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased $1,742 or 10.23 percent in 2020. This decrease is the result of loans moving through the distressed collection process and includes several large accounts. Of the $15,280 in nonaccrual volume at December 31, 2020, $6,510 or 42.60 percent, compared to 33.17 percent and 39.78 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, rates, or a compromise of amounts owed. Other receipts of assets and/or equity to pay the loan in full or in part may also be considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred for both the Association and the borrower. Restructured loans decreased in 2020 from $5,158 at December 31, 2019 to $5,136 at December 31, 2020. The decrease is the result of less customers requiring formal restructure to satisfy debt payment and paydowns on active troubled debt restructures.

The schedule below shows the number and book value of other property owned for the years ending December 31, 2020, 2019, and 2018.

	December 31,		
Other Property Owned	**2020**	**2019**	**2018**
	(dollars in thousands)		
Number of Properties	5	13	10
Book Value of Properties	$ 1,170	$ 4,019	$ 4,627

During the fiscal year, 8 properties with a book value of $1,491 were added to the portfolio and 16 dispositions, excluding partial sales, were processed through the normal course of business. Total sales price of other property owned was $4,254.

The write-downs and losses, net of gains, of other property owned totaled $86 during the reporting period. Expenses on other property owned totaled $62 and the total net loss realized for the period ending December 31, 2020 was $148.

The decrease in the balance of other property owned from December 2019 to December 2020 is net of acquisitions and write-down transactions on other property owned. In some cases the acquisitions were through foreclosure and others through a deed in lieu of foreclosure process.

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 allowance for loan losses is prepared according to generally accepted accounting principles.

	Year Ended December 31,		
Allowance for Loan Losses Activity	**2020**	**2019**	**2018**
	(dollars in thousands)		
Balance at beginning of year	$ 16,361	$ 15,444	$ 14,815
Charge-offs:			
Real estate mortgage	(12)	(277)	(112)
Production and intermediate-term	(909)	(784)	(353)
Agribusiness	(262)	(15)	–
Rural residential real estate	(5)	(21)	(90)
Other	–	–	–
Total charge-offs	(1,188)	(1,097)	(555)
Recoveries:			
Real estate mortgage	335	191	338
Production and intermediate-term	157	265	182
Agribusiness	1	3	3
Rural residential real estate	4	206	80
Other	–	–	–
Total recoveries	497	665	603
Net (charge-offs) recoveries	(691)	(432)	48
Provision for (reversal of allowance for) loan losses	1,687	1,349	581
Balance at end of year	$ 17,357	$ 16,361	$ 15,444
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.037)%	(0.024)%	0.003%

The net loan charge-offs and recoveries were associated with real estate mortgage, production and intermediate term, rural residential real estate, and agribusiness loans. There was no specific trend in the charge-offs or recoveries recognized.

The provision for loan losses increased the Allowance for Loan Losses account by $1,687 during 2020. Analysis of the Allowance account is completed on a quarterly basis and reviewed by the Association's Asset/Liability Committee which is comprised of members of Executive Management and other selected staff members. The increase was necessary to keep the Allowance for Loan Losses at a sufficient level to absorb any expected future losses.

	December 31,		
Allowance for Loan Losses by Type	**2020**	**2019**	**2018**
	(dollars in thousands)		
Real estate mortgage	$ 13,021	$ 11,485	$ 11,485
Production and intermediate-term	3,017	3,868	3,032
Agribusiness	538	400	385
Rural residential real estate	779	604	538
Other	2	4	4
Total allowance	$ 17,357	$ 16,361	$ 15,444

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

Allowance for Loan Losses	December 31,		
as a Percentage of	**2020**	**2019**	**2018**
Total loans	.90%	.89%	.86%
Nonperforming loans	85.02%	73.76%	80.94%
Nonaccrual loans	113.59%	96.12%	127.71%

Given the possibility of portfolio growth and other potential losses, management has determined that the current level of allowance is adequate.

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

RESULTS OF OPERATIONS

Net Interest Income

Net interest income before the provision for loan loss was $64,886, $62,771, and $60,692 in 2020, 2019 and 2018, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, asset yield, and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past two years are presented in the following table:

Change in Net Interest Income:	**Volume***	**Rate**	**Total**
	(dollars in thousands)		
12/31/20 - 12/31/19			
Interest income	$ 3,864	$ (8,153)	$ (4,289)
Interest expense	1,342	(7,747)	(6,405)
Change in net interest income	$ 2,522	$ (406)	$ 2,116
12/31/19 - 12/31/18			
Interest income	$ 2,926	$ 2,877	$ 5,803
Interest expense	816	2,908	3,724
Change in net interest income	$ 2,110	$ (31)	$ 2,079

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

Noninterest Income

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

Noninterest Income	For the Year Ended December 31, 2020	2019	2018	Percentage Increase/(Decrease) 2020-2019	2019-2018
	(dollars in thousands)				
Loan fees	$ 5,285	$ 3,918	$ 3,502	34.89 %	11.88 %
Fees for financially related services	2,649	2,345	2,458	12.96	(4.60)
Patronage refund from other Farm Credit Institutions	32,131	21,894	24,912	46.76	(12.11)
Gains (losses) on sales of rural home loans, net	2,533	2,385	1,762	6.21	35.36
Gains (losses) on sales of premises and equipment, net	175	162	193	8.02	(16.06)
Gains (losses) on other transactions	45	90	(386)	(50.00)	(123.32)
Insurance Fund refunds	339	366	989	(7.38)	(62.99)
Other noninterest income	1,624	181	178	797.24	1.69
Total noninterest income	$ 44,781	$ 31,341	$ 33,608	42.88 %	(6.75)%

Loan fees increased $1,367 or 34.89 percent when comparing the reporting periods 2020 to 2019. The increase is the result of fee collections on some large accounts and an increase in fees collected on both portfolio and loans sold in the secondary market. Loan fees increased $416 or 11.88 percent between the periods ending December 31, 2018 and December 31, 2019.

Fees for financially related services increased $304 or 12.96 percent from December 31, 2019 to December 31, 2020. Fees from financially related services include fees from leasing, crop insurance and life insurance. Fees earned from crop insurance and credit life insurance increased in 2020. Between the reporting periods ended December 31, 2018 and December 31, 2019, fees for financially related services decreased by $113 to $2,345 from $2,458.

There was a $10,237 or 46.76 percent increase in patronage refund from other Farm Credit Institutions between the periods ended December 31, 2019 and December 31, 2020. In 2020, the Association earned $14,227 in patronage refund and $17,505 in a special distribution from AgFirst. In 2019, the Association earned $12,951 in a patronage refund and $8,523 in a special distribution, compared to $12,487 in a patronage refund and $11,805 in a special distribution for 2018. The amount of patronage refund is based upon the notes payable balance with AgFirst. The amount of the special distribution, if any, is determined by the AgFirst Farm Credit Bank Board of Directors and may or may not reoccur in future years.

For the period ended December 31, 2020, the Association earned $398 in patronage refund from other Farm Credit Institutions other than AgFirst. This compares to $420 and $620 for the periods ended December 31, 2019 and December 31, 2018, respectively. The decrease in patronage from other Farm Credit Institutions is partially attributable to the increase in loans sold to AgFirst who may or may not pay the same level of patronage received from other Farm Credit entities.

Gains on the sales of rural home loans in the secondary market totaled $2,533 for the period ended December 31, 2020. This was an increase of $148 or 6.21 percent from the period ended December 31, 2019. The increase is the result of an increase in the yield premium earned on loans sold between the two reporting periods. For the period ended December 31, 2019, gains totaled $2,385. Gains increased between December 31, 2018 and December 31, 2019 by $623 or 35.36 percent.

Gains on the sales of premises and equipment increased $13 or 8.02 percent between December 31, 2019 and December 31, 2020. In both 2020 and 2019, gains from the sale of real property, automobiles, and other miscellaneous furniture and equipment are included in the $175 and $162, respectively. The Association also sold its former Baxley branch office during 2020 resulting in a gain. Net gains on the sales of premises and equipment totaled $193 for the period ending December 31, 2018.

Gains on other transactions include gains on Rabbi Trust plans held for certain retirees, a settlement amount for a disputed claim, and the expense to fund the allowance for loan losses for unused commitments. There was a decrease from December 31, 2019 to December 31, 2020, $90 to $45, respectively. Between December 31, 2018 and December 31, 2019, the line item moved from a loss of $386 to a gain of $90.

Insurance Fund refunds for the period ended December 31, 2020 totaled $339. This line item includes a nonrecurring refund from the Farm Credit System Insurance Corporation as a result of overfunding during the previous year(s). For the period ended December 31, 2019 Insurance Fund refunds totaled $366, and for December 31, 2018 the total was $989.

Other noninterest income increased $1,443 from $181 at December 31, 2019 to $1,624 at December 31, 2020. This line item includes recovery amounts from allocated surplus for some borrowers in default, payments received regarding settlement agreements, and volume incentives earned from AgFirst for secondary market loans sold. Other noninterest income increased from $178 in 2018 to $181 in 2019.

Noninterest Expense

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

	For the Year Ended December 31,			Percentage Increase/(Decrease)	
Noninterest Expense	**2020**	**2019**	**2018**	**2020-2019**	**2019-2018**
	(dollars in thousands)				
Salaries and employee benefits	$ 30,111	$ 28,524	$ 29,293	5.56 %	(2.63)%
Occupancy and equipment	2,344	2,390	2,491	(1.92)	(4.05)
Insurance Fund premiums	1,306	1,195	1,172	9.29	1.96
(Gains) losses on other property owned, net	148	1,128	20	(86.88)	5,540.00
Other operating expenses	7,118	7,054	7,230	0.91	(2.43)
Total noninterest expense	$ 41,027	$ 40,291	$ 40,206	1.83 %	0.21 %

Salaries and employee benefits increased $1,587 or 5.56 percent in 2020, as compared with 2019, and decreased $769 or 2.63 percent when comparing 2019 to 2018. The increase between the 2020 and 2019 reporting periods was due to higher salaries and pension expense. The Association has an incentive plan for full-time employees and the accruals for potential payout of incentive in 2020 were $300 more than 2019 accrued incentive. The incentive plan is comprehensive and requires achievement in several key measures both at the individual and total Association level before participation. The decrease in salaries and employee benefits between 2018 and 2019 was due to a lower pension expense.

