



# 2020

## ANNUAL REPORT



**AgChoice**  
Farm Credit

# Delivering Value to Customer-Owners: FROM PEOPLE TO PATRONAGE



While 2020 will long be remembered as a year of challenges, our Association and customers emerged strong, resilient and ready to embrace 2021. The excellent financial results in this annual report position us to serve you in 2021 and beyond. Together, we have a Shared Purpose: growing our families, businesses and rural communities. As your lender and financial services provider, we can do our part by remaining financially strong, growing our business by meeting your needs and supporting other agricultural organizations and initiatives.

## THE AGCHOICE TEAM

AgChoice has more than 170 dedicated employees who support agriculture and our rural communities every day. The commitment and work ethic of our employees shone brightly in 2020, and our results reflect their dedication. People do business with people, not companies. The connections you have with us are the foundation of our relationship, and we are extremely proud of AgChoice employees' efforts to fulfill our Shared Purpose.

## RETURNING VALUE TO OUR MEMBERS

With your help, our Association continues to grow its customer numbers for loans and financial services while maintaining strong net income. One of the most tangible ways you share in AgChoice's success is through patronage dividends. In April 2020, AgChoice paid a record patronage dividend of \$34.0 million to our members based on our 2019 earnings. We are pleased to announce that in April 2021 we expect to pay another record patronage dividend of \$42.5 million based on our 2020 earnings. The Board is excited to share the Association's success with you during a time of volatile commodity prices and lower profitability in some agricultural segments.

### Below are several highlights from 2020:

- Growth occurred in virtually all segments of our business, with loan volume growth of 9.8%, and revenue from accounting, consulting and crop insurance services up over 20%, exceeding \$2 million.
- Earnings grew to an all-time high of \$69.2 million.
- Capital declined slightly as planned, with the total regulatory capital ratio ending the year at 17.71%.
- Credit quality improved slightly, despite the economic challenges that the pandemic presented to you, and continued to be above our long-term targets with acceptably classified loans ending at 94.9%.

## THE FUTURE IS BRIGHT

We believe that the future is bright for agriculture and for you. We are working on major projects in 2021 to implement new processes and technology to serve your needs with improved business solutions, better response times and enhanced programs to help young, beginning and small farmers build their businesses.

Thank you for helping AgChoice achieve excellent results last year. We are grateful to work together with you and look forward to your growth and success in 2021.

Darrell L. Curtis | President and CEO

## CASH PATRONAGE PAID

(in millions, paid the following spring)

2020	\$42.5
2019	\$34.0
2018	\$32.6
2017	\$26.3
2016	\$19.2

## NET INCOME (in millions)

2020	\$69.2
2019	\$52.9
2018	\$52.3
2017	\$55.1
2016	\$40.9

## LOANS (in millions)

2020	\$2,357
2019	\$2,147
2018	\$1,946
2017	\$1,853
2016	\$1,802

*AgChoice Farm Credit, ACA*  
**2020 ANNUAL REPORT**

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**Management**

Darrell L. Curtis ..... Chief Executive Officer  
Ryan S. Davis..... Director of Credit Administration  
Terry A. Davis..... Chief Financial Officer  
Brina M. Keim ..... Director of Human Resources  
Mark F. Kerstetter ..... Chief Operating Officer  
Gina M. Moshier ..... Chief Administrative Officer  
Michael S. Schrey ..... Chief Credit Officer  
Crystal A. Standish ..... Chief Sales and Marketing Officer  
John D. Uthman ..... Chief Internal Auditor

**Board of Directors**

Richard A. Allen ..... Chairman  
Christine Waddell ..... Vice Chairman  
Samuel BowerCraft..... Director  
Kevin D. Grim..... Director  
Steven H. Gross, Jr..... Director  
William K. Jackson..... Director  
Paul Schmidt ..... Director  
Larry A. Seibert..... Director  
Dennis B. Spangler ..... Director  
Richard D. Shuman..... Director  
Charles F. Ulmer..... Director  
Shawn D. Wolfinger ..... Director  
Kristi Yacono ..... Director

## *Report of Management*

The accompanying consolidated financial statements and related financial information appearing throughout this Annual Report have been prepared by the management of AgChoice Farm Credit, ACA (Association) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts that 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 an Independent Auditor, whose report appears elsewhere in this Annual Report. The Association is also subject to examination by the Farm Credit Administration (FCA).

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 AgChoice Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors, 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.

Richard A. Allen  
Chairman of the Board

Darrell L. Curtis  
Chief Executive Officer

Terry A. Davis  
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.

Darrell L. Curtis  
Chief Executive Officer

Terry A. Davis  
Chief Financial Officer

March 11, 2021

# Consolidated Five - Year Summary of Selected Financial Data

<i>(dollars in thousands)</i>	2020	2019	December 31, 2018	2017	2016
<b>Balance Sheet Data</b>					
Cash	\$ 875	\$ 42	\$ 83	\$ 16	\$ 43
Investments in debt securities	—	—	—	2,205	2,243
Loans	2,356,528	2,146,536	1,946,184	1,852,751	1,802,291
Allowance for loan losses	(15,179)	(15,419)	(14,331)	(13,492)	(11,802)
Net loans	2,341,349	2,131,117	1,931,853	1,839,259	1,790,489
Equity investments in other Farm Credit institutions	23,308	23,238	24,141	24,009	23,295
Other property owned	—	—	76	26	79
Other assets	60,810	47,417	50,584	46,921	42,194
Total assets	<b>\$ 2,426,342</b>	<b>\$2,201,814</b>	<b>\$2,006,737</b>	<b>\$1,912,436</b>	<b>\$1,858,343</b>
Notes payable to AgFirst Farm Credit Bank*	<b>\$ 1,920,964</b>	<b>\$1,731,992</b>	<b>\$1,557,913</b>	<b>\$1,487,719</b>	<b>\$1,464,915</b>
Accrued interest payable and other liabilities with maturities of less than one year	59,440	51,090	42,259	36,917	39,410
Total liabilities	<b>1,980,404</b>	<b>1,783,082</b>	<b>1,600,172</b>	<b>1,524,636</b>	<b>1,504,325</b>
Capital stock and participation certificates	8,995	8,444	8,223	11,020	11,049
Retained earnings					
Allocated	161,489	161,489	161,489	161,489	161,489
Unallocated	275,551	248,884	236,910	215,361	181,537
Accumulated other comprehensive income (loss)	(97)	(85)	(57)	(70)	(57)
Total members' equity	<b>445,938</b>	<b>418,732</b>	<b>406,565</b>	<b>387,800</b>	<b>354,018</b>
Total liabilities and members' equity	<b>\$ 2,426,342</b>	<b>\$2,201,814</b>	<b>\$2,006,737</b>	<b>\$1,912,436</b>	<b>\$1,858,343</b>
<b>Statement of Income Data</b>					
Net interest income	\$ 58,786	\$ 56,079	\$ 52,283	\$ 49,652	\$ 46,680
Provision for (reversal of allowance for) loan losses	(72)	1,135	1,179	1,707	1,872
Noninterest income (expense), net	10,391	(2,054)	1,176	7,151	(3,955)
Net income	<b>\$ 69,249</b>	<b>\$ 52,890</b>	<b>\$ 52,280</b>	<b>\$ 55,096</b>	<b>\$ 40,853</b>
<b>Key Financial Ratios</b>					
Rate of return on average:					
Total assets	3.02%	2.54%	2.72%	2.96%	2.30%
Total members' equity	15.65%	12.50%	12.95%	14.78%	11.66%
Net interest income as a percentage of average earning assets	2.61%	2.74%	2.78%	2.72%	2.68%
Net (chargeoffs) recoveries to average loans	(0.007)%	(0.002)%	(0.018)%	(0.001)%	(0.006)%
Total members' equity to total assets	18.38%	19.02%	20.26%	20.28%	19.05%
Debt to members' equity (:1)	4.44	4.26	3.94	3.93	4.25
Allowance for loan losses to loans	0.64%	0.72%	0.74%	0.73%	0.65%
Permanent capital ratio	17.17%	17.84%	18.42%	17.94%	18.02%
Total surplus ratio	**	**	**	**	17.17%
Core surplus ratio	**	**	**	**	17.17%
Common equity tier 1 capital ratio	17.06%	17.72%	18.29%	17.68%	**
Tier 1 capital ratio	17.06%	17.72%	18.29%	17.68%	**
Total regulatory capital ratio	17.71%	18.41%	18.99%	18.34%	**
Tier 1 leverage ratio	18.29%	19.17%	19.76%	19.05%	**
Unallocated retained earnings (URE) and URE equivalents leverage ratio	18.33%	19.16%	19.87%	19.15%	**
<b>Net Income Distribution</b>					
Estimated patronage refunds:					
Cash	\$ 42,578	\$ 40,913	\$ 30,700	\$ 21,250	\$ 19,200

\* 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 AgChoice Farm Credit, ACA, an Agricultural Credit Association (ACA), and its subsidiaries, AgChoice Farm Credit, FLCA, a Federal Land Credit Association (FLCA) and AgChoice Farm Credit, PCA, a Production Credit Association (PCA), (collectively called "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 Consolidated Financial Statements include the accounts of the ACA, FLCA and PCA. 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) that 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 that is owned by the members (also referred to throughout this Annual Report as stockholders, borrowers or shareholders) served. The territory of the Association extends across a diverse agricultural region of Pennsylvania and four counties in West Virginia. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties within the Association's territory. The Association provides credit to farmers, ranchers, rural residents and agribusinesses. Our success begins with our extensive agricultural experience and market knowledge.

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](http://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 unaudited Quarterly Reports are also available upon request, free of charge, on the Association's website, [www.agchoice.com](http://www.agchoice.com), or by calling 1-800-998-5557, or writing Terry Davis, Chief Financial Officer, AgChoice Farm Credit, ACA, 300 Winding Creek Boulevard, Mechanicsburg, PA 17050. The Association prepares an electronic version of the Annual Report that is available on the website within 75 days after the end of the fiscal year and distributes the Annual Report to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly Report that is available on the 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 periodically occurring adverse climatic or biological conditions that impact agricultural productivity and income;
- changes in the United States government's support of the agricultural industry and the System, as a government-sponsored enterprise, as well as investor and rating-agency reactions to events involving other government-sponsored enterprises and other financial institutions and
- actions taken by the Federal Reserve System in implementing monetary policy.

## CRITICAL ACCOUNTING POLICIES

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

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

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

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

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

assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, other property owned, pension and other postretirement benefit obligations and certain other financial instruments. These valuations require the use of various assumptions including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results that could have material positive or negative effects on the Association's results of operations.

## IMPACTS OF THE COVID-19 GLOBAL PANDEMIC

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

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

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

### *COVID-19 Support Programs*

On March 13, 2020, the President of the United States declared the COVID-19 outbreak as a national emergency. In response, the Farm Credit Administration (FCA), other federal banking regulators and the Financial Accounting Standards Board (FASB) issued guidance on restructurings of loans through loan

modifications, such as payment deferrals and extensions of repayment terms, which would not be considered as troubled debt restructurings if made on a good faith basis in response to the national emergency.

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

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

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

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

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

On June 5, 2020, the president signed the Paycheck Protection Program Flexibility Act of 2020, which amends the SBA Act and the CARES Act. Specifically, this Act establishes a minimum maturity of five years for a paycheck protection loan with a remaining balance after forgiveness. The bill also extends the "covered period" during which a loan recipient may use such funds for certain expenses while remaining eligible for forgiveness. The extension is to 24 weeks from the

date of origination or December 31, 2020, whichever occurs first. The bill also reduces the payroll cost requirements from 75% to 60% and raises the non-payroll portion of a forgivable loan amount from 25% up to 40%.

On August 8, 2020, the PPP was closed and the SBA ceased to accept applications from participating lenders. The Association was an approved PPP lender and issued \$44.4 million in loans under the program. Related to those loans, the Association recorded \$0.6 million and deferred \$0.9 million in loan-related fee income. At December 31, 2020, approximately \$40.6 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

The Association's loan portfolio ended 2020 in a strong condition. As of December 31, 2020, the percentage of fully acceptable loans and other assets especially mentioned increased slightly to 97.4 percent compared to 96.9 percent for the prior year-end. The strong credit quality resulted from prudent underwriting of new loans and a portfolio with diverse commodities.

The part-time farm segment, which is heavily dependent on non-farm employment, is the largest concentration in the loan portfolio at 26.4 percent of total loans. Credit quality in this segment improved slightly to 98.0 percent acceptable compared to 97.3 percent acceptable December 31, 2019. Pennsylvania's unemployment rate as of December 31, 2020 was approximately 6.7 percent, compared to 4.5 percent at the end of the prior year. These higher unemployment rates and delayed economic recovery from COVID may have a negative impact on credit quality in the part-time farm segment in 2021.

The dairy industry had a unique year in 2020. The basis for PA dairy producers dropped by approximately \$2.30 per cwt. The Gross milk price declined in PA approximately \$1.10 per cwt while Class III prices increased \$1.20 per cwt. However, government payments through the Corona Food Assistance Program (CFAP) have exceeded \$2.00 per cwt on most operations and this offset the dip in basis. Costs continued to increase. Overall dairy had a profitable year and producers improved their financial and liquidity positions. We anticipate Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) to be around \$950 per cow, which

would make a three year average of \$850 per cow. For 2021, Class III prices are projected to decrease about \$0.50 per cwt making for an average year when compared to the last three years. Milk prices for the past three years are in the table below.

Milk Prices	2020	2019	2018
PA Gross Price	\$ 18.06	\$ 19.16	\$ 16.71
% change from prior year	(5.7)%	14.7%	(9.9)%
Class III Price	\$ 18.16	\$ 16.96	\$ 14.55
% change from prior year	7.1%	16.6%	(13.3)%

While credit quality in the dairy segment increased in 2020 to 88.8 percent acceptable, as compared to 86.9 percent at the end of 2019, deterioration is expected in 2021. The dairy industry remains the second largest concentration in the loan portfolio, representing 17.6 percent of the total portfolio.

Grains, or crop production, is the third largest portfolio segment at 10.7 percent. A large number of grain farmers have other income sources (off-farm income or a livestock enterprise) to supplement their income. Total crop production and carryover inventories in the US and the world have been increasing. In 2020, the tariff situation with China hurt grain exports, but Market Facilitation Payments helped grain farmers in general, and Pennsylvania benefited from higher than normal basis levels, which generated better returns for grain farmers. There are still many unknowns that may affect the level of grain exports in 2021 (Coronavirus and African Swine Flu), and those unknowns, along with overall US and world inventory levels, may result in a market outlook for grains that is slightly downward. Credit quality in the grains segment is 95.5 percent acceptable.

The forest products segment, and related industries, represents the fourth largest segment at 9.7 percent of the total portfolio. This segment has started to see some headwinds from weaker prices and significantly reduced Chinese demand. Hardwood lumber prices have declined somewhat from their peak in mid-2014, but profit margins remain positive for stronger producers. Credit quality for this segment is 95.8 percent acceptable and is showing some downward movement.

The Association purchases and sells participation or syndication interests with other parties in order to diversify risk, manage loan volume and comply with the FCA regulations. As of December 31, 2020 the Association held \$471.1 million in purchased loans and \$246.1 million in commitments in purchased loans to the following industries: food processing, rural utilities, protein processing (poultry, pork and beef), dairy processing, paper and forest products, livestock, vineyards, cash grains and other commodities. Overall credit quality in this portion of the loan portfolio is 96.8 percent acceptable.

According to the United States Department of Agriculture (USDA), average US farm real estate values were unchanged in 2020 at \$3,160 as of August 2020 compared to the prior year. The average value of US cropland was also unchanged at \$4,100. Farm real estate values in Pennsylvania increased by 2.0 percent and had an average value of \$6,600 thousand per acre. Farm real estate values are expected to remain strong.

The Federal Funds Rate decreased 150 basis points in 2020, keeping interest rates near historical lows throughout 2020. The rate environment was impacted by economic slow down due to Covid 19 impacts on the economy, ongoing trade wars between the US and China, in particular, with rate cuts intended to sustain economic growth.

## LOAN PORTFOLIO

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

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

Loan Type	December 31,					
	2020		2019		2018	
	<i>(dollars in thousands)</i>					
Real estate mortgage	\$ 1,192,323	50.6%	\$ 1,067,624	49.7%	\$ 941,675	48.4%
Production and intermediate-term	684,205	29.0	665,289	31.0	628,542	32.3
Loans to cooperatives	59,023	2.5	46,159	2.1	41,041	2.1
Processing and marketing	203,678	8.6	159,324	7.4	142,471	7.3
Farm-related business	59,631	2.5	44,639	2.1	41,486	2.1
Communication	95,808	4.1	100,024	4.7	88,462	4.5
Power and water/waste disposal	12,742	0.5	18,737	0.9	20,650	1.1
Rural residential real estate	25,245	1.1	21,746	1.0	19,923	1.0
International	19,683	0.8	18,461	0.9	16,977	0.9
Lease receivables	4,190	0.2	4,533	0.2	4,957	0.3
Total	\$ 2,356,528	100.0%	\$ 2,146,536	100.0%	\$ 1,946,184	100.0%

While the Association makes loans and provides financially related services (FRS) 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	December 31,		
	2020	2019	2018
Susquehanna Valley (Lewisburg)	12.6%	12.8%	12.8%
Cumberland Valley (Chambersburg)	11.0	11.9	12.0
Seven Mountains (Reedsville)	10.4	10.3	9.3
York	9.2	9.2	9.6
Martinsburg	8.4	8.5	8.6
Meadville	6.9	7.4	6.9
New Stanton	5.1	5.3	5.5
Butler	4.8	4.9	5.0
Coudersport	5.5	4.8	5.2
Endless Mountains (Towanda)	2.4	2.7	3.7
Other (Capital Markets)	23.7	22.2	21.4
	100.0%	100.0%	100.0%

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

The major commodities in the Association loan portfolio are shown below. The predominant commodities are part-time farms, dairy and grains, which together constitute 54.7 percent of the entire portfolio. Purchased syndications and participations are included in their respective commodity groups.

Commodity Group	December 31,					
	2020		2019		2018	
	<i>(dollars in thousands)</i>					
Part-time farms	\$ 621,994	26.4%	\$ 545,316	25.4%	\$ 502,895	25.8%
Dairy	415,893	17.6	409,022	19.1	385,539	19.8
Other	252,313	10.7	228,022	10.6	195,591	10.0
Grains	251,582	10.7	219,604	10.2	188,001	9.7
Forest products	227,602	9.7	207,052	9.7	188,780	9.7
Poultry	166,564	7.1	141,768	6.6	117,355	6.0
Farm services	107,778	4.6	92,673	4.3	88,162	4.5
Livestock	107,552	4.5	105,785	4.9	97,893	5.0
Rural utilities	104,531	4.4	109,668	5.1	96,920	5.0
Fruit	77,647	3.3	65,421	3.0	63,251	3.3
Floriculture and nursery	21,675	0.9	21,070	1.0	20,824	1.1
Rural home	1,397	0.1	1,135	0.1	973	0.1
Total	\$ 2,356,528	100.00%	\$ 2,146,536	100.0%	\$ 1,946,184	100.0%

Repayment ability is closely related to the commodities produced by our borrowers and, increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration of dairy producers. Although a large percentage of the loan portfolio is concentrated in this enterprise, many of these operations are diversified within their enterprises and/or with crop production that reduces overall risk exposure.