Occupancy and equipment expense decreased $46 between the reporting periods ended December 31, 2020 and December 31, 2019. The decrease of 1.92 percent is the result of a decrease in depreciation and lease expenses. The decrease of $101 between December 31, 2018 and December 31, 2019 is the result of a decrease in the purchase of furniture and equipment.

Insurance Fund premiums increased $111 or 9.29 percent for the twelve months ended December 31, 2020, compared to the same period of 2019. Between 2018 and 2019, the Insurance Fund premium increased 1.96 percent or $23. The Farm Credit System Insurance Corporation (FCSIC) sets the premium annually and the Association's increase in loan volume and an increase in the premium resulted in a net increase in the insurance expense in the 2020 reporting period. Nonaccrual loans and other-than-temporary impaired investments are assessed a higher premium rate.

The Association took in and disposed of several pieces of other property owned in 2020. Subsequently, the Association recorded $148 in net losses on other property owned. This compares to losses of $1,128 for the period ended December 31, 2019. For the period ended December 31, 2018, the Association had recorded losses of $20. The losses recorded were from the need to write-down asset values to match new and more current appraisals and sales of the owned assets offset by minimal gains. This line item also includes expenses on other property owned.

Other operating expenses increased $64 between December 31, 2019 and December 31, 2020. The increase between 2020 and 2019 is primarily due to legal expenses in the matter of a settlement dispute on behalf of the Association. Other operating expenses includes purchased services, travel, training, advertising, public and member relations, communications, directors, supervisory and examination, and all other expenses not detailed above necessary to operate the Association. Comparing other operating expenses for the period ended December 31, 2019 to December 31, 2018, other operating expenses decreased $176 or 2.43 percent. The decrease between 2019 and 2018 was due to the recoveries on nonaccrual notes.

Income Taxes

The Association recorded a benefit for income taxes of $1 for the year ended December 31, 2020, as compared to a benefit of $3 for 2019 and a provision of $0 for 2018. Refer to Note 2, *Summary of Significant Accounting Policies*, 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	For the 12 Months Ended		
Comparisons	**12/31/20**	**12/31/19**	**12/31/18**
Return on average assets	3.47%	2.81%	2.94%
Return on average members' equity	16.29%	13.34%	14.49%
Net interest income as a percentage of average earning assets	3.47%	3.48%	3.45%
Net (charge-offs) recoveries to average loans	(0.037)%	(0.024)%	0.003%

The return on average assets and return on members' equity increased in 2020 when compared to 2019. The increase in earnings accompanied with an increase in average assets and an increase in average members' equity resulted in higher returns on average assets and average members' equity.

The slight decrease in the percentage of net interest income to average earning assets is due to expected variances in net interest income and average earning assets between the two reporting periods. Average earning assets increased from $1,805,747 to $1,868,171 between 2019 and 2020 as a result of growth in the portfolio.

The percentage of net charge-offs and recoveries to average loans was less than one percent in the 2020 reporting period, and the Association's charge-offs exceeded the total amount of recoveries. The decision to take a charge-off for financial purposes is made by tenured staff that specializes in handling distressed loan situations.

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

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and 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, were $1,538,795 as compared to $1,481,914 at December 31, 2019 and $1,461,549 at December 31, 2018. The increase of $56,881 or 3.84 percent comparing December 31, 2020 to December 31, 2019 was attributable to the higher balance of loans outstanding. When comparing December 31, 2019 to December 31, 2018, total notes payable increased $20,365 or 1.39 percent.

The average volume of outstanding notes payable to the Bank was $1,493,131 and $1,453,316 for the years ended December 31, 2020 and 2019, respectively. Refer to Note 6, *Debt*, 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 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 had no lines of credit from third party financial institutions as of December 31, 2020, 2019 and 2018.

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 London Interbank Offered Rates (LIBOR). It should be noted that the future of LIBOR as a recognized pricing index is uncertain and other indices may be considered going forward. Adjustable rate mortgages are indexed to US 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, *Debt*, of the Notes to the Consolidated Financial Statements in this Annual Report.

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

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

The Bank also provides key services related to payroll and human resource processing and accounting services. In the area of technology, the Bank provides the backroom services including mainframe and network server applications. These applications include network communications, loan origination, loan accounting and disaster recovery. Some services include a specific fee structure, while others are incorporated into the Bank's funding formula.

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's 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. The 2020 Capitalization Plan incorporated the new regulatory capital ratios as required by the FCA. There are no other changes that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2020, increased $25,667 or 6.25 percent to $436,501 from the December 31, 2019 total of $410,834. At December 31, 2019, total members' equity increased 5.34 percent from the December 31, 2018 total of $389,992. The increase was primarily attributed to earnings, both allocated and unallocated, in excess of revolvement of allocated earnings and the decision to retain a level of patronage source earnings to build capital.

Total capital stock and participation certificates and protected borrower stock were $10,626 on December 31, 2020, compared to $10,012 on December 31, 2019 and $9,567 on December 31, 2018. The increase was attributed to purchases of stock associated with new borrowing entities exceeding the liquidations of stock in the normal course of business.

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 revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The Tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- The Total Capital Ratio is tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- The Permanent Capital Ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The Tier 1 Leverage Ratio is tier 1 capital, divided by average 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 revolvement 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 following sets forth regulatory capital ratios as previously reported:

	Regulatory Minimum	2016	2015	2014	2013	2012
Permanent Capital Ratio	7.00%	20.55%	20.68%	20.00%	18.69%	17.05%
Total Surplus Ratio	7.00%	20.01%	20.23%	19.53%	18.17%	16.54%
Core Surplus Ratio	3.50%	16.11%	16.31%	15.86%	14.46%	12.50%

The following sets forth the regulatory capital ratios which were effective January 1, 2017:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2020	2019	2018
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	14.49%	14.75%	13.93%
Tier 1 Capital	6.0%	2.5%	8.5%	14.49%	14.75%	13.93%
Total Regulatory Capital	8.0%	2.5%	10.5%	21.81%	21.97%	20.92%
Permanent Capital	7.0%	0.0%	7.5%	21.03%	21.21%	20.20%
Non-risk-adjusted ratios:						
Tier 1 Leverage	4.0%	1.0%	5.0%	13.90%	14.04%	13.22%
URE and UREE Leverage	1.5%	0.0%	1.5%	13.76%	13.90%	13.06%

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

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

The slight decrease in the Association's permanent capital was attributed to growth in the Association's capital components and an increase in patronage distributed. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements. See Note 7, *Members' Equity*, of the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements for more information concerning the patronage distributions. The Association declared patronage distributions of $40,001 in 2020, $37,200 in 2019, and $33,777 in 2018. In addition, a Special All Cash patronage totaling $8,000 was declared and distributed in 2020.

The higher total patronage distribution is tied to the Board and Management's decision to distribute more earnings in 2020 compared to 2019. The Association historically pays 30 percent in cash and the remainder in a combination of qualified and/or nonqualified allocated surplus. Payment of patronage is usually made in the first quarter of the following fiscal year. There were no significant changes to the Association's patronage policies and practices during 2020.

The Association closes the books with an estimated patronage distribution and then makes a final adjustment to the amount prior to actual payment. The adjustment entries are shown on the Member Equity Statement as a "Patronage Distribution Adjustment."

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 chart reflects the Association's goals and progress toward those goals in each category.

Total Portfolio Goals and Progress
December 31, 2020

	Number of Loans 2020 Goal	Number of Loans 2020 Actual	Amount of Loans 2020 Goal	Amount of Loans 2020 Actual
Young	3,099	3,107	$335,082	$346,796
Beginning	7,231	7,590	$827,849	$916,908
Small	10,920	11,081	$1,064,377	$1,119,258

New Loan Goals and Progress
December 31, 2020

	Number of New Loans 2020 Goal	Number of New Loans 2020 Actual	Amount of New Loans 2020 Goal	Amount of New Loans 2020 Actual
Young	1,070	1,086	$165,988	$176,770
Beginning	2,446	2,688	$394,220	$452,549
Small	3,456	3,652	$456.466	$516,521

Note: For purposes of the above tables, 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 census data indicated that within the Association's chartered territory there were 34,360 farms. Farms with young operators were 3,519, farms with beginning operators were 11,277, and small farms were 32,052. Comparatively, as of December 31, 2020 the demographics of the Association's portfolio contained 14,757 loans of which by definition 3,107 were Young, 7,590 were Beginning, and 11,081 were Small.

In 2020, the Association's Director of Marketing was responsible for the Young, Beginning, and Small farmer program. It is an integral part of the Association's business plan. The following strategies have helped the Association work toward its goals and objectives relative to Young, Beginning, and Small farmer programs:

- Provide current and pertinent farm management and financial training to YBS customers and prospects in group settings through AGAware® program and one-on-one
- Encourage young people to choose agriculture as a profession by supporting 4-H and Future Farmers of America (FFA)
- Encourage use of Student Agricultural Project loan program by visiting with 4-H representatives and FFA chapters in the service area
- Support Young Farmer Groups in the service area and at the state level
- Make customers and prospects aware of farm related services and encourage them to take advantage of beneficial programs through advertising and public relations
- Closely work with Farm Service Agency (FSA) personnel to meet the needs of YBS customers and prospects

Specific YBS activities in fiscal year 2020 include the following:

- Offered elements of our AGAware® financial training and management program to two virtual workshops as part of the curriculum
- Partnered with the Department of Agriculture in both Georgia and South Carolina to sponsor Food Box initiatives which supported local, small farmers and those in need of food at the same time
- Funded a supplemental grant from the South Carolina Department of Agriculture (SCDA) to reimburse certification cost for organic farmers
- Promoted and shared events, resources, and information to help educate and support young, beginning and small farmers on our blog, social media outlets, email newsletters and member publication
- Sponsored and presented at Annie's Project, a farm management training for women in South Carolina
- Sponsored and presented on lending at the South Carolina New, Beginning, Farmer Program (SCNBFP) workshops
- Sponsored scholarships for attendees of the SCNBFP 2020 sessions
- Sponsored and judged a Business Plan Pitch Contest from participants in the SCNBFP 2020 class
- Active member of Ogeechee Technical College's Agribusiness Program's advisory board
- Active member of the Georgia FFA Foundation board
- Sponsored and attended Georgia FFA Blue and Gold Gala
- Sponsored 4-H Annual Banquet
- Sponsored and attended Georgia FFA Clay Shoot fundraiser
- Sponsored South Carolina FFA Fundraiser
- Sponsored multiple FFA awards and acted as judge for both Georgia and South Carolina State Conventions
- Advertised in multiple YBS publications in both Georgia and South Carolina
- Offered 25 grants to local Farmers Markets for a total of $25,000 investment to promoting their markets
- Sponsored multiple FFA and 4-H competitions and livestock shows in Georgia and South Carolina
- Sponsored and presented at South Carolina Farm Bureau Ag in the Classroom
- Provided scholarships at Abraham Baldwin Agricultural College, Clemson University, Fort Valley State University, Ogeechee Technical College, South Carolina State University, and University of Georgia
- Sponsored and presented the Farmer of the Year Awards in Georgia and South Carolina
- Sponsored and exhibited at the South Carolina AgriBiz & Farm Expo
- Sponsored and presented at Young Farmer Conferences in Georgia and South Carolina
- Sponsored The South Carolina Commissioner's School of Agriculture
- Sponsored Georgia Organics Conference
- Attended, sponsored and presented upon request at numerous, county Young Farmer and Extension meetings throughout the territory

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.