The concentration of large loans has remained consistent over the past several years. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of enterprise diversity in the Association's territory.

The 9.8 percent increase in loans for the 12 months ended December 31, 2020 is attributable to growth in both the Association's local service area (LSA) and in participation loans. During 2020, the Association experienced solid growth in both long-term and short- and intermediate-term loan volume.

During 2020, the Association continued to purchase loan participations and syndications, both within and outside of the

System. These loans provide a means for the Association to spread credit concentration. The Association typically holds no more than \$18,500 in participation or syndication loans to a single borrower and these loans are larger than most loans in the remaining portfolio. Therefore, if one or more of these loans should deteriorate in credit quality, it can materially impact the Association. The following table presents the principal balance of purchased and sold loans for the given periods.

	December 31,		
	2020	2019	2018
	<i>(dollars in thousands)</i>		
Purchased			
– FCS Institutions	\$ 431,885	\$ 390,101	\$ 352,288
– Non-FCS Institutions	39,259	17,114	–
Sold	(53,729)	(31,477)	(60,073)
Total	\$ 417,415	\$ 375,738	\$ 292,215

During the first quarter of 2019, the Association canceled its participation in the Capitalized Participation Pool program with the Bank. As a result, the Association repurchased \$26,339 of participations previously sold to AgFirst.

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 year ended December 31, 2020.

The Association participates in the Farmer Mac Long-Term Standby Commitment to Purchase program. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2020, the Association had loans amounting to \$2,248 that were 100 percent guaranteed by Farmer Mac.

#### *Future of LIBOR*

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

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

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

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

- a governance structure to manage the transition,
- an assessment of exposures to LIBOR,
- an assessment of the fallback provisions in contracts and the impact of a LIBOR phase-out under those provisions,
- the establishment of strategies for reducing each type of LIBOR exposure,
- an assessment of the operational processes that need to be changed,
- a communication strategy for customers and shareholders,

- the establishment of a process to stay abreast of industry developments and best practices,
- the establishment of a process to ensure a coordinated approach, to the extent possible, across the District and
- a timeframe and action steps for completing key objectives.

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

On December 18, 2020, the Farm Credit Administration issued a response and guidance noting their agreement with the statement from the U.S. prudential regulators and emphasizing that the IBA proposal is not in any way intended to slow down the transition. The guidance noted that System institutions should adopt 2021 transition plans with steps and timeframes to accomplish the following:

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

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

At this time, it is not known when LIBOR will cease to be available or will become unrepresentative, or if the Secured Overnight Financing Rate (SOFR) will become the only benchmark to replace LIBOR. Because the Association engages in transactions involving financial instruments that reference LIBOR, these developments could have a material impact on financial results, borrowers, investors, and counterparties.

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

<i>(dollars in millions)</i>	Due in 2022 and Thereafter		
	Due in 2021		Total
Loans	\$ 46,740	\$ 456,799	\$ 503,539
Total Assets	\$ 46,740	\$ 456,799	\$ 503,539
Note Payable to AgFirst Farm Credit Bank	\$ 37,344	\$ 364,965	\$ 402,309
Total Liabilities	\$ 37,344	\$ 364,965	\$ 402,309

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, approximately 90 percent of loans maturing after December 31, 2021 contain fallback language.

### CREDIT RISK MANAGEMENT

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association continues to review the credit quality of the loan portfolio on an ongoing basis. With the approval of the Association Board of Directors, the Association establishes underwriting standards and lending policies that provide direction to credit staff. 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 borrower to survive unanticipated risks and
- Conditions – intended use of the loan funds.

The credit risk management process begins with an analysis of the borrower’s credit history, repayment capacity and financial position. Repayment capacity focuses on the borrower’s ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Long-term real estate loans must be collateralized by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Long-term real estate mortgage loans may be made only in amounts up to 85 percent of the original 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. 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 that is used by all System institutions. The following 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 weaknesses.
- Substandard – Assets exhibit some serious weaknesses 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	97.39%	96.95%	97.31%
Substandard	2.61	3.05	2.69
Doubtful	–	–	–
Loss	–	–	–
Total	100.0%	100.0%	100.0%

### Nonperforming Assets

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

High-Risk Assets	December 31,		
	2020	2019	2018
	<i>(dollars in thousands)</i>		
Nonaccrual loans	\$ 9,548	\$ 12,218	\$ 11,989
Accruing restructured loans	13	39	79
Accruing loans 90 days past due	–	–	–
Total high-risk loans	9,561	12,257	12,068
Other property owned	–	–	–
Total high-risk assets	\$ 9,561	\$ 12,257	\$ 12,144
<b>Ratios</b>			
Nonaccrual loans to total loans	0.41%	0.57%	0.62%
High-risk assets to total assets	0.39%	0.56%	0.61%

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 \$2,670, or 21.9 percent in 2020. Of the \$9,548 in nonaccrual volume at December 31, 2020, \$6,120, or 64.1 percent, compared to 60.6 percent and 73.7 percent at December 31, 2019 and 2018, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

Loan restructuring is available to financially distressed borrowers. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order

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

#### Allowance for Loan Losses

The allowance for loan losses at each period end was determined according to generally accepted accounting principles (GAAP) and 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 was \$15,179 at December 31, 2020, compared to \$15,419 and \$14,331 at December 31, 2019 and December 31, 2018, respectively.

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

Allowance for Loan Losses Activity	Year Ended December 31,		
	2020	2019	2018
	<i>(dollars in thousands)</i>		
Balance at beginning of year	\$ 15,419	\$ 14,331	\$ 13,492
Charge-offs:			
Production and intermediate-term	–	(79)	(25)
Energy	(150)	–	(304)
Rural residential real estate	(19)	–	(16)
Lease receivables	–	–	(16)
Total charge-offs	(169)	(79)	(361)
Recoveries:			
Real estate mortgage	–	–	1
Production and intermediate-term	1	24	20
Rural residential real estate	–	8	–
Lease receivables	–	–	–
Total recoveries	1	32	21
Net (charge-offs) recoveries	(168)	(47)	(340)
Provision for/(Reversal of allowance for) loan losses	(72)	1,135	1,179
Balance at end of year	\$ 15,179	\$ 15,419	\$ 14,331
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.007)%	(0.002)%	(0.018)%

The Association had net loan charge-offs of \$168 in 2020, compared to net loan charge-offs of \$47 and \$340 in 2019 and 2018, respectively. The allowance for loan losses by loan type for the most recent three years is as follows.

Allowance for Loan Losses by Type	December 31,		
	2020	2019	2018
	<i>(dollars in thousands)</i>		
Real estate mortgages	\$ 4,194	\$ 3,563	\$ 3,193
Production and intermediate-term	5,749	5,854	5,325
Agribusiness	3,827	3,705	3,680
Communication	849	1,014	1,257
Power and water/waste disposal	85	764	232
Rural residential real estate	73	82	92
International	185	187	276
Lease receivables	217	250	276
Total allowance	\$ 15,179	\$ 15,419	\$ 14,331

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

Allowance for Loan Losses as a Percentage of:	December 31,		
	2020	2019	2018
Total loans	0.64%	0.72%	0.74%
Nonperforming loans	158.76%	125.80%	118.75%
Nonaccrual loans	158.98%	126.20%	119.53%

The financial positions of a majority of the Association's borrowers remained favorable during 2020. That, along with solid loan growth, resulted in a slight decrease in the allowance for loan losses as a percentage of total loans. Please refer to Note 3, *Loans and Allowance for Loan Losses*, of the Notes to the Consolidated Financial Statements, for further information concerning the allowance for loan losses.

## RESULTS OF OPERATIONS

### Net Income

Net income for the year ended December 31, 2020 totaled \$69,249, an increase of \$16,359 or 30.9 percent, compared to \$52,890 for the same period in 2019. Net income for the year ended December 31, 2019 increased \$610 or 1.2 percent, compared to \$52,280 for the same period in 2018. Major components of the change in net income for the past two years are outlined in the following table.

Change in Net Income	2020-2019	2019-2018
	<i>(dollars in thousands)</i>	
Net income (prior year)	\$ 52,890	\$ 52,280
Increase (decrease) in net income due to:		
Interest income	(5,619)	11,972
Interest expense	(8,326)	(8,176)
Net interest income	2,707	3,796
Provision for loan losses	1,207	44
Noninterest income	13,276	(2,518)
Noninterest expense	(627)	(641)
Provision for income taxes	(204)	(71)
Total changes in income	16,359	610
Net income	\$ 69,249	\$ 52,890

### Net Interest Income

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 loan volume, yields on assets and the cost of debt.

Net interest income was \$58,786, \$56,079 and \$52,283 in 2020, 2019 and 2018, respectively. The Association's net interest income as a percentage of average earning assets was 2.55 percent on December 31, 2020, 2.74 percent on December 31, 2019 and 2.78 percent on December 31, 2018. The following table illustrates that in 2020, increased net interest income resulted from changes in volume and rates, offset by lower nonaccrual income.