Additionally, the Census data is based upon number of farms; whereas, the Association's data is based on number of loans.

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 US 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.

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 US 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 US 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 (Secured Overnight Financing Rate) 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:

(dollars in thousands)	Due in 2021	Due in 2022 and Thereafter	Total
Loans	$ 2,879	$ 11,154	$ 14,033
Total Assets	$ 2,879	$ 11,154	$ 14,033
Note Payable to AgFirst Farm Credit Bank	$ 2,304	$ 8,925	$ 11,229
Total Liabilities	$ 2,304	$ 8,925	$ 11,229

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

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 Update (ASU) was issued by the Financial Accounting Standards Board (FASB) but has 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: 1. 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, 2. An allowance will be established for estimated credit losses on any debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of allowance change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts at the adoption date. • The guidance is expected to be adopted in first quarter 2023.

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, 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.

The Association distributes its earnings in a Patronage Allocation program as described in *Management's Discussion and Analysis of Financial Condition and Results of Operations* included in this Annual Report. During 2020, there were no significant changes to existing patronage policies and practices.

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity:

Location	Description	Form of Ownership
26 South Main Street Statesboro, GA	Headquarters	Owned
20 East Vine Street Statesboro, GA	Operations Center	Owned
951 East Pine Log Road Aiken, SC	Branch	Owned
4930 Burtons Ferry Highway Allendale, SC	Branch	Owned
1325 Pearman Dairy Road Anderson, SC	Branch	Owned
109 East Church Street Batesburg-Leesville, SC	Branch	Owned
2215 Hatch Parkway South Baxley, GA	Branch	Owned
111 Carter Avenue Blackshear, GA	Branch	Owned
951 Highway 1 South Lugoff, SC	Branch	Owned
2520 Highway 27 South Carrollton, GA	Branch	Owned
204 Bowens Mill Road Douglas, GA	Branch	Owned
596 South Talbotton Street Greenville, GA	Branch	Owned
1298 Enterprise Way Griffin, GA	Branch	Owned
855 Odum Highway Jesup, GA	Branch	Owned
306 Hillcrest Drive Laurens, SC	Branch	Owned
1691 Lions Club Road Madison, GA	Branch	Owned
1880 Joe S. Jeffords Highway Orangeburg, SC	Branch	Owned
1321 Springdale Road Rock Hill, SC	Branch	Owned
2630 Colonel Thomson Highway St. Matthews, SC	Branch	Owned
101 North Town Drive Spartanburg, SC	Branch	Owned
40 South Main Street Statesboro, GA	Branch	Owned
702 Kate Lane Summerville, SC	Branch	Owned
302 Mims Road Sylvania, GA	Branch	Owned
620 North Church Street Thomaston, GA	Branch	Owned
314 Commerce Way Vidalia, GA	Branch	Owned
529 Bells Highway Walterboro, SC	Branch	Owned

The Association finished construction of the new branch building in Baxley, Georgia in June of 2020. The Association sold the former Baxley branch building in September of 2020.

The Association currently owns a 2 acre lot on Fairfax Highway in Allendale, South Carolina.

In April of 2018 the Association sold a building and lot on the Barnwell Highway in Allendale, South Carolina.

One of the former administrative offices located at 1884 Joe S. Jeffords Highway in Orangeburg, South Carolina, is now vacant as administrative staff have retired or been relocated. The Board of Directors is currently considering the next use, if any, for this building.

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

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

Senior Officers

The following represents certain information regarding the senior officers of the Association as of December 31, 2020:

Name	Current Position	Date Started in Current Position	Previous Position(s) During Last Five Years
Pat Calhoun	Chief Executive Officer	September 2016	Director of Risk Management
Stacy Anderson	Chief Credit Officer	October 2016	Regional Credit Administrator
Jennifer Davis	Chief Information Officer	January 2018	Director of Information Technology
Bo Fennell	Chief Financial Officer	January 2018	Chief Financial Officer Altamaha Bank and Trust
Sharmequa Franklin	Chief Human Resources Officer	January 2018	Organizational Development & Talent Management Manager MidAtlantic Farm Credit
Robbie Haranda	Chief Lending Officer	October 2018	Regional Business Development Manager
Bob Mikell	General Counsel	July 2019	Attorney Brown Rountree PC Senior Attorney
Debbie Sikes	Chief Compliance and Risk Officer	October 2017	Loan Officer – Analyst Compliance Officer
Christian Taylor	Director of Secondary Market and Financially Related Services	August 2018	Leasing Agent

The majority business experience for the past five years for the senior officers is with the Farm Credit System. Other business or organizational interests are as follows:

- **Pat Calhoun** serves on the advisory board of the Palmetto Agribusiness Council (promotes agriculture), the advisory board of the University of Georgia's Advancing Georgia's Leaders in Agriculture and Forestry (leadership training program), and the advisory board for the South Carolina AgriBiz and Farm Expo (promotes agriculture and agribusiness). He also serves on the Executive Committee of the AgFirst Farm Credit Council (legislative support).

- **Jennifer Davis** serves as the Race Committee Chair for Open Hearts Community Mission (charity) and is a committee member for Rockin' out Alzheimer's (charity). Mrs. Davis is also a minority shareholder in Sugar Magnolia Bakery & Café (restaurant).

- **Sharmequa Franklin** serves as the Information Technology Director for the Statesboro Society for Human Resources (non-profit). Mrs. Franklin is also the Owner of The Artsy Girl, LLC (art and handmade jewelry).

- **Bob Mikell** serves on the Statesboro-Bulloch Chamber of Commerce (civic) where he was the former Chairman of the Board, Advisory Board President for the Statesboro Family YMCA (non-profit), and a board member for the Georgia Southern University Housing Foundation (non-profit). Mr. Mikell also serves on the Board of Trustees for Pittman Park United Methodist Church (religious).

The total amount of compensation earned by all senior officers and other highly compensated employees as a group during the years ended December 31, 2020, 2019 and 2018, is as follows:

Individual or Number in Group	Year	Annual Salary	Annual Bonus	Deferred Comp.	Change in Pension Value[(a)]	Perq./ Other[(b)]	Total
CEO							
Pat Calhoun	2020	$ 380,015	$ 161,725	$ 7,339	$ 367,240	$ 23,670	$ 939,989
Pat Calhoun	2019	$ 330,013	$ 134,475	$ –	$ 448,195	$ 14,764	$ 927,446
Pat Calhoun	2018	$ 300,012	$ 121,650	$ –	$ 117,683	$ 17,496	$ 556,841
11	2020	$ 1,345,950	$ 1,384,085	$ 29,500	$ 1,167,191	$ 139,036	$ 4,065,762
10	2019	$ 1,247,655	$ 821,855	$ 25,000	$ 1,284,774	$ 118,535	$ 3,497,819
14	2018	$ 1,364,933	$ 841,209	$ 90,439	$ (865,946)	$ 223,509	$ 1,654,144

(a) The changes in pension values as reflected in the table above resulted primarily from changes in the actuarial assumptions for mortality and discount rate. See further discussion in Note 9, Employee Benefit Plans, of the Financial Statements.

(b) The Perquisites/Other amount disclosed in the above chart can include club memberships, automobile allowance, relocation assistance, spousal expenses, payout of accrued annual leave, employer-match/employer-paid 401(k) contributions, and life insurance.

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

All employees including the CEO and senior officers have defined duty statements and standards of performance. These standards are reviewed at least annually and graded on a one to five scale, with five indicating "Performance over a sustained period consistently far exceeds standards and expectations for all position responsibilities." Annually, supervisors evaluate performance and a merit increase is rewarded, if performance score warrants.

In addition to a base salary, deferred compensation and perquisites/other, senior officers earn additional compensation under an annual incentive plan as indicated in the "Bonus" column in the chart above. The Association's annual incentive plan is designed to motivate employees to exceed the business plan goals during the fiscal year. These goals include Association income, credit quality, credit administration, loan volume, delinquencies, and other key success measurements. Income to pay the incentive payments is derived from profits over and above those budgeted in the board-approved business plan for 2020. Full-time employees are covered by the annual incentive plan which runs for the full calendar year and employees can earn between 0 and 30 percent of base salary. An estimated incentive was accrued prior to December 31, 2020 and final calculations and payments were made in January 2021. Employees that are not eligible for merit increases based upon individual performance are not eligible for incentive. A copy of the incentive plan is available to stockholders upon request.

Certain additional bonuses have been approved by the board based on either the overall performance of the Association, or particular ideas or performance leading to sustained increases in profits to the stockholders. Bonuses are shown in the year earned, which may be different than the year of payment.

Selected staff members participate in a long-term incentive program. The long-term incentive program was established by the board in fiscal year 2006 and measures performance at the end of each three (3) year period. Goals are set annually by the Executive & Compensation Committee. Payments under the long-term incentive program can range from 0 to 15 percent. Goals include reaching key financial ratios and building and maintaining the Association's patronage program. Estimated long-term incentive payments were accrued monthly. The final calculations and payments were made in January 2021. The purpose of the long-term incentive program is to retain key staff and reward them for reaching established goals.

Selected staff members may also participate in a defined contribution benefit plan separate from the Association's existing 401(k) plan. The defined contribution plan has requirements for vesting and is reflected in the Deferred Compensation column above.

The overall compensation program of the Association is designed to reward performance that exceeds expectations set by both managers and by the Board of Directors. The results outlined in the compensation table reflect the success the Association had in 2020 in increasing loan volume, generating significant earnings and maintaining a strong, consistent patronage program.

The chart below details the value of accumulated benefits on a present value basis for the CEO and senior officers and other highly compensated employees under the two retirement plans offered by the Association. Reference Note 2, *Summary of Significant Accounting Policies,* for additional information about these multiemployer pension plans.

Pension Benefits Table
As of December 31, 2020

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2020
CEO:					
Pat Calhoun	2020	AgFirst Retirement Plan	33.50	$ 3,055,292	$ –
				$ 3,055,292	$ –
Senior Officers and Highly Compensated Employees:					
4 Officers, Excluding CEO*	2020	AgFirst Retirement Plan	25.65*	$ 5,357,157	$ –
				$ 5,357,157	$ –

**Represents the number and the average years of credited service for those eligible to participate in the AgFirst Retirement Plan.*

The present value of pension benefits is the value at a specific date of the expected future benefit payment stream based on actuarial assumptions, chiefly the discount rate. Other assumptions are also used, such as expected retirement age and life expectancy. Changes in the actuarial assumptions can increase or decrease the pension values.

The discount rate, which is derived using an AA corporate bond yield curve, is updated every year based on the interest rate environment at December 31. A decrease in the discount rate will normally increase the present values and vice versa.

The life expectancy actuarial assumption was updated at December 31, 2019 to reflect recent mortality studies indicating longer life spans. This change further increased pension values as the benefit payments are expected to be made for a longer time span.

There was a significant decrease in the discount rate assumption from December 31, 2019 to December 31, 2020, causing the pension values to increase. Other actuarial assumptions are updated periodically. At December 31, 2020, the mortality and mortality improvement assumptions were updated to reflect recent mortality studies. These changes resulted in a minor increase in Retirement Plan present values.

All employees are eligible to receive awards based on years of service on five year, or multiple of five year anniversaries. A copy of this plan is available to stockholders upon request.

Directors

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 internet access, transportation, lodging, meals, tips, tolls, parking, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to stockholders upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $105,655 for 2020, $241,616 for 2019, and $197,499 for 2018.

The Association provides iPads to directors for data and information access to Association financial reports and other material through a secure portal. The expense for the iPads and network access is included in the other related expenses amount above.

Subject to approval by the board, the Association may allow directors honoraria of $600 for attendance at meetings, committee meetings, or special assignments. In cases when a video or teleconference is held in lieu of an onsite meeting to take up the regularly scheduled business of a committee, an honoraria of $300 will be paid. Directors are also allowed travel honoraria of $300 depending upon meeting location relative to their headquarters. Directors are paid a monthly retainer fee of $600 each. The retainer for the chairman, vice-chairman, and chairman of the Audit Committee was $930 per month. Due to the COVID-19 pandemic, directors were paid honoraria of $600 for teleconferences in lieu of the in person board and committee meetings starting in April 2020.

There was no noncash compensation paid to directors in 2020.

The following chart details the year the director began serving on the board and the current term expiration.

Director	Original Year of Election or Appointment	Current Term Expiration	Days in Board Meetings	Comp. for Board Meetings & Retainer	Days in Committee Meetings	Days in Other Activities	Comp. for Committee and other Activities	Total All Compensation
Hugh E. Weathers	1998	2023	9	$15,060	11	7	$10,200	$25,260
H. Frank Ables, Jr.	2015	2023	9	15.060	9	9	10,200	25,260
Arthur Q. Black	1995	2021	9	11,700	10	7	7,800	19,500
David V. Cantley	2020	2023	9	11,100	9	8	8,100	19,200
James C. Carter, Jr.	1979	2021	9	11,100	13	4	8,400	19,500
Lee H. DeLoach	2002	2024	9	11,100	10	9	10,500	21,600
Sean F. Lennon	2017	2021	8	11,100	11	10	11,400	22,500
Phillip E. Love, Jr.*	2014	2022	8	10,500	7	7	7,800	18,300
Jimmy B. Metts	1978	2020	9	11,100	7	8	9,300	20,400
Jerome G. Parker	1987	2022	9	11,100	10	8	8,400	19,500
J. Jay Peay	2015	2023	9	11,100	13	9	9,600	20,700
William T. Robinson	2011	2024	9	11,100	11	9	6,900	18,000
Charles C. Rucks	1988	2022	9	11,100	7	8	9,000	20,100
David H. Womack*	1991	2023	9	15,060	15	7	9,000	24,060
TOTAL COMPENSATION				$167,280			$126,600	$293,880

****Serves as Outside Director***

Days in Board Meetings and Days in Committee meetings may include participation in conference calls.

Days in Other Activities includes partial days traveling and days spent attending other Farm Credit related functions or special assignments.

The following represents certain information regarding the directors of the Association. Unless specifically listed, the principal occupation of the board member for the past five years has been as a self-employed farmer.

Hugh E. Weathers, Chairman is a row crop farmer, a farm property landlord, and serves the state of South Carolina as Commissioner of Agriculture. Mr. Weathers is the Owner of Weathers Farms, Inc. (row crops and farm property landlord), Owner of Weathers Trucking, Inc. (bulk milk delivery), Partner in Circle W. Farms (row crops), and Owner of WB Bowman, LLC (land holdings). He serves on the boards of Southern United States Trade Association (agricultural exporting), South Carolina Poultry Federation (promotes poultry industry), the Southern Association of State Departments of Agriculture (agricultural organization), Catch the Vision Ministry (foreign ministry organization), and the South Carolina Department of Commerce Coordinating Council (economic development). He is a member of the AgFirst Legislative Advisory Committee (legislative support for agriculture). Mr. Weathers serves as Vice-Chairman of the Executive & Compensation Committee. He serves as an ad hoc member of all other board committees at AgSouth Farm Credit.

H. Frank Ables, Jr., Vice-Chairman is a poultry, cattle, corn, wheat, and soybean producer. He is the Owner of Chikamoo Farms and Majority Partner of Chikamoo, LLC (real estate holdings). He serves as an alternate member of the AgFirst Legislative Advisory Committee (legislative support for agriculture). Mr. Ables serves on the Risk Management Committee and serves as the Chairman of the Executive & Compensation Committee.

Arthur Q. Black is a peach, strawberry, tomato, and hay producer and owns Black's Peaches (farming and agritourism). He serves on the boards of the York County Farm Bureau (agricultural organization) and the South Carolina Farm Bureau (agricultural organization). Mr. Black also serves as President on the board of Farmers Mutual Insurance (insurance) and is a member of the York Investment Association (investment club). Mr. Black serves as the alternate member on the AgFirst District Advisory Council (agricultural organization). He also serves on the Audit Committee.

David V. Cantley is a cattle, timber, hay and row crop farmer. Mr. Cantley is the Owner of David Cantley Farms and C&H Farms. He is the Co-Owner and Manager of Holly Hill Farm Center, Inc. and the Co-Owner of Southern Crop Solutions (agricultural services). Mr. Cantley serves as a board member for First National Bank of South Carolina (banking) and Holly Hill United Methodist Church (religious). He is the former President of the South Carolina Fertilizer and Agrichemical Association (agricultural organization). Mr. Cantley is a member of the Orangeburg/Calhoun County Cattlemen Association (agricultural organization) and the Orangeburg County Farm Bureau (agricultural organization). He serves on the Audit Committee.

James C. Carter, Jr. is the Co-Owner and Secretary of Southern Belle Farm, Inc. that he operates with his son. Southern Belle Farm, Inc. specializes in the production of strawberries, blackberries, blueberries, peaches, beef cattle, hay, agritourism and school field trips promoting agricultural education. He is also the Co-Owner of JC Carter Family Farm, LLC with his son. Mr. Carter is the Vice-President of Henry County Farm Bureau (agricultural organization), the Board Chairman of the Henry County Water Authority (water supply and distribution organization), and member of the Henry County Cattlemen's Association (beef cattle production). Mr. Carter serves on the Executive & Compensation and the Governance & Ethics Committees.

Lee H. DeLoach is a retired Probate Court Judge for Bulloch County, Georgia, a timber farmer, beef cattle and hay producer, and landlord. Mr. DeLoach serves as the Association representative to the AgFirst Farm Credit Bank (agricultural lending) Nominating Committee. He serves on the Executive & Compensation Committee and is the Chairman of the Governance & Ethics Committee.

Sean F. Lennon is a fruit farmer, landlord and is the President of Fitzgerald Fruit Farms, LLC (fruit farm), Fitzgerald Packing & Storage, LLC (commercial fruit packing), Fitzgerald Fruit Sourcing, LLC (produce sourcing), I'll Never Get to Sea, LLC (investment company), Southern Tides on the Cape, LLC (investment company), Sailor's Landing, LLC (investment company), Salt Water Breeze on the Cape, LLC (investment company), Lennon Real Properties, LLC (land and assets), Lennon Business Holdings, LLC (land and assets), Warm Springs Winery, LLC (wine), Fitzgerald Real Properties, LLC (land and assets), and The Shed at Fitzgerald Farms, LLC (agritourism and retail sales). Mr. Lennon is also the Second Vice-President of the National Peach Council (agricultural organization) and is on the board of the Meriwether County Farm Bureau (agricultural organization). He is also a member of the Georgia Peach Council (agricultural organization), the Georgia Agribusiness Council (agricultural organization), Georgia Grown (agricultural organization), Georgia Farm Bureau Certified Farm Markets (agriculture organization), and the Georgia Fruit & Vegetable Growers Association (agricultural organization). He is a member of the AgFirst District Advisory Committee (agriculture organization). Mr. Lennon serves as the Chairman of the Risk Management Committee and is a member of the Executive & Compensation Committee.

Phillip E. Love, Jr. is the Chairman of the board of directors of Amerisure Mutual Insurance Company (insurance) where he serves on the Compensation and Governance Committee and the Audit Committee. He also serves on the board of the South Carolina Medical Malpractice Association (insurance), where he serves as the Chairman of the Claims Committee. He serves on the Reinsurance Committee of the South Carolina Windstorm and Hail Underwriting Association (insurance) and is Chairman of the Board of Managers for Agency Business Solutions, LLC (insurance). Mr. Love serves as an outside director and serves as Vice-Chairman of the Governance & Ethics Committee.

Jimmy B. Metts is a tree farmer, manages forest lands, is a landlord of agricultural lands, a producer of pine straw, and President and Owner of Land Services, Inc. (land clearing). Mr. Metts serves as the Vice-Chairman of the Risk Management Committee.

Jerome G. Parker was a pecan farmer and also owned and operated Jerome Parker Refrigeration, Inc. (refrigeration business). He served on the board of Tattnall County Farm Bureau (agricultural organization) and on the Vidalia Onion Committee (agricultural organization). Mr. Parker served on the Audit Committee.