Change in Net Interest Income

	Volume*	Rate	Nonaccrual	
			Income	Total
(dollars in thousands)				
<b>12/31/20 - 12/31/19</b>				
Interest income	\$ 11,020	\$ (17,564)	\$ 925	\$ (5,619)
Interest expense	6,138	(14,464)	–	(8,326)
Change in net interest income	\$ 4,882	\$ (3,100)	\$ 925	\$ 2,707
<b>12/31/19 - 12/31/18</b>				
Interest income	\$ 8,775	\$ 3,491	\$ (294)	\$ 11,972
Interest expense	4,553	3,623	–	8,176
Change in net interest income	\$ 4,222	\$ (132)	\$ (294)	\$ 3,796

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

Noninterest Income

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

Noninterest Income	For the Year Ended			Percentage Increase/(Decrease)	
	December 31,			2020/	2019/
	2020	2019	2018	2019	2018
(dollars in thousands)					
Loan fees	\$ 1,501	\$ 1,350	\$ 1,215	11.2%	11.1%
Fees for financially related services	3,071	2,532	2,303	21.3	9.9
Patronage refund from other Farm Credit institutions	35,491	22,353	25,081	58.8	(10.9)
Gains on sales of rural home loans, net	–	–	6	–	(100.0)
Gains on sales of premises and equipment, net	152	531	77	(71.4)	589.6
Gains (losses) on other transactions	4	146	(111)	(97.3)	231.5
Insurance Fund refunds	413	414	1,268	(0.2)	(67.4)
Other noninterest income, Gains	7	37	42	(81.1)	(11.9)
Total noninterest income	\$ 40,639	\$ 27,363	\$ 29,881	48.5%	(8.4)%

Loan fees increased by \$151 or 11.2 percent, primarily due to higher servicing fees. Fees for FRS increased by \$539 or 21.3 percent for the 12 months ended December 31, 2020, principally due to higher crop insurance, tax services revenue and Farm Credit Settlement Services income.

During 2020, the Association received from the Bank \$35.5 million in patronage, including a special distribution of \$21.4 million, compared to total patronage of \$22.4 million in 2019 and \$25.1 million in 2018. Gains on sales of premises and equipment, net, decreased by \$379 during 2020 as a result of the sales of two former branch offices in 2019.

The Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligation, had assets exceeding the secure base amount as defined by the Farm Credit Act. As a result of the excess during 2020, FCSIC made distributions to the Farm Credit System Banks and certain associations. The Association's share of this distribution was \$413, as compared to \$414 during 2019.

Noninterest Expense

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

Noninterest Expense	For the Year Ended			Percentage Increase/(Decrease)	
	December 31,			2020/	2019/
	2020	2019	2018	2019	2018
(dollars in thousands)					
Salaries and employee benefits	\$ 19,298	\$ 18,768	\$ 18,563	2.8%	1.1%
Occupancy and equipment	1,167	1,509	1,338	(22.7)	12.8
Insurance fund premiums	1,688	1,458	1,326	15.8	10.0
Losses on other property owned, net	–	13	23	(100.0)	(43.5)
Other operating expenses	7,647	7,425	7,282	3.0	2.0
Total noninterest expense	\$ 29,800	\$ 29,173	\$ 28,532	2.1%	2.2%

Noninterest expense increased \$627 or 2.1 percent for the period ended December 31, 2020, compared to the same period in 2019. Noninterest expense increased \$641 or 2.2 percent for the period ended December 31, 2019 compared to the same period in 2018.

Salaries and employee benefits increased by \$530 or 2.8 percent in 2020, as compared with 2019. This increase was principally due to an increase in salaries and incentives of \$1,338 or 6.4 percent, primarily due to the increase in number of employees, along with 2020 salary and related benefits

adjustments, offset by a decrease of \$808 or 35.9 percent in deferred personnel cost.

Occupancy and equipment expenses decreased by \$342 or 22.7 percent, mostly due to decreased depreciation and purchased services expenses.

Other operating expenses increased by \$222 during 2020 mainly due to increased purchased services, data processing and other expenses, offset by decreases in directors and travel expenses.

FCSIC premiums increased \$230 or 15.8 percent for the 12 months ended December 31, 2020, compared to the same period of 2019, mostly due to growth in loan volume. The FCSIC premiums were 8 basis points in the first half of 2020 and 11 basis points in the second half of 2020 as compared to 9 basis points in 2019 and 2018.

#### Income Taxes

The Association recorded a provision for income taxes of \$448 for the year ended December 31, 2020, as compared to \$244 for 2019 and \$173 for 2018. The increase in 2020 was due to fees from the loans originated through the SBA Paycheck Protection Program (PPP). PPP loans are non-patronage loans; therefore, the fees are taxable income. Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

#### Key Results of Operations Comparisons

Key results of operations comparisons for each of the 12 months ended December 31 are shown in the following table.

Key Results of Operations Comparisons	For the 12 Months Ended		
	12/31/20	12/31/19	12/31/18
Return on average assets	3.02%	2.54%	2.72%
Return on average members' equity	15.65%	12.50%	12.95%
Net interest income as a percentage of average earning assets	2.61%	2.74%	2.78%

The 2020 return on average assets and return on average members' equity increased compared to 2019, primarily due to higher patronage received from the Bank. The 2019 return on average assets and return on average members' equity decreased compared to 2018, primarily due to lower patronage received from the Bank and a lower FCSIC refund.

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income. The Association's goal is to generate earnings sufficient to fund operations, remain adequately capitalized and achieve a desirable rate of return for the Association's members. To meet this goal, the Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume priced at competitive rates, manage credit risk in the entire portfolio and improve fee income from loans and FRS, while efficiently meeting the credit needs of the Association's 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 from 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. The Association's capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "loanable funds."

Total notes payable to the Bank at December 31, 2020 was \$1,920,964, as compared to \$1,731,992 at December 31, 2019 and \$1,557,913 at December 31, 2018. The increase of 10.9 percent in 2020 compared to December 31, 2019, and the increase of 11.2 percent in 2019 compared to December 31, 2018, were attributable to changes in Association loan volume. The average volume of outstanding notes payable to the Bank was \$1,826,772 and \$1,642,868 for the years ended December 31, 2020 and 2019, respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The Liquidity Policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. 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.

### Funds Management

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options that 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 30-day LIBOR. Adjustable rate mortgages are indexed to US Treasury Rates. Fixed rate loans are priced based on the current cost of the System debt of similar terms to maturity.

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

#### *Relationship with the Bank*

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

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

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, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, included in this Annual Report.

## CAPITAL RESOURCES

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

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

Total members' equity at December 31, 2020, increased 6.5 percent to \$445,938 from the December 31, 2019 total of \$418,732. At December 31, 2019, total members' equity increased 3.0 percent from the December 31, 2018 total of \$406,565. The 2020 increase was primarily related to net income, offset by cash patronage paid.

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 that generally have the effect of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were:

- inclusion of off-balance-sheet commitments less than 14 months and
- 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 seven years, allocated equities held for a minimum of seven years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of 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 five years, subordinated debt and limited-life preferred stock greater than five 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 the regulatory capital ratios that 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%	1.875%	6.375%	17.06%	17.72%	18.29%
Tier 1 Capital	6.0%	1.875%	7.875%	17.06%	17.72%	18.29%
Total Capital	8.0%	1.875%	9.875%	17.71%	18.41%	18.99%
Permanent Capital	7.0%	0.000%	7.000%	17.17%	17.84%	18.42%
Non-risk-adjusted ratios:						
Tier 1 Leverage	4.0%	1.0%	5.0%	18.29%	19.17%	19.76%
URE and UREE Leverage	1.5%	0.0%	1.5%	18.33%	19.16%	19.87%

\* The capital conservation buffers had a three-year phase-in period and became fully effective January 1, 2020. Risk-adjusted ratio minimums increased 0.625% each year until fully phased in. There was no phase-in period for the tier 1 leverage ratio.

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

The following sets forth regulatory capital ratios as previously reported.

	Regulatory Minimum	2016	2015	2014	2013	2012
Permanent Capital	7.00%	18.02%	18.01%	18.14%	17.48%	16.51%
Total Surplus	7.00%	17.17%	17.39%	17.47%	16.78%	15.75%
Core Surplus	3.50%	17.17%	17.39%	17.13%	15.84%	14.13%

The Board and management monitor these ratios regularly. Throughout 2020, management discussed with the Board hypothetical operational scenarios that could stress the Association’s capital position, along with potential responses to those scenarios. In the opinion of management, the Association remains adequately capitalized. The Association’s 2021 business plan anticipates only slight reductions in capital ratios over the next three years as we expect to be able to manage a moderate level of growth. There are no trends, commitments, contingencies or events that are likely to affect the Association’s ability to meet regulatory minimum capital standards and capital adequacy requirements. See Note 7, *Members’ Equity*, of the Notes to the Consolidated Financial Statements, for further information concerning capital resources.

#### PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association’s Board, 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 setting aside funds to increase surplus and meet minimum capital adequacy standards established by the FCA regulations, increasing surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels and maintaining reasonable reserves for the necessary purposes of the Association.

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 \$42,578 in 2020, \$40,913 in 2019 and \$30,700 in 2018. The 2020 patronage will be paid in cash.

#### YOUNG OR BEGINNING AND SMALL (YBS) FARMERS AND RANCHERS PROGRAM

The Association is committed to the future success of YBS 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 \$250,000 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

#### AgChoice believes that:

- the long-range strength and soundness of the Association and of the agricultural community within our LSA depends on individuals entering agriculture, including producers or harvesters of aquatic products, basic processing and marketing operations and farm-related services;
- the amount of capital needed and its cost make it exceedingly difficult for individuals to become established in agriculture or agricultural-related fields;
- sound business knowledge and management skills are critical to the success of YBS farmers and that the Association has a responsibility to help them develop in those areas and

- any assistance provided to YBS farmers should not impede the Association’s ability to serve the remainder of the membership.

**AgChoice’s mission is to:**

- help YBS farmers who have a high potential for success become established in farming by providing loans and related services;
- cooperate with other lenders and alliance partners to ensure that all available resources are being used to best serve YBS farmers;

- promote agriculture and support its growth throughout the LSA;
- encourage YBS farmers to do business with the Association by earning their trust and respect and providing financial incentives;
- support and encourage participation in activities that improve the management skills of YBS farmers and
- demonstrate passion to serve the needs of the YBS farmer market by achieving the Association’s established goals.