J. Jay Peay is a Certified Public Accountant and President and Owner of Peay & Associates, LLC (accounting firm) and President and Owner of SwaimBrown Wealth Management, LLC (investment consulting and advising) where he is a Registered Investment Advisor. He is a Partner in Enoree Holdings, LLC (investment holding company) and Bush River Realty, LLC (real estate). For the past five years, Mr. Peay has been employed as a Certified Public Accountant. Mr. Peay manages personal and family property that primarily produces timber. He serves as Chairman for Laurens County Healthcare System (medical) and is a founding member of the Laurens County Cancer Association (non-profit organization) where he serves as Treasurer. He also serves as the Chair of the Endowment Committee of the Broad Street United Methodist Church (religious). Mr. Peay serves as Vice-Chairman of the Audit Committee.

William T. Robinson is a corn, cattle and timber farmer. Mr. Robinson is the Owner and Operator of Robinson Family Farm. He retired from Santee Cooper (utility provider) in the Treasury and Corporate Planning Department in early 2015. He is employed by The SEFA Group (engineering and construction) and serves as Executive Director within the SEFA Industrial Solutions division and previously served as the Market Development Officer. Mr. Robinson serves on the board of directors of the AgFirst Farm Credit Bank (agricultural lending). He is a member of the South Carolina Farm Bureau (insurance), and serves on the Orangeburg-Calhoun Technical College Foundation Board (education) and the Tri-County Electric Cooperative Board (utility provider). Mr. Robinson serves on the Executive & Compensation and the Governance & Ethics Committees.

Charles C. Rucks is a retired dairy farmer and now grows hay and raises beef cattle. He is the Owner of Rucks Dairy (farming), serves as the President of the Spalding County Farm Bureau (agricultural organization), and serves as a board member for the Upper Flint Water Council (water conservation). Mr. Rucks serves on the Risk Management Committee.

David H. Womack is a Certified Public Accountant and President of the firm, David H. Womack & Company, PC, CPAs (accounting firm). Mr. Womack serves as Vice-President of the Board of Trustees for Brewton Cemetery, Inc. (perpetual care, non-profit), and as Finance Chairman for First United Methodist Church (religious). Mr. Womack is as an outside director serving on the Executive & Compensation Committee and as Chairman of the Audit Committee.

Mr. Jerome G. Parker passed away in December 2020. His seat has been filled by Mr. Pete Wall. Mr. Wall's term began in late January 2021.

Mr. Jimmy B. Metts served on the Board for 42 years. His seat was filled by Mr. Jonathan Mann whose term began January 2021.

Transactions with Senior Officers and Directors

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

Involvement in Certain Legal Proceedings

From time to time, the Association may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, the Association is not aware of any such actions that would have a material impact on our financial condition and there were no matters which came to the attention of management or the Board of Directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

Relationship with Independent Auditors

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

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

Independent Auditors	2020
PricewaterhouseCoopers, LLP	
Audit services	$ 75,396
Total	$ 75,396

Audit services 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 1-912-489-4842, ext. 2674, or writing Bo Fennell, AgSouth Farm Credit, ACA, P.O. 718 Statesboro, GA 30459 or accessing the website, ***www.agsouthfc.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's website within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

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

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

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

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

Shareholder Investment

Shareholder investment in the Association could be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's website at ***www.agfirst.com***. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 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.

Reports of suspected or actual wrongdoings involving the Association, its employees and/or Directors, can be made anonymously and confidentially through the Association's Whistleblower Hotline (Convercent) at 1-844-850-6496 or ***www.convercent.com/report.***

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 AgSouth Farm Credit, 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 AgSouth Farm Credit, ACA. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's independence.

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

David H. Womack
Chairman of the Audit Committee

Members of Audit Committee

Arthur Q. Black
Jonathan L. Mann
J. Jay Peay

March 11, 2021

Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of AgSouth Farm Credit, 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 AgSouth Farm Credit, ACA and its subsidiaries as of December 31, 2020, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Atlanta, Georgia
March 11, 2021

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

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2020	2019	2018
Assets			
Cash	**$ 133**	$ 5,853	$ 5,026
Investments in debt securities:			
Held to maturity (fair value of $4,448, $5,307, and $5,419, respectively)	**3,950**	5,010	5,280
Loans	**1,921,622**	1,835,096	1,793,452
Allowance for loan losses	**(17,357)**	(16,361)	(15,444)
Net loans	**1,904,265**	1,818,735	1,778,008
Loans held for sale	**3,274**	1,182	359
Accrued interest receivable	**16,711**	18,827	19,251
Equity investments in other Farm Credit institutions	**22,469**	24,527	24,151
Premises and equipment, net	**21,309**	21,332	20,894
Other property owned	**1,170**	4,019	4,627
Accounts receivable	**32,421**	22,120	25,162
Other assets	**2,129**	2,172	2,104
Total assets	**$ 2,007,831**	$ 1,923,777	$ 1,884,862
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 1,538,795**	$ 1,481,914	$ 1,461,549
Accrued interest payable	**3,363**	4,078	4,136
Patronage refunds payable	**12,501**	11,532	10,361
Accounts payable	**1,873**	1,721	1,700
Advanced conditional payments	**—**	24	—
Other liabilities	**14,798**	13,674	17,124
Total liabilities	**1,571,330**	1,512,943	1,494,870
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**10,626**	10,012	9,567
Retained earnings			
Allocated	**139,757**	131,801	126,003
Unallocated	**286,811**	269,553	254,648
Accumulated other comprehensive income (loss)	**(693)**	(532)	(226)
Total members' equity	**436,501**	410,834	389,992
Total liabilities and members' equity	**$ 2,007,831**	$ 1,923,777	$ 1,884,862

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	**$ 107,176**	$ 111,420	$ 105,600
Investments	**296**	341	358
Total interest income	**107,472**	111,761	105,958
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**42,586**	48,990	44,977
Other	**—**	—	289
Total interest expense	**42,586**	48,990	45,266
Net interest income	**64,886**	62,771	60,692
Provision for loan losses	**1,687**	1,349	581
Net interest income after provision for loan losses	**63,199**	61,422	60,111
Noninterest Income			
Loan fees	**5,285**	3,918	3,502
Fees for financially related services	**2,649**	2,345	2,458
Patronage refunds from other Farm Credit institutions	**32,131**	21,894	24,912
Gains (losses) on sales of rural home loans, net	**2,533**	2,385	1,762
Gains (losses) on sales of premises and equipment, net	**175**	162	193
Gains (losses) on other transactions	**45**	90	(386)
Insurance Fund refunds	**339**	366	989
Other noninterest income	**1,624**	181	178
Total noninterest income	**44,781**	31,341	33,608
Noninterest Expense			
Salaries and employee benefits	**30,111**	28,524	29,293
Occupancy and equipment	**2,344**	2,390	2,491
Insurance Fund premiums	**1,306**	1,195	1,172
(Gains) losses on other property owned, net	**148**	1,128	20
Other operating expenses	**7,118**	7,054	7,230
Total noninterest expense	**41,027**	40,291	40,206
Income before income taxes	**66,953**	52,472	53,513
Provision (benefit) for income taxes	**(1)**	(3)	—
Net income	**$ 66,954**	$ 52,475	$ 53,513
Other comprehensive income net of tax			
Employee benefit plans adjustments	**(161)**	(306)	148
Comprehensive income	**$ 66,793**	$ 52,169	$ 53,661

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2017	$ 9,097	$ 121,876	$ 234,892	$ (374)	$ 365,491
Comprehensive income			53,513	148	53,661
Capital stock/participation certificates issued/(retired), net	470				470
Patronage distribution					
Cash			(10,133)		(10,133)
Nonqualified allocated retained earnings		23,644	(23,644)		—
Retained earnings retired		(19,503)			(19,503)
Patronage distribution adjustment		(14)	20		6
Balance at December 31, 2018	$ 9,567	$ 126,003	$ 254,648	$ (226)	$ 389,992
Cumulative effect of change in accounting principle			8		8
Comprehensive income			52,475	(306)	52,169
Capital stock/participation certificates issued/(retired), net	445				445
Patronage distribution					
Cash			(11,160)		(11,160)
Nonqualified allocated retained earnings		26,040	(26,040)		—
Retained earnings retired		(20,506)			(20,506)
Patronage distribution adjustment		264	(378)		(114)
Balance at December 31, 2019	$ 10,012	$ 131,801	$ 269,553	$ (532)	$ 410,834
Comprehensive income			**66,954**	**(161)**	**66,793**
Capital stock/participation certificates issued/(retired), net	**614**				**614**
Patronage distribution					
Cash			**(20,000)**		**(20,000)**
Nonqualified allocated retained earnings		**28,001**	**(28,001)**		**—**
Retained earnings retired		**(21,235)**			**(21,235)**
Patronage distribution adjustment		**1,190**	**(1,695)**		**(505)**
Balance at December 31, 2020	**$ 10,626**	**$ 139,757**	**$ 286,811**	**$ (693)**	**$ 436,501**

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	**$ 66,954**	$ 52,475	$ 53,513
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**1,365**	1,324	1,223
Amortization (accretion) of net deferred loan costs (fees)	**737**	626	624
Premium amortization (discount accretion) on investments in debt securities	**(1)**	(1)	(1)
Provision for loan losses	**1,687**	1,349	581
(Gains) losses on other property owned	**86**	999	(35)
(Gains) losses on sales of premises and equipment, net	**(175)**	(162)	(193)
(Gains) losses on sales of rural home loans, net	**(2,533)**	(2,385)	(1,762)
(Gains) losses on other transactions	**(45)**	(90)	386
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(260,162)**	(197,971)	(154,475)
Proceeds from sales of loans held for sale, net	**260,603**	199,533	159,253
(Increase) decrease in accrued interest receivable	**2,116**	424	(2,391)
(Increase) decrease in accounts receivable	**(10,301)**	3,042	548
(Increase) decrease in other assets	**43**	(60)	66
Increase (decrease) in accrued interest payable	**(715)**	(58)	641
Increase (decrease) in accounts payable	**152**	21	(610)
Increase (decrease) in other liabilities	**1,008**	(3,666)	2,316
Total adjustments	**(6,135)**	2,925	6,171
Net cash provided by (used in) operating activities	**60,819**	55,400	59,684
Cash flows from investing activities:			
Proceeds from maturities of or principal payments received on investments in debt securities, held to maturity	**1,061**	271	254
Net (increase) decrease in loans	**(88,405)**	(43,624)	(85,393)
(Increase) decrease in equity investments in other Farm Credit institutions	**2,058**	(376)	(583)
Purchases of premises and equipment	**(1,530)**	(1,771)	(2,443)
Proceeds from sales of premises and equipment	**363**	171	243
Proceeds from sales of other property owned	**3,214**	531	540
Net cash provided by (used in) investing activities	**(83,239)**	(44,798)	(87,382)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**56,881**	20,365	56,475
Net increase (decrease) in advanced conditional payments	**(24)**	24	—
Capital stock and participation certificates issued/(retired), net	**614**	445	470
Patronage refunds and dividends paid	**(19,536)**	(10,103)	(9,667)
Retained earnings retired	**(21,235)**	(20,506)	(19,503)
Net cash provided by (used in) financing activities	**16,700**	(9,775)	27,775
Net increase (decrease) in cash	**(5,720)**	827	77
Cash, beginning of period	**5,853**	5,026	4,949
Cash, end of period	**$ 133**	$ 5,853	$ 5,026
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	**$ 1,040**	$ 737	$ 1,141
Receipt of property in settlement of loans	**1,491**	1,659	2,604
Estimated cash dividends or patronage distributions declared or payable	**20,000**	11,160	10,133
Employee benefit plans adjustments (Note 9)	**161**	306	(148)
Supplemental information:			
Interest paid	**$ 43,301**	$ 49,048	$ 44,625
Taxes (refunded) paid, net	**16**	—	—