The following table outlines the loan volume (net of participation loans sold) and number of YBS loans in the loan portfolio for the Association.

	As of December 31, 2020					
	Number of Loans	% of Loans by Number	2020 Goal (% by Number)	Amount of Loans	2020 Goal (by Volume)	Difference
Young	3,375	22.9%	>20.0%	\$375,669	\$363,285	\$12,384
Beginning	3,971	26.9%	>23.0%	444,109	434,700	9,409
Small	7,500	50.9%	>44.0%	691,119	628,245	62,874

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

The 2017 USDA Ag Census data has been used as a benchmark to measure penetration of the Association’s marketing efforts. The census data indicated that of those farms with debt in our Association territory, 21.1 percent were young, 31.2 percent were beginning and 78.8 percent were small. Comparatively, as of December 31, 2020, the demographics of the Association’s agricultural portfolio contained 14,744 loans, of which by definition 3,375 or 22.9 percent were young, 3,971 or 26.9 percent were beginning and 7,500 or 50.9 percent were small.

One difference between the Census and the Association’s YBS information is the Census data is based on number of farms, whereas the Association’s YBS information is based on number of loans.

Since 2009, the Association’s SmartStart program encouraged young farmers or those who are both beginning and small farmers to invest in business and financial management education to enhance their success, while lowering the Association’s risk in lending to this market segment. While the program has served a number of YBS farmers over the years, including 1,462 registered SmartStart participants with eight SmartStart loans closed in 2020 totaling \$788,426, the Association is discontinuing SmartStart in 2021 and refocusing efforts on a new YBS incentive program.

By eliminating the educational requirement and streamlining processes, the new YBS incentive program will provide even more opportunity for financial discounts to YBS farmers and help them get started. Additionally, AgChoice is adopting certain relaxed credit standards for YBS borrowers and will be launching a comprehensive program with industry partners for further education and networking opportunities for YBS farmers. The director of AgChoice’s Knowledge Center administers the YBS programs.

Continuing in 2021 is AgBiz Masters, an educational learning series for young and beginning farmers that launched in 2010. AgBiz Masters is a two-year program that teaches business and financial management skills through modules and complementary meetings/webinars. The program is supported by a network of more than 25 agricultural organizations serving as marketing, resource and financial partners, including MidAtlantic Farm Credit and Yankee Farm Credit. AgBiz Masters has 224 young and beginning farmers participating for the 2020-21 program year.

The Association is active through partnerships with other lenders to help YBS farmers. It comprises programs such as those offered by Farm Service Agency (FSA), which include guaranteed and direct loans to qualifying borrowers. The Association is a “preferred lender,” the highest status designated by FSA. The AgBiz Masters program offered by the Association is approved by FSA for the educational training it requires of its borrowers.

Besides loan rate incentives, the Association provides incentives for participation in the Association’s other Business Management Services, as well as covers certain costs for appraisal services and FSA guarantee fees. Newly added in 2021 will also be a loan fee incentive.

In 2020, the Association was actively involved in many outside industry activities to expand its reach to YBS farmers. The Association sponsored and participated in several events and educational activities for the new generation market, including womens’ and sustainable agriculture events. This participation and sponsorship provides opportunities for the Association to be exposed to non-traditional YBS farmers and share information about the Association’s products and services. The Association also continued its support for YBS farmers by

offering educational scholarships to participation in outside programs.

The Association has remained supportive of youth-related organizations to help ensure a strong future for agriculture. The Association provided significant monetary and in-kind support of 4-H, FFA and other youth and young farmer organizations in 2020. Additionally, the Association offers programs such as AgChoice Scholars to develop future agricultural leaders.

**REGULATORY MATTERS**

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

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

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

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

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
<b>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</b>	
<ul style="list-style-type: none"> <li>• 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 complete entire remaining life of the financial assets.</li> <li>• Changes the present incurred loss impairment guidance for loans to an expected loss model.</li> <li>• 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.</li> <li>• Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets.</li> <li>• Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.</li> <li>• Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted.</li> </ul>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• The new guidance is expected to result in a change in allowance for credit losses due to several factors, including:               <ol style="list-style-type: none"> <li>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,</li> <li>2. An allowance will be established for estimated credit losses on any debt securities,</li> <li>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.</li> </ol> </li> <li>• 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.</li> <li>• The guidance is expected to be adopted in first quarter 2023.</li> </ul>

# *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, interest rates to borrowers, borrower patronage or dividends, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, concentrations of assets and changes in patronage policies or practices, if any, is incorporated in "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this Annual Report.

## Description of Property

The following table sets forth certain information regarding the properties of the reporting entity, all of which are located in Pennsylvania.

Location	Description	Form of Ownership
610 Evans City Road Butler, PA 16001	Branch	Owned
109 Farm Credit Drive Chambersburg, PA 17202	Branch	Owned
1 Buffalo Street, Suite 3 Coudersport, PA 16915	Branch	Leased
2322 Curryville Road Martinsburg, PA 16662	Branch	Owned
921 S. Center Avenue Hunker, PA 15639	Branch	Owned
450 International Drive Lewisburg, PA 17837	Branch	Owned
11555 State Highway 98 Meadville, PA 16335	Branch	Owned
45 Sheetz Drive Reedsville, PA 17084	Branch	Owned
24668 Route 6 Towanda, PA 18848	Branch	Owned
1434 Seven Valleys Road York, PA 17408	Branch	Owned
300 Winding Creek Boulevard Mechanicsburg, PA 17050	Headquarters	Owned

## Senior Officers

The following represents certain information regarding the senior officers of the Association.

Senior Officer	Position
Darrell L. Curtis	<i>President and Chief Executive Officer</i> since January 2013, previously <i>Chief Financial Officer</i> and <i>Chief Operating Officer</i> since 2012.
Ryan S. Davis	<i>Vice President and Director of Credit Administration</i> since August 2018, previously <i>Assistant Credit Analysis Manager</i> since April 2017, <i>Senior Credit Analyst</i> since January 2017, <i>Credit Analyst</i> since July 2015 and employed by local community banks as a <i>Credit Analyst</i> since April 2009.
Terry A. Davis	<i>Senior Vice President, Treasurer and Chief Financial Officer</i> since July 2018 and previously <i>Controller</i> since 2013.
Brina M. Keim	<i>Senior Vice President, Assistant Corporate Secretary and Director of Human Resources</i> since August 2014 and previously <i>Human Resources and Training Manager</i> since 2006.
Mark F. Kerstetter	<i>Executive Vice President and Chief Operating Officer</i> since July 2018, previously <i>Chief Financial Officer</i> since August 2014, <i>Director of Capital Markets Lending</i> since August 2014, and <i>Capital Markets Manager</i> since 2011.
Gina M. Moshier	<i>Senior Vice President and Chief Administrative Officer</i> since July 2018, previously the <i>Director of Organizational Effectiveness</i> since August 2014 and <i>Operations/Project Manager</i> since 2008.
Michael S. Schrey	<i>Executive Vice President and Chief Credit Officer</i> since July 2018, previously <i>Chief Lending Officer</i> since January 2016 and <i>Regional Manager</i> since 2008.
Crystal A. Standish	<i>Senior Vice President, Chief Sales and Marketing Officer</i> since July 2018, previously <i>Director of Sales and Marketing</i> since January 2014 and <i>Regional Sales Manager</i>
John D. Uthman	<i>Senior Vice President and Chief Internal Auditor</i> since 2010 and previously <i>Chief Reviewer</i> since 2006.

The total amount of compensation earned by the chief executive officer (CEO), the senior officers and other highly compensated employees as a group during the years ended December 31, 2020, 2019 and 2018, is as follows.

Name of Individual or Number in Group	Year	Annual				
		Salary	Bonus	Changes in Pension Value	Deferred/Perquisites (b)	Total
Darrell L. Curtis	2020	\$ 425,015	\$ 153,000	\$ 163,242 (c)	\$ 27,341	\$ 768,598
Darrell L. Curtis	2019	\$ 412,015	\$ 155,000	\$ 530,710	\$ 26,119	\$ 1,123,844
Darrell L. Curtis	2018	\$ 400,015	\$ 125,000	\$ 79,275	\$ 25,233	\$ 629,523
9 (a)	2020	\$ 1,397,215	\$ 379,331	\$ 444,453 (c)	\$ 140,365	\$ 2,361,364
9	2019	\$ 1,359,812	\$ 410,386	\$ 616,430	\$ 132,154	\$ 2,518,782
10	2018	\$ 1,401,203	\$ 306,713	\$ 67,799	\$ 130,743	\$ 1,906,458

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

(b) The Deferred/Perquisites amounts disclosed in the above chart include deferred compensation, automobile allowance, employer 401(k) match, non-elective 401(k) contributions, employer Health Savings Account contributions, life insurance and relocation reimbursement.

(c) The Changes in Pension Value in 2020 as reflected in the table above resulted primarily from assumption changes including a decrease in the discount rate assumption, additional service time and higher compensation. See further discussion in Note 9, Employee Benefit Plans, of the Financial Statements.

The senior officers' incentive plan provides for payouts based on Association performance in the areas of credit quality, operating expenses, quality loan volume growth, FRS revenues and results from customer surveys. The incentive plan for all other non-temporary employees is based on the same goals and requires at least a satisfactory performance rating. The

compensation will be paid out by March 15, 2021. Additionally, all employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

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
<b>CEO:</b>					
Darrell L. Curtis	2020	AgFirst Farm Credit Retirement Plan	34.3	\$ 3,692,289	\$ -
				\$ 3,692,289	\$ -
<b>Senior Officers and Highly Compensated Employees:</b>					
2 Officers, excluding the CEO	2020	AgFirst Farm Credit Retirement Plan	*31.4	\$ 3,907,675	\$ -
7 Officers, excluding the CEO	2020	AgFirst Farm Credit Cash Balance Plan	*13.6	-	-
				\$ 3,907,675	\$ -

\*Represents the average years of credited service for the group

### Retirement and Deferred Compensation Plans

The Association's compensation programs include retirement and deferred compensation plans designed to provide income following an employee's retirement. Although retirement benefits are paid following an employee's retirement, the benefits are earned while employed. The objective of the Association is to offer benefit plans that are market competitive and aligned with the Association's strategic objectives. The plans are designed to enable the Association to proactively attract, retain, recognize and reward a highly skilled, motivated and diverse staff that supports the Association's mission and that allows the Association to align the human capital needs with the Association's overall strategic plan.

Employees participate in one of two qualified defined benefit retirement plans. Employees hired prior to January 1, 2003 participate in the AgFirst Farm Credit Retirement Plan. Employees are eligible to retire and begin drawing unreduced

pension benefits at age 65 or when years of credited service plus age equal 85. Upon retirement, annual payout is equal to two percent of the highest three year's average compensation times years of credited service, subject to the Internal Revenue Code limitations. For purposes of determining the payout, "average compensation" is defined as regular salary (i.e., does not include incentive awards compensation). At the election of the retiree, benefits are paid based upon various annuity terms or on a lump sum basis. Benefits under the plan are not subject to an offset for Social Security.

Employees hired on or after January 1, 2003, but prior to November 4, 2014, previously participated in the AgFirst Farm Credit Cash Balance Retirement Plan. Benefit accruals in the plan were frozen as of December 31, 2014, at which time active participants were fully vested regardless of years of credited service. The plan was terminated effective as of December 31, 2018, was submitted to the Internal Revenue Service for review and received a favorable determination

letter from the Internal Revenue Service. Benefits in the plan were distributed to plan participants during March 2017.

Employees participate in the Farm Credit Benefits Alliance 401(k) Plan, a qualified 401(k) defined contribution plan that has an employer matching contribution determined by the employee's date of hire. Employees hired prior to January 1, 2003 receive a maximum employer matching contribution equal to \$0.50 for each \$1.00 of employee compensation contributed up to 6 percent, subject to the Internal Revenue Code limitation on compensation. Employees hired on or after January 1, 2003 receive a maximum employer matching contribution equal to \$1.00 for each \$1.00 of employee compensation contributed up to 6 percent, subject to the Internal Revenue Code limitation on compensation. Beginning January 1, 2015, employees hired on or after January 1, 2003 also received an employer nonelective contribution equal to 3 percent of employee compensation, subject to the Internal Revenue Code limitation on compensation.

Senior officers and other highly compensated employees participate in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, a nonqualified deferred compensation plan that allows certain key employees to defer compensation and restores the benefits limited in the qualified 401(k) plan as a result of restrictions in the Internal Revenue Code. The plan also includes a provision for discretionary contributions made by the Bank.

**Chief Executive Officer**

Mr. Curtis participates in the AgFirst Farm Credit Retirement Plan, as described above.

Mr. Curtis participates in the Farm Credit Benefits Alliance 401(k) Plan, as described above.

Mr. Curtis participates in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, as described above.

**Senior Officers and Other Highly Compensated Employees**

Senior officers and other highly compensated employees participate in one of two qualified defined benefit retirement plans based upon date of hire, as described above.

Senior officers and other highly compensated employees participate in the Farm Credit Benefits Alliance 401(k) Plan, as described above.

Association compensation plans are reviewed annually by the Board's Compensation Committee.

**Transactions with Senior Officers and Directors**

The reporting entity's policies on loans to and transactions with its officers and directors, and transactions between the Association and directors, that are 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 that require reporting per the FCA regulations.

**Directors**

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

<b>Director</b>	<b>Election Year</b>	<b>Current Term Expiration</b>	<b>Total Compensation</b>
Shawn D. Wolfinger, <i>2020 Chairman</i>	2012	2023	\$ 32,350
Richard A. Allen, <i>2020 Vice Chairman</i>	2011	2022	26,950
Samuel BowerCraft, <i>Appointed and Outside</i>	2011	2024	24,500
Donald G. Cotner	1982	2020	20,875
Kevin D. Grim	2016	2023	22,050
Steven H. Gross, Jr.	2019	2022	24,850
Richard D. Shuman	2018	2021	24,600
William K. Jackson	2000	2024	19,950
Larry A. Seibert, <i>Appointed and Outside</i>	2016	2023	27,300
Dennis B. Spangler	1994	2022	29,850
Charles F. Ulmer	1999	2021	20,525
Christine Waddell	2009	2023	28,050
<b>Total</b>			<b>\$ 301,850</b>

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was \$147,579 for 2020, \$230,372 for 2019 and \$100,491 for 2018.

Subject to approval by the Board, the Association may allow directors honoraria of up to \$700 for attendance at other meetings or special assignments. Directors were paid an annual retainer fee of \$7,000, except for the chairman of the Board who receives \$11,000. Members of committees also received a \$3,000 retainer. The chairs of the Governance and Audit Committees also received a \$1,000 and \$2,500 retainer, respectively. Total compensation paid to directors as a group was \$301,850. No director received more than \$5,000 in non-cash compensation during the year.

The following represents certain information regarding the directors of the Association as of the end of 2020 and their principal occupations during the past five years.

**Shawn D. Wolfinger, Chairman**, is an owner of Timberwolf Lands, LLC. Mr. Wolfinger and his father also own Northern Forests, LLC. These forestry consulting companies provide timber sales for clients in northern Pennsylvania and western New York. They also manage several thousand acres of family owned land through Wolfinger Timberlands, LLC. He is active in the local community, serving on the Potter County Housing and Redevelopment Authority board of directors. He is a member of the Pennsylvania Forest Products Association, Northcentral Pennsylvania Forest Land Owners Association, Potato Creek Trail Association, Coudersport Golf Club, St. Eulalia Catholic Church and volunteers as a member of the Big 30 Football All Star Selection Committee.

**Richard A. Allen**, *Vice Chairman*, owns and operates Crabapple Valley Farms, a 100-acre registered Black Angus cow/calf operation. He is also employed by Allen-Hill Dairy, LLC. He is a member of the Pennsylvania Angus Association and the Pennsylvania Holstein Association.

**Samuel BowerCraft**, *Appointed and Outside Director*, is the principal consultant for Protenus Business Consulting, providing management consulting and risk advisory services to clients. Areas of focus include organizational improvement, strategic planning, risk management and cyber security consulting. He has significant experience in consulting and improving areas of financial reporting, operations, information systems and asset management; he is also a Certified Information Systems Auditor.

**Donald G. Cotner**, is an officer and owner of Cotner Farms, Inc., which produces, packages, markets and distributes eggs and egg products from nearly 500,000 hens. Don Cotner Farms, LP is a partnership with his two sons and daughter that grows corn, soybeans and barley and manufactures feed on nearly 1,250 acres. The partnership also operates Boyd Station, LLC, which transloads soybean meal from rail to truck to supply local mills. The operation also extrudes local soybeans to produce high-quality express meal and refined soy oil used in the food industry. Mr. Cotner serves on the Board of Trustees of The Pennsylvania State University, the Central Susquehanna Community Foundation Board and the Rush Township Zoning Hearing Board.

**Kevin D. Grim**, is a grain farmer and owner-operator of Shady Dell Farms, LLC, where he grows corn, soybean and wheat on 1,560 acres. He also custom plants and harvests for other farmers in his community.

**Steven H. Gross, Jr.**, owns and operates D&S Gross Cold Springs Farms, LLC, a dairy-beef and crop operation, in partnership with his brother, Dan. They feed 1,500 head of cattle and farm 2,800 acres of corn, soybeans, wheat, sunflowers and cover crop turnips. Mr. Gross also has a feed store with a Purina dealership for direct customer sales. Mr. Gross has served on many local, county, state and national agricultural committees over the last 25 years, including serving his community as an East Manchester Township supervisor for the past 19 years and chairman for the last 12 years. He has served as the chairman of the personnel committee for the Northeastern Regional Police Board of Directors for 22 years. His past service includes the PA Farm Bureau York County Board, PA Farm Bureau Young Farmer and Rancher State Committee, AFBF National Young Farmer and Rancher Committee, the AgChoice Nominating Committee, York County Farmland Preservation Board and York County Farm and Natural Lands Trust Board.

**William K. Jackson**, is a partner in Jackson Farms, a dairy that milks 150 cows and grows corn, soybeans and alfalfa on 900 acres. He is also president of Jackson Farms 2, LLC, which operates an on-farm dairy product processing plant and convenience store. He is president of Jackson Farms 3, LLC and managing partner of Jackson Farms, LP, which manage natural gas holdings. He is president of the Fayette County Fair Board and a board member of the Fay-Penn Economic Development Council and the Penn State Fayette, the Eberly Campus Advisory Board. Mr. Jackson also serves on the

AgFirst Farm Credit Bank Board of Directors and the National Farm Credit Council Board.

**Larry A. Seibert**, *Appointed and Outside Director*, retired as a regional manager for the Ben Franklin Technology Partners of Northeast Pennsylvania in 2017. He holds a Masters of Science in Education degree from Bloomsburg University. Mr. Seibert serves as a board member of Core Business Solutions, a board member of the Central Keystone Council of Governments, a member of the tax consolidation committee for Northumberland County and a township supervisor for White Deer Township. He previously served on the board of directors of the Susquehanna Economic Development Association – Council of Governments as the treasurer and chair of the finance committee.