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:** AgSouth Farm Credit, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the states of Georgia and South Carolina in the following counties:

Georgia: Counties of Appling, Atkinson, Bacon, Brantley, Bryan, Bulloch, Butts, Camden, Candler, Carroll, Charlton, Chatham, Clayton, Clinch, Coffee, Coweta, DeKalb, Douglas, Effingham, Emanuel, Evans, Fayette, Fulton, Glynn, Greene, Gwinnett, Haralson, Harris, Heard, Henry, Jasper, Jeff Davis, Jenkins, Lamar, Liberty, Long, McIntosh, Meriwether, Monroe, Montgomery, Morgan, Muscogee, Newton, Oconee, Pierce, Pike, Putnam, Rockdale, Screven, Spalding, Talbot, Tattnall, Toombs, Troup, Upson, Walton, Ware, Wayne, and Wheeler.

South Carolina: Counties of Abbeville, Aiken, Allendale, Anderson, Bamberg, Barnwell, Beaufort, Berkeley, Calhoun, Charleston, Cherokee, Chester, Colleton, Dorchester, Edgefield, Fairfield, Greenville, Greenwood, Hampton, Jasper, Kershaw, Lancaster, Laurens, Lexington, McCormick, Newberry, Oconee, Orangeburg, Pickens, Richland, Saluda, Spartanburg, Union, and York.

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

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

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

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

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

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

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

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

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

The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments, and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses.

The Association may sell to any System borrowing member, on an optional basis, credit or term life insurance appropriate to protect the loan commitment in the event of death of the debtor(s). The sale of other insurance necessary to protect a member's farm or aquatic unit is permitted, but limited to hail and multi-peril crop insurance, and insurance necessary to protect the facilities and equipment of farm or 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 five to forty years and certain short- and intermediate-term loans for agricultural production or operating purposes with maturities of not more than 10 years.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investments in Debt Securities

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

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

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

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 other 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.

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

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

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

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

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

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

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

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

Additional information may be found in Note 9.

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

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

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

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

Single Employer Defined Benefit Plan
The Association also sponsors a single employer defined benefit supplemental retirement plan for certain key employees. This plan is nonqualified; therefore, the associated liabilities are included 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 may act as lessor in certain contractual arrangements which relate to office space in an owned property and are considered operating leases. Generally, leases are for terms of three to five years and may include options to extend or terminate the arrangement.

Lease income is recognized on a straight-line basis over the lease term. Lease and nonlease components are accounted for separately 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 any impact on the statements of financial condition and results of operations.

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

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

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

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

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

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

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

In April 2019, the FASB issued ASU 2019-04 Codification Improvements to Topic 326 Financial Instruments—Credit Losses, Topic 815 Derivatives and Hedging, and Topic 825 Financial Instruments. The amendments in this Update clarify, correct, and improve various aspects of the guidance in the following Updates related to financial instruments: ASU 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities, ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and ASU 2017-12

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

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

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

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

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

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, 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 US 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	$ 1,457,592	$ 1,364,772	$ 1,336,239
Production and intermediate-term	326,901	350,390	348,156
Processing and marketing	24,636	21,951	21,505
Farm-related business	24,650	25,608	23,992
Rural residential real estate	87,663	71,960	63,124
Other (including Mission Related)	180	415	436
Total loans	$ 1,921,622	$ 1,835,096	$ 1,793,452

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 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	$ 9,908	$ 143,574	$ 365	$ 8,590	$ –	$ –	$ 10,273	$ 152,164
Production and intermediate-term	1,402	157,857	1,417	–	2,907	–	5,726	157,857
Processing and marketing	–	104,354	251	26,056	–	–	251	130,410
Farm-related business	1,143	10,709	–	–	–	–	1,143	10,709
Total	$ 12,453	$ 416,494	$ 2,033	$ 34,646	$ 2,907	$ –	$ 17,393	$ 451,140

	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	$ 5,954	$ 152,114	$ 386	$ 9,127	$ –	$ –	$ 6,340	$ 161,241
Production and intermediate-term	1,056	88,188	1,531	–	3,730	–	6,317	88,188
Processing and marketing	–	106,685	309	27,960	–	–	309	134,645
Farm-related business	3,860	12,674	–	–	–	–	3,860	12,674
Total	$ 10,870	$ 359,661	$ 2,226	$ 37,087	$ 3,730	$ –	$ 16,826	$ 396,748

	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	$ 3,268	$ 162,669	$ 434	$ 9,551	$ –	$ –	$ 3,702	$ 172,220
Production and intermediate-term	–	53,384	618	–	4,175	–	4,793	53,384
Processing and marketing	–	20,254	293	18,039	–	–	293	38,293
Farm-related business	3,358	11,362	–	–	–	–	3,358	11,362
Total	$ 6,626	$ 247,669	$ 1,345	$ 27,590	$ 4,175	$ –	$ 12,146	$ 275,259

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

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

	December 31,		
	2020	2019	2018
Real estate mortgage:			
Acceptable	97.59%	97.51%	97.46%
OAEM	1.43	1.71	1.90
Substandard/doubtful/loss	0.98	0.78	0.64
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	96.16%	95.35%	96.76%
OAEM	2.28	2.97	2.48
Substandard/doubtful/loss	1.56	1.68	0.76
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	94.04%	92.45%	94.32%
OAEM	–	–	–
Substandard/doubtful/loss	5.96	7.55	5.68
	100.00%	100.00%	100.00%

	December 31,		
	2020	2019	2018
Farm-related business:			
Acceptable	86.91%	88.27%	94.11%
OAEM	6.96	8.42	4.59
Substandard/doubtful/loss	6.13	3.31	1.30
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	98.45%	98.34%	98.34%
OAEM	0.92	0.82	0.98
Substandard/doubtful/loss	0.63	0.84	0.68
	100.00%	100.00%	100.00%
Other (including Mission Related):			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Total loans:			
Acceptable	97.20%	96.94%	97.27%
OAEM	1.61	1.99	2.00
Substandard/doubtful/loss	1.19	1.07	0.73
	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	$ 9,385	$ 3,069	$ 12,454	$ 1,456,362	$ 1,468,816
Production and intermediate-term	1,214	2,757	3,971	327,676	331,647
Processing and marketing	421	–	421	24,467	24,888
Farm-related business	507	822	1,329	23,513	24,842
Rural residential real estate	774	69	843	87,092	87,935
Other (including Mission Related)	–	–	–	181	181
Total	$ 12,301	$ 6,717	$ 19,018	$ 1,919,291	$ 1,938,309

	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	$ 7,572	$ 3,313	$ 10,885	$ 1,365,719	$ 1,376,604
Production and intermediate-term	3,639	3,376	7,015	349,739	356,754
Processing and marketing	310	–	310	21,769	22,079
Farm-related business	1,458	403	1,861	23,969	25,830
Rural residential real estate	221	122	343	71,868	72,211
Other (including Mission Related)	–	–	–	416	416
Total	$ 13,200	$ 7,214	$ 20,414	$ 1,833,480	$ 1,853,894

	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	$ 6,254	$ 2,483	$ 8,737	$ 1,339,698	$ 1,348,435
Production and intermediate-term	2,687	1,693	4,380	350,162	354,542
Processing and marketing	281	666	947	20,809	21,756
Farm-related business	152	194	346	23,808	24,154
Rural residential real estate	400	80	480	62,869	63,349
Other (including Mission Related)	–	–	–	437	437
Total	$ 9,774	$ 5,116	$ 14,890	$ 1,797,783	$ 1,812,673

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

	December 31,		
	2020	2019	2018
Nonaccrual loans:			
Real estate mortgage	$ 8,659	$ 9,030	$ 6,798
Production and intermediate-term	5,119	7,415	4,008
Processing and marketing	–	–	667
Farm-related business	1,292	403	313
Rural residential real estate	210	174	307
Total	$ 15,280	$ 17,022	$ 12,093
Accruing restructured loans:			
Real estate mortgage	$ 4,142	$ 4,434	$ 6,579
Production and intermediate-term	853	444	273
Rural residential real estate	141	280	136
Total	$ 5,136	$ 5,158	$ 6,988
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 20,416	$ 22,180	$ 19,081
Other property owned	1,170	4,019	4,627
Total nonperforming assets	$ 21,586	$ 26,199	$ 23,708
Nonaccrual loans as a percentage of total loans	0.80%	0.93%	0.67%
Nonperforming assets as a percentage of total loans and other property owned	1.12%	1.42%	1.32%
Nonperforming assets as a percentage of capital	4.95%	6.38%	6.08%

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	$ 6,510	$ 5,647	$ 4,810
Past due	8,770	11,375	7,283
Total	$ 15,280	$ 17,022	$ 12,093
Impaired accrual loans:			
Restructured	$ 5,136	$ 5,158	$ 6,988
90 days or more past due	–	–	–
Total	$ 5,136	$ 5,158	$ 6,988
Total impaired loans	$ 20,416	$ 22,180	$ 19,081
Additional commitments to lend	$ –	$ –	$ –

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

	December 31, 2020			Year Ended December 31, 2020	
Impaired Loans	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 169	$ 172	$ 10	$ 177	$ 12
Production and intermediate-term	556	555	79	583	39
Farm-related business	436	443	97	457	30
Rural residential real estate	–	–	–	–	–
Total	$ 1,161	$ 1,170	$ 186	$ 1,217	$ 81
With no related allowance for credit losses:					
Real estate mortgage	$ 12,632	$ 15,164	$ –	$ 13,250	$ 885
Production and intermediate-term	5,416	7,122	–	5,682	380
Farm-related business	856	1,101	–	898	60
Rural residential real estate	351	414	–	368	25
Total	$ 19,255	$ 23,801	$ –	$ 20,198	$ 1,350
Total:					
Real estate mortgage	$ 12,801	$ 15,336	$ 10	$ 13,427	$ 897
Production and intermediate-term	5,972	7,677	79	6,265	419
Farm-related business	1,292	1,544	97	1,355	90
Rural residential real estate	351	414	–	368	25
Total	$ 20,416	$ 24,971	$ 186	$ 21,415	$ 1,431

	December 31, 2019			Year Ended December 31, 2019	
Impaired Loans	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 384	$ 368	$ –	$ 341	$ 30
Production and intermediate-term	3,265	3,193	928	2,902	253
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 3,649	$ 3,561	$ 928	$ 3,243	$ 283
With no related allowance for credit losses:					
Real estate mortgage	$ 13,080	$ 15,368	$ –	$ 11,625	$ 1,016
Production and intermediate-term	4,594	5,884	–	4,083	358
Farm-related business	403	524	–	358	31
Rural residential real estate	454	495	–	404	35
Total	$ 18,531	$ 22,271	$ –	$ 16,470	$ 1,440
Total:					
Real estate mortgage	$ 13,464	$ 15,736	$ –	$ 11,966	$ 1,046
Production and intermediate-term	7,859	9,077	928	6,985	611
Farm-related business	403	524	–	358	31
Rural residential real estate	454	495	–	404	35
Total	$ 22,180	$ 25,832	$ 928	$ 19,713	$ 1,723

Impaired Loans	December 31, 2018 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2018 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 255	$ 255	$ 54	$ 264	$ 17
Production and intermediate-term	332	488	32	343	21
Processing and marketing	–	–	–	–	–
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 587	$ 743	$ 86	$ 607	$ 38
With no related allowance for credit losses:					
Real estate mortgage	$ 13,122	$ 15,145	$ –	$ 13,571	$ 857
Production and intermediate-term	3,949	5,469	–	4,085	259
Processing and marketing	667	652	–	689	43
Farm-related business	313	397	–	324	20
Rural residential real estate	443	505	–	459	29
Total	$ 18,494	$ 22,168	$ –	$ 19,128	$ 1,208
Total:					
Real estate mortgage	$ 13,377	$ 15,400	$ 54	$ 13,835	$ 874
Production and intermediate-term	4,281	5,957	32	4,428	280
Processing and marketing	667	652	–	689	43
Farm-related business	313	397	–	324	20
Rural residential real estate	443	505	–	459	29
Total	$ 19,081	$ 22,911	$ 86	$ 19,735	$ 1,246

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*	Rural Residential Real Estate	Other	Total
Activity related to the allowance for credit losses:						
Balance at December 31, 2019	$ 11,485	$ 3,868	$ 400	$ 604	$ 4	$ 16,361
Charge-offs	(12)	(909)	(262)	(5)	–	(1,188)
Recoveries	335	157	1	4	–	497
Provision for loan losses	1,213	(99)	399	176	(2)	1,687
Balance at December 31, 2020	$ 13,021	$ 3,017	$ 538	$ 779	$ 2	$ 17,357
Balance at December 31, 2018	$ 11,485	$ 3,032	$ 385	$ 538	$ 4	$ 15,444
Charge-offs	(277)	(784)	(15)	(21)	–	(1,097)
Recoveries	191	265	3	206	–	665
Provision for loan losses	86	1,355	27	(119)	–	1,349
Balance at December 31, 2019	$ 11,485	$ 3,868	$ 400	$ 604	$ 4	$ 16,361
Balance at December 31, 2017	$ 11,214	$ 2,797	$ 280	$ 520	$ 4	$ 14,815
Charge-offs	(112)	(353)	–	(90)	–	(555)
Recoveries	338	182	3	80	–	603
Provision for loan losses	45	406	102	28	–	581
Balance at December 31, 2018	$ 11,485	$ 3,032	$ 385	$ 538	$ 4	$ 15,444
Allowance on loans evaluated for impairment:						
Individually	$ 10	$ 79	$ 97	$ –	$ –	$ 186
Collectively	13,011	2,938	441	779	2	17,171
Balance at December 31, 2020	$ 13,021	$ 3,017	$ 538	$ 779	$ 2	$ 17,357
Individually	$ –	$ 928	$ –	$ –	$ –	$ 928
Collectively	11,485	2,940	400	604	4	15,433
Balance at December 31, 2019	$ 11,485	$ 3,868	$ 400	$ 604	$ 4	$ 16,361
Individually	$ 54	$ 32	$ –	$ –	$ –	$ 86
Collectively	11,431	3,000	385	538	4	15,358
Balance at December 31, 2018	$ 11,485	$ 3,032	$ 385	$ 538	$ 4	$ 15,444
Recorded investment in loans evaluated for impairment:						
Individually	$ 12,873	$ 5,972	$ 1,292	$ 351	$ –	$ 20,488
Collectively	1,455,943	325,675	48,438	87,584	181	1,917,821
Balance at December 31, 2020	$ 1,468,816	$ 331,647	$ 49,730	$ 87,935	$ 181	$ 1,938,309
Individually	$ 13,596	$ 7,859	$ 403	$ 454	$ –	$ 22,312
Collectively	1,363,008	348,895	47,506	71,757	416	1,831,582
Balance at December 31, 2019	$ 1,376,604	$ 356,754	$ 47,909	$ 72,211	$ 416	$ 1,853,894
Individually	$ 13,598	$ 4,285	$ 980	$ 445	$ –	$ 19,308
Collectively	1,334,837	350,257	44,930	62,904	437	1,793,365
Balance at December 31, 2018	$ 1,348,435	$ 354,542	$ 45,910	$ 63,349	$ 437	$ 1,812,673

** 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 Government-Sponsored Enterprises (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 $161,334, $163,041, and $164,626 at December 31, 2020, 2019, and 2018, respectively. Fees paid for such guarantee commitments totaled $139, $157, and $147 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	$ 690	$ 3,782	$ –	$ 4,472	
Production and intermediate-term	–	1,879	–	1,879	
Total	$ 690	$ 5,661	$ –	$ 6,351	
Post-modification:					
Real estate mortgage	$ 697	$ 3,817	$ –	$ 4,514	$ (409)
Production and intermediate-term	–	1,926	–	1,926	(103)
Total	$ 697	$ 5,743	$ –	$ 6,440	$ (512)

	Year Ended December 31, 2019				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 333	$ 1,833	$ –	$ 2,166	
Production and intermediate-term	171	386	–	557	
Rural residential real estate	106	–	–	106	
Total	$ 610	$ 2,219	$ –	$ 2,829	
Post-modification:					
Real estate mortgage	$ 327	$ 1,868	$ –	$ 2,195	$ –
Production and intermediate-term	164	422	–	586	(39)
Rural residential real estate	107	–	–	107	–
Total	$ 598	$ 2,290	$ –	$ 2,888	$ (39)

	Year Ended December 31, 2018				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 383	$ 514	$ –	$ 897	
Production and intermediate-term	305	48	–	353	
Total	$ 688	$ 562	$ –	$ 1,250	
Post-modification:					
Real estate mortgage	$ 391	$ 474	$ –	$ 865	$ –
Production and intermediate-term	319	54	–	373	–
Total	$ 710	$ 528	$ –	$ 1,238	$ –

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

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

	Year Ended December 31,		
Defaulted troubled debt restructurings	2020	2019	2018
Real estate mortgage	$ 1,096	$ 615	$ 229
Production and intermediate-term	68	72	117
Total	$ 1,164	$ 687	$ 346

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	$ 7,939	$ 8,113	$ 10,633	$ 3,797	$ 3,679	$ 4,054
Production and intermediate-term	1,753	1,489	1,545	900	1,045	1,272
Farm-related business	3	3	3	3	3	3
Rural residential real estate	141	280	171	–	–	35
Total loans	$ 9,836	$ 9,885	$ 12,352	$ 4,700	$ 4,727	$ 5,364
Additional commitments to lend	$ –	$ –	$ –			

Note 4 — Investments

Investments in Debt Securities

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have different eligibility requirements. At December 31, 2020, the Association held no RABs whose credit quality had deteriorated beyond the program limits.

A summary of the amortized cost and fair value of investment securities held-to-maturity follows:

	December 31, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 3,950	$ 498	$ –	$ 4,448	6.67 %

	December 31, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 5,010	$ 297	$ –	$ 5,307	6.41 %

	December 31, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 5,280	$ 139	$ –	$ 5,419	6.41 %

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

	December 31, 2020		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	–	–	–
After five years through ten years	–	–	–
After ten years	3,950	4,448	6.67
Total	$ 3,950	$ 4,448	6.67%

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

An investment is considered impaired if its fair value is less than its cost. A continuous unrealized loss position for an investment is based on the date the impairment was first identified. There were no securities in a continuous unrealized loss position for the periods presented.