**Richard D. Shuman**, is an owner and operator of RD Shuman Farms. The farm consists of 750 acres, 92 of which are owned and 658 are rented. He is a grain farmer, raises dairy replacements and feeder beef. He does custom harvesting on an additional 200 acres and supports his parents' 500-acre operation with some management decisions. The operation expanded into contract vegetables for a cannery in 2020 and looks to continue that enterprise into the future. Rich's wife, Deb, is a math teacher and they have a son, Steven, and a daughter, Courtney.

**Dennis B. Spangler**, is an owner/operator of a dairy, crop and solar farm. Mr. Spangler serves as a director on the Union County Conservation District, a member of the Farm Bureau, a member of the PA Holstein Association and the Mifflinburg Young Farmers Association. Mr. Spangler served as chairman of the AgChoice Board of Directors from 2013 to 2015.

**Charles F. Ulmer**, owns a grain and forage operation, farming 2,100 acres. In addition, Mr. Ulmer owns three dairy facilities, providing young and beginning farmers the opportunity to start a career in agriculture.

**Christine Waddell**, owns and operates Apple Shamrock Dairy Farms, LLC, with her husband, Rob, and sons, Josh and Joe. They currently milk 1,300 Holsteins and crop 3,000 acres. Crops grown include, corn, soybeans, alfalfa and orchard grass. Ms. Waddell actively promotes the dairy industry through her work with the Dairy Princess Program, speakers bureau and offering tours to local school children. The Waddells have three children and three grandchildren. Ms. Waddell's hobbies include reading, sewing and crafting. She is a member of St. Hippolyte Catholic Church.

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

Name	Days Served		Committee Assignments	Compensation for other activities*
	Board Meetings	Other Activities		
Shawn D. Wolfinger, <i>2020 Chairman</i>	14	26.0	Executive and Compensation	\$ 17,850
Richard A. Allen, <i>2020 Vice Chairman</i>	14	24.5	Executive and Compensation	16,450
Samuel BowerCraft, <i>Appointed and Outside</i>	14	21.0	Governance	14,000
Donald G. Cotner	14	18.0	Audit	10,500
Kevin D. Grim	14	20.5	Audit	11,550
Steven H. Gross, Jr.	14	18.0	Governance	14,350
William K Jackson	14	18.0	Executive and Compensation	9,450
Larry A. Seibert, <i>Appointed and Outside</i>	14	25.0	Audit	16,800
Richard D. Shuman	14	21.5	Governance	14,100
Dennis B. Spangler	14	27.5	Governance	18,350
Charles F. Ulmer	14	17.5	Executive and Compensation	10,150
Christine Waddell	14	22.5	Audit	15,050
<b>Total</b>				<b>\$ 168,600</b>

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

### 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.

### Involvement in Certain Legal Proceedings

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

### 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.

### 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.

### Relationship with Independent Auditors

There were no changes in or material disagreements with the Association's 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 auditor, PricewaterhouseCoopers LLP (PwC), for the year ended December 31, 2020 were

\$73,568, which includes reimbursement for expenses. Fees were for the annual audit of the Consolidated Financial Statements.

### 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.

### Consolidated Financial Statements

The Consolidated Financial Statements, together with the report therein of PwC dated March 11, 2021, and the report of management that appear in this Annual Report, are incorporated herein by reference. Copies of the Association's Quarterly Reports are available upon request, free of charge, by calling 1-800-998-5557 or writing Terry Davis, Chief Financial Officer, AgChoice Farm Credit, ACA, 300 Winding Creek Boulevard, Mechanicsburg, PA 17050, or accessing the website at [www.agchoice.com](http://www.agchoice.com). The Association prepares an electronic version of the Annual Report that is available on the Association's website within 75 days after the end of the fiscal year, and distributes the Annual Report 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 needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

### Borrower Information Regulations

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

On November 10, 1999, the FCA board adopted a policy that requires the System institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the Annual Report. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through the FCA regulations and the 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 the Bank. 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 the Bank can also be obtained on AgFirst's website at [www.agfirst.com](http://www.agfirst.com). The Bank prepares an electronic version of the Annual Report that is available on the website within 75 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly Report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

## *Report of the Audit Committee*

The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. No director who serves on the Committee is an employee of AgChoice Farm Credit, ACA, 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 auditor 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 AgChoice 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:

Samuel BowerCraft  
Chairman of the 2021 Audit Committee

### **Members of the 2021 Audit Committee**

Kevin D. Grim  
Larry A. Seibert  
Richard D. Shuman  
Kristi Yacono

March 11, 2021



## **Report of Independent Auditors**

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

We have audited the accompanying consolidated financial statements of AgChoice 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 AgChoice 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

# Consolidated Balance Sheets

<i>(dollars in thousands)</i>	December 31,		
	2020	2019	2018
<b>Assets</b>			
Cash	\$ 875	\$ 42	\$ 83
Loans	2,356,528	2,146,536	1,946,184
Allowance for loan losses	(15,179)	(15,419)	(14,331)
Net loans	2,341,349	2,131,117	1,931,853
Accrued interest receivable	8,333	8,224	8,297
Equity investments in other Farm Credit institutions	23,308	23,238	24,141
Premises and equipment, net	15,378	15,220	15,766
Other property owned	—	—	76
Accounts receivable	35,753	22,691	25,311
Other assets	1,346	1,282	1,210
Total assets	<b>\$ 2,426,342</b>	<b>\$ 2,201,814</b>	<b>\$ 2,006,737</b>
<b>Liabilities</b>			
Notes payable to AgFirst Farm Credit Bank	\$ 1,920,964	\$ 1,731,992	\$ 1,557,913
Accrued interest payable	3,646	4,547	4,343
Patronage refunds payable	42,762	34,210	25,893
Accounts payable	2,987	2,531	4,379
Other liabilities	10,045	9,802	7,644
Total liabilities	<b>1,980,404</b>	<b>1,783,082</b>	<b>1,600,172</b>
Commitments and contingencies (Note 11)			
<b>Members' Equity</b>			
Capital stock and participation certificates	8,995	8,444	8,223
Retained earnings			
Allocated	161,489	161,489	161,489
Unallocated	275,551	248,884	236,910
Accumulated other comprehensive income (loss)	(97)	(85)	(57)
Total members' equity	<b>445,938</b>	<b>418,732</b>	<b>406,565</b>
Total liabilities and members' equity	<b>\$ 2,426,342</b>	<b>\$ 2,201,814</b>	<b>\$ 2,006,737</b>

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

# Consolidated Statements of Comprehensive Income

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2020	2019	2018
<b>Interest Income</b>			
Loans	\$ 105,294	\$ 110,913	\$ 98,821
Investments	—	—	120
Total interest income	<b>105,294</b>	110,913	98,941
<b>Interest Expense</b>			
Notes payable to AgFirst Farm Credit Bank	46,508	54,834	46,658
Net interest income	58,786	56,079	52,283
Provision for (reversal of allowance for) loan losses	(72)	1,135	1,179
Net interest income after provision for (reversal of allowance for) loan losses	<b>58,858</b>	54,944	51,104
<b>Noninterest Income</b>			
Loan fees	1,501	1,350	1,215
Fees for financially related services	3,071	2,532	2,303
Patronage refunds from other Farm Credit institutions	35,491	22,353	25,081
Gains (losses) on sales of rural home loans, net	—	—	6
Gains (losses) on sales of premises and equipment, net	152	531	77
Gains (losses) on other transactions	4	146	(111)
Insurance Fund refunds	413	414	1,268
Other noninterest income	7	37	42
Total noninterest income	<b>40,639</b>	27,363	29,881
<b>Noninterest Expense</b>			
Salaries and employee benefits	19,298	18,768	18,563
Occupancy and equipment	1,167	1,509	1,338
Insurance Fund premiums	1,688	1,458	1,326
(Gains) losses on other property owned, net	—	13	23
Other operating expenses	7,647	7,425	7,282
Total noninterest expense	<b>29,800</b>	29,173	28,532
Income before income taxes	69,697	53,134	52,453
Provision for income taxes	448	244	173
<b>Net income</b>	<b>\$ 69,249</b>	\$ 52,890	\$ 52,280
<b>Other comprehensive income net of tax</b>			
Employee benefit plans adjustments	(12)	(28)	13
<b>Comprehensive income</b>	<b>\$ 69,237</b>	\$ 52,862	\$ 52,293

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

# Consolidated Statements of Changes in Members' Equity

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2017	\$ 11,020	\$ 161,489	\$ 215,361	\$ (70)	\$ 387,800
Comprehensive income			52,280	13	52,293
Capital stock/participation certificates issued/(retired), net	(2,806)				(2,806)
Dividends declared/paid	9		(9)		—
Patronage distribution					
Cash			(30,700)		(30,700)
Patronage distribution adjustment			(22)		(22)
<b>Balance at December 31, 2018</b>	<b>\$ 8,223</b>	<b>\$ 161,489</b>	<b>\$ 236,910</b>	<b>\$ (57)</b>	<b>\$ 406,565</b>
Cumulative effect of change in accounting principle			2		2
Comprehensive income			52,890	(28)	52,862
Capital stock/participation certificates issued/(retired), net	221				221
Patronage distribution					
Cash			(40,913)		(40,913)
Patronage distribution adjustment			(5)		(5)
<b>Balance at December 31, 2019</b>	<b>\$ 8,444</b>	<b>\$ 161,489</b>	<b>\$ 248,884</b>	<b>\$ (85)</b>	<b>\$ 418,732</b>
<b>Comprehensive income</b>			<b>69,249</b>	<b>(12)</b>	<b>69,237</b>
<b>Capital stock/participation certificates issued/(retired), net</b>	<b>551</b>				<b>551</b>
<b>Patronage distribution</b>					
<b>Cash</b>			<b>(42,578)</b>		<b>(42,578)</b>
<b>Patronage distribution adjustment</b>			<b>(4)</b>		<b>(4)</b>
<b>Balance at December 31, 2020</b>	<b>\$ 8,995</b>	<b>\$ 161,489</b>	<b>\$ 275,551</b>	<b>\$ (97)</b>	<b>\$ 445,938</b>