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

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

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

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 $18,535 for 2020, $20,352 for 2019 and $19,730 for 2018. The Association owned 6.88 percent of the issued stock of the Bank as of December 31, 2020 net of any reciprocal investment. As of that date, the Bank's assets totaled $36.3 billion and shareholders' equity totaled $2.5 billion. The Bank's earnings were $418 million for 2020. In addition, the Association had investments of $3,934 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	$ 6,037	$ 6,021	$ 5,816
Buildings and improvements	21,287	21,034	20,537
Furniture and equipment	7,568	7,026	6,796
	34,892	34,081	33,149
Less: accumulated depreciation	13,583	12,749	12,255
Total	$ 21,309	$ 21,332	$ 20,894

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

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

The weighted average interest rates on the variable rate advances were 1.52 percent for LIBOR-based loans and 1.57 percent for Prime-based loans, and the weighted average remaining maturities were 5.5 years and 0.9 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 2.71 percent, and the weighted average remaining maturity was 11.5 years at December 31, 2020. The weighted-average interest rate on all interest-bearing notes payable was 2.59 percent and the weighted-average remaining maturity was 10.4 years at December 31, 2020. Approximately 90.03 percent of the Association's loan portfolio is match funded at the Bank as a fixed rate note. The remainder of the loan portfolio is funded through a variable rate note or free cash. The weighted average maturities described above are related to matched-funded loans. The Direct Note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

A. **Protected Borrower Equity:** Protection of certain borrower equity is provided under the Farm Credit Act which requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates and allocated equities which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an Association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

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

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

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

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

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

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

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

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2020	2019	2018
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	14.49%	14.75%	13.93%
Tier 1 Capital	6.0%	2.5%	8.5%	14.49%	14.75%	13.93%
Total Regulatory Capital	8.0%	2.5%	10.5%	21.81%	21.97%	20.92%
Permanent Capital	7.0%	0.0%	7.0%	21.03%	21.21%	20.20%
Non-risk-adjusted ratios:						
Tier 1 Leverage	4.0%	1.0%	5.0%	13.90%	14.04%	13.22%
URE and UREE Leverage	1.5%	0.0%	1.5%	13.76%	13.90%	13.06%

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

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

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

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

Class	Protected	Shares Outstanding Number	Aggregate Par Value
C Common/Voting	No	1,848,208	$ 9,241
C Participation Certificates/Nonvoting	No	277,063	1,385
Total Capital Stock and Participation Certificates		2,125,271	$ 10,626

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

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

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

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

Allocated equities shall be retired solely at the discretion of the Board, provided that minimum capital standards established by the FCA and the Board are met. 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 $1,870 of qualified surplus and $137,887 of nonqualified allocated 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.

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

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

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

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

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

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

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

1. Classes A and D Preferred Stock
2. Classes A and B Common Stock and Class B Participation Certificates
3. Class C Common Stock and Class C Participation Certificates
4. Allocated Surplus
5. Unallocated Surplus issued after January 1, 1996 shall be distributed to all holders of Class C Common Stock and Class C Participation Certificates from January 1, 1996
6. Remaining Assets shall be distributed ratably to the holders of all classes of Stock and Participation Certificates

E. **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	$ (532)	$ (226)	$ (374)
Other comprehensive income before reclassifications	(176)	(306)	142
Amounts reclassified from AOCI	15	–	6
Net current period OCI	(161)	(306)	148
Balance at end of period	$ (693)	$ (532)	$ (226)

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	$ (15)	$ –	$ (6)	See Note 9.
Amounts reclassified	$ (15)	$ –	$ (6)	

(a) Amounts in parentheses indicate reductions to AOCI.
(b) Amounts in parentheses indicate reductions 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.

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

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

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

	December 31, 2020				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 1,909	$ 1,909	$ –	$ –	$ 1,909
Recurring Assets	$ 1,909	$ 1,909	$ –	$ –	$ 1,909
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 975	$ –	$ –	$ 975	$ 975
Other property owned	1,170	–	–	1,369	1,369
Nonrecurring Assets	$ 2,145	$ –	$ –	$ 2,344	$ 2,344
Other Financial Instruments					
Assets:					
Cash	$ 133	$ 133	$ –	$ –	$ 133
Investments in debt securities, held-to-maturity	3,950	–	–	4,448	4,448
Loans	1,906,564	–	–	1,933,290	1,933,290
Other Financial Assets	$ 1,910,647	$ 133	$ –	$ 1,937,738	$ 1,937,871
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,538,795	$ –	$ –	$ 1,553,370	$ 1,553,370
Other Financial Liabilities	$ 1,538,795	$ –	$ –	$ 1,553,370	$ 1,553,370

	December 31, 2019				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 1,975	$ 1,975	$ –	$ –	$ 1,975
Recurring Assets	$ 1,975	$ 1,975	$ –	$ –	$ 1,975
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 2,721	$ –	$ –	$ 2,721	$ 2,721
Other property owned	4,019	–	–	4,460	4,460
Nonrecurring Assets	$ 6,740	$ –	$ –	$ 7,181	$ 7,181
Other Financial Instruments					
Assets:					
Cash	$ 5,853	$ 5,853	$ –	$ –	$ 5,853
Investments in debt securities, held-to-maturity	5,010	–	–	5,307	5,307
Loans	1,817,196	–	–	1,830,735	1,830,735
Other Financial Assets	$ 1,828,059	$ 5,853	$ –	$ 1,836,042	$ 1,841,895
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,481,914	$ –	$ –	$ 1,484,797	$ 1,484,797
Other Financial Liabilities	$ 1,481,914	$ –	$ –	$ 1,484,797	$ 1,484,797

	December 31, 2018				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 2,006	$ 2,006	$ –	$ –	$ 2,006
Recurring Assets	$ 2,006	$ 2,006	$ –	$ –	$ 2,006
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 501	$ –	$ –	$ 501	$ 501
Other property owned	4,627	–	–	5,103	5,103
Nonrecurring Assets	$ 5,128	$ –	$ –	$ 5,604	$ 5,604
Other Financial Instruments					
Assets:					
Cash	$ 5,026	$ 5,026	$ –	$ –	$ 5,026
Investments in debt securities, held-to-maturity	5,280	–	–	5,419	5,419
Loans	1,777,866	–	–	1,763,220	1,763,220
Other Financial Assets	$ 1,788,172	$ 5,026	$ –	$ 1,768,639	$ 1,773,665
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,461,549	$ –	$ –	$ 1,439,810	$ 1,439,810
Other Financial Liabilities	$ 1,461,549	$ –	$ –	$ 1,439,810	$ 1,439,810

Uncertainty in Measurements of Fair Value

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

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

Investments in Debt Securities

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

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

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

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 2,344	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
Investments in debt securities, held-to-maturity	Discounted cash flow	Prepayment rates Risk adjusted discount rate
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

Note 9 — Employee Benefit Plans

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

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

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

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

The FAP Plan covers employees hired prior to January 1, 2003 and includes other District employees that are not employees of the Association. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included 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 $4,068 for 2020, $3,453 for 2019, and $5,158 for 2018. At December 31, 2020, 2019, and 2018, the total liability balance for the FAP 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 $844 for 2020, $908 for 2019, and $878 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 $1,300, $1,194, and $1,084 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, ($161), ($306), and $148 have been recognized as a net debit, a net debit, and a net credit, respectively, 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 $2,555 and a net under-funded status of $2,555 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 $101, $100, and $81 for 2020, 2019, and 2018, respectively.

Note 10 — Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with related parties, which include 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 $6,094. During 2020, $4,778 of new loans were made and repayments totaled $4,694. 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, $173,198 of commitments to extend credit and no commercial letters of credit were outstanding.

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 $881 with expiration dates ranging from February 1, 2021 to October 31, 2023. The maximum potential amount of future payments that may be required under these guarantees was $881.

The total amount of reserve for unfunded commitments, which is classified in Other Liabilities in the Consolidated Balance Sheets, was $743 at December 31, 2020. During 2020, the Association recorded a provision for unfunded commitments totaling $104.

Note 12 — Income Taxes

The provision for income taxes follows:

	Year Ended December 31,		
	2020	2019	2018
Current:			
Federal	$ (1)	$ (3)	$ –
State	–	–	–
	(1)	(3)	–
Deferred:			
Federal	–	–	–
State	–	–	–
	–	–	–
Total provision for income taxes	$ (1)	$ (3)	$ –

The provision for income tax differs from the amount of income tax determined by applying the applicable US statutory federal income tax rate to pretax income as follows:

	December 31, 2020	December 31, 2019	December 31, 2018
Federal tax at statutory rate	$ 14,060	$ 11,019	$ 11,238
State tax, net	–	–	–
Patronage distributions	(2,520)	(2,344)	(2,128)
Tax-exempt FLCA earnings	(11,072)	(8,672)	(9,164)
Change in valuation allowance	(341)	(16)	118
Change in tax rate	–	–	–
Other	(128)	10	(64)
Provision (benefit) for income taxes	$ (1)	$ (3)	$ –

In late December 2017, federal tax legislation was enacted which, among other things, lowered the federal corporate tax rate from 35% to 21% beginning on January 1, 2018. The change to the lower corporate tax rate led to an insignificant remeasurement of the deferred tax liabilities and deferred tax assets in 2017, the period of enactment. Deferred tax assets and liabilities are comprised of the following at:

	December 31, 2020	December 31, 2019	December 31, 2018
Deferred income tax assets:			
Allowance for loan losses	$ 865	$ 960	$ 950
Annual leave	191	182	185
Nonaccrual loan interest	323	294	462
Loan Fees	–	–	–
Pensions and other postretirement benefits	–	–	–
Loss carryforward	416	432	417
Other property owned	–	252	54
Gross deferred tax assets	1,795	2,120	2,068
Less: valuation allowance	(1,504)	(1,845)	(1,861)
Gross deferred tax assets, net of valuation allowance	291	275	207
Deferred income tax liabilities:			
Loan fees	(243)	(206)	(201)
Pensions and other postretirement benefits	–	–	–
Depreciation	(48)	(69)	(6)
Gross deferred tax liability	(291)	(275)	(207)
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2020, deferred income taxes have not been provided by the Association on approximately $7,400 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 ($1,504), ($1,845), and ($1,861) 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	$ 15,734	$ 15,932	$ 16,523	$ 16,697	$ 64,886
Provision for (reversal of allowance for) loan losses	256	453	872	106	1,687
Noninterest income (expense), net	(4,440)	(3,948)	(3,427)	15,570	3,755
Net income	$ 11,038	$ 11,531	$ 12,224	$ 32,161	$ 66,954

2019	First	Second	Third	Fourth	Total
Net interest income	$ 15,135	$ 15,386	$ 15,693	$ 16,557	$ 62,771
Provision for (reversal of allowance for) loan losses	–	905	326	118	1,349
Noninterest income (expense), net	(4,874)	(4,417)	(3,801)	4,145	(8,947)
Net income	$ 10,261	$ 10,064	$ 11,566	$ 20,584	$ 52,475

2018	First	Second	Third	Fourth	Total
Net interest income	$ 14,767	$ 14,850	$ 15,481	$ 15,594	$ 60,692
Provision for (reversal of allowance for) loan losses	(18)	(544)	729	414	581
Noninterest income (expense), net	(3,949)	(6,113)	(3,367)	6,831	(6,598)
Net income	$ 10,836	$ 9,281	$ 11,385	$ 22,011	$ 53,513

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.

AgSouth Farm Credit, ACA
26 S. Main St.
Statesboro, GA 30459-0718