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

# Consolidated Statements of Cash Flows

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2020	2019	2018
<b>Cash flows from operating activities:</b>			
Net income	\$ 69,249	\$ 52,890	\$ 52,280
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	934	1,070	977
Amortization (accretion) of net deferred loan costs (fees)	(743)	(40)	(64)
Provision for (reversal of allowance for) loan losses	(72)	1,135	1,179
(Gains) losses on other property owned	—	6	16
(Gains) losses on sales of premises and equipment, net	(152)	(531)	(77)
(Gains) losses on sales of rural home loans, net	—	—	(6)
(Gains) losses on other transactions	(4)	(146)	111
Changes in operating assets and liabilities:			
Origination of loans held for sale	—	—	(261)
Proceeds from sales of loans held for sale, net	—	—	267
(Increase) decrease in accrued interest receivable	(109)	73	(1,270)
(Increase) decrease in accounts receivable	(13,062)	2,620	1,860
(Increase) decrease in other assets	(64)	(70)	214
Increase (decrease) in accrued interest payable	(901)	204	843
Increase (decrease) in accounts payable	456	(1,848)	(1,005)
Increase (decrease) in other liabilities	235	2,276	1,106
Total adjustments	(13,482)	4,749	3,890
Net cash provided by (used in) operating activities	55,767	57,639	56,170
<b>Cash flows from investing activities:</b>			
Proceeds from maturities of or principal payments received on investments in debt securities, held to maturity	—	—	2,205
Net (increase) decrease in loans	(209,417)	(200,416)	(93,855)
(Increase) decrease in equity investments in other Farm Credit institutions	(70)	903	(132)
Purchases of premises and equipment	(1,106)	(944)	(5,456)
Proceeds from sales of premises and equipment	166	951	89
Proceeds from sales of other property owned	—	127	80
Net cash provided by (used in) investing activities	(210,427)	(199,379)	(97,069)
<b>Cash flows from financing activities:</b>			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	188,972	174,079	70,194
Capital stock and participation certificates issued/(retired), net	551	221	(2,806)
Patronage refunds and dividends paid	(34,030)	(32,601)	(26,422)
Net cash provided by (used in) financing activities	155,493	141,699	40,966
Net increase (decrease) in cash	833	(41)	67
Cash, beginning of period	42	83	16
Cash, end of period	\$ 875	\$ 42	\$ 83
<b>Supplemental schedule of non-cash activities:</b>			
Receipt of property in settlement of loans	\$ —	\$ 57	\$ 146
Estimated cash dividends or patronage distributions declared or payable	42,578	40,913	30,700
Dividends declared or payable in shares of preferred stock	—	—	9
Employee benefit plans adjustments (Note 9)	12	28	(13)
<b>Supplemental information:</b>			
Interest paid	\$ 47,409	\$ 54,630	\$ 45,815
Taxes (refunded) paid, net	490	305	185

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:** AgChoice Farm Credit, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Adams, Allegheny, Armstrong, Beaver, Bedford, Blair, Bradford, Butler, Cambria, Cameron, Centre, Clarion, Clearfield, Clinton, Columbia, Crawford, Cumberland, Elk, Erie, Fayette, Forest, Franklin, Fulton, Greene, Huntingdon, Indiana, Jefferson, Juniata, Lackawanna, Lawrence, Luzerne, Lycoming, McKean, Mercer, Mifflin, Montour, Northumberland, Perry, Potter, Snyder, Somerset, Sullivan, Susquehanna, Tioga, Union, Venango, Warren, Washington, Wayne, Westmoreland, Wyoming and York in the state of Pennsylvania, and Brooke, Hancock, Marshall and Ohio in the state of West Virginia.

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 banks. System banks are also responsible for supervising the activities of associations within their districts. AgFirst (Bank) and its related associations (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 19 District associations. All 19 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 (FCSIC) 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 FCSIC to provide assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System bank has been required to pay premiums, which may be passed on to associations, 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 two 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 FCSIC at its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC 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 District 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 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 each 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 loans, each association's 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 specific services.

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 borrower, 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, including crop insurance and related products available through the risk management agency in the United States Department of Agriculture (USDA).

The Association provides additional services to borrowers such as financial record keeping, payroll, tax return preparation, tax planning, farm accounting software, fee appraisals, business consulting and leasing.

**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 \$592 in cash in excess of insured amounts.
- B. **Loans, Allowance for Loan Losses and Reserve for Unfunded Commitments:** The Association is authorized to make long-term real estate loans with maturities of 5 to 40 years and certain short- and intermediate-term loans for agricultural production or operating purposes with maturities of not more than 10 years.

Loans are carried at their principal amounts 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 and
- 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.

The Association has established a reserve for unfunded commitments that provides for potential losses related to unfunded commitments and is maintained at a level that is considered the best estimate of the amount required to absorb estimated probable losses related to these unfunded commitments. The reserve is determined using a methodology similar to that of the allowance for loan losses. The reserve for unfunded commitment is recorded as a liability in the Consolidated Balance Sheets.

- 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):** OPO 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 OPO are included in gains (losses) on OPO, 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 may hold 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 Consolidated Balance Sheets as securities on the trade date.

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

#### **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 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 (IRS). Company contributions to the 401(k) Plan are expensed as funded.

The Association also offers an 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 employees, their beneficiaries and covered dependents during the years the employees render 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.

Additional information may be found in Note 9.

- 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 prices have 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 borrowers, 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 borrower to a third party. These letters of credit are issued to facilitate commerce and can result in the commitment being funded when the underlying transaction is consummated between the borrower 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 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 that relate to office space in an owned property and are considered operating leases. Generally, leases are for terms of three to five years and may include options to extend or terminate the arrangement.

Lease income is recognized on a straight-line basis over the lease term. Lease and nonlease components are accounted for separately in the Consolidated Statements of

Comprehensive Income. Any initial direct costs are deferred and recognized as an expense over the lease term on the same basis as lease income. Any taxes assessed by a governmental authority are excluded from consideration as variable payments.

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

O. **Accounting Standards Updates (ASUs):** In October 2020, the FASB issued ASU 2020-10 Codification Improvements. The amendments represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The Update moves or references several disclosure requirements from Section 45 - Other Presentation Matters to section 50 - Disclosures. It also includes minor changes to other guidance such as Cash Balance Plans, Unusual or Infrequent Items, Transfers and Servicing, Guarantees, Income Taxes, Foreign Currency, Imputation of Interest, Not For Profits and Real Estate Projects. The amendments are not expected to have a material impact on the statements of financial condition and results of operations.

In March 2020, the FASB issued ASU 2020-04 Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. In response to concerns about structural risks of interbank offered rates (IBORs), and, particularly, the risk of cessation of the London Interbank Offered Rate (LIBOR), regulators around the world have undertaken reference rate reform initiatives to identify alternative reference rates that are more observable or transaction-based and less susceptible to manipulation. The amendments in this Update provide optional guidance for a limited time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The amendments provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The guidance applies only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. The expedients and exceptions do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022. The amendments are elective and were effective upon issuance for 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 were 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 a material 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 was effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. 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 a borrower 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 borrower. The Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the Board of Directors (Board).

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 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 the 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 5 to 30 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 10 years.

- Loans to cooperatives — loans for any cooperative purpose other than for communication, power and water and waste disposal.
- Processing and marketing loans — loans for operations to process or market the products produced by a farmer, rancher or producer or harvester of aquatic products, or by a cooperative.
- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.
- Rural residential real estate loans — loans made to individuals, who are not farmers, to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve or repair a rural home or to refinance existing debt. These loans are generally secured by a first lien on the property.
- Communication loans — loans primarily to finance rural communication service 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.

Following is a summary of loans outstanding at period end.

	December 31,		
	2020	2019	2018
Real estate mortgage	\$ 1,192,323	\$ 1,067,624	\$ 941,675
Production and intermediate-term	684,205	665,289	628,542
Loans to cooperatives	59,023	46,159	41,041
Processing and marketing	203,678	159,324	142,471
Farm-related business	59,631	44,639	41,486
Communication	95,808	100,024	88,462
Power and water/waste disposal	12,742	18,737	20,650
Rural residential real estate	25,245	21,746	19,923
International	19,683	18,461	16,977
Lease receivables	4,190	4,533	4,957
Total loans	<u>\$ 2,356,528</u>	<u>\$ 2,146,536</u>	<u>\$ 1,946,184</u>

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 inventory and receivables. Long-term real estate loans are collateralized by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in loan-to-value ratios in excess of the regulatory maximum.

During the first quarter of 2019, the Association canceled its participation in the Capitalized Participation Pool program with the Bank. As a result, the Association repurchased \$26,339 of participations previously sold to AgFirst. The Association may purchase or sell participation or syndication interests with other parties in order to diversify risk, manage loan volume and comply with the FCA regulations. The following tables present the principal balance of purchased and sold loans for the given periods.

December 31, 2020

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	\$ 31,417	\$ 9,928	\$ 8,310	\$ 13,126	\$ –	\$ –	\$ 39,727	\$ 23,054
Production and intermediate-term	40,458	3,912	62,070	7,654	–	–	102,528	11,566
Loans to cooperatives	1,217	–	57,940	–	–	–	59,157	–
Processing and marketing	48,824	15,794	48,866	3,315	29,302	–	126,992	19,109
Farm-related business	–	–	–	–	9,957	–	9,957	–
Communication	7,569	–	88,486	–	–	–	96,055	–
Power and water/waste disposal	1,191	–	11,609	–	–	–	12,800	–
International	1,233	–	18,500	–	–	–	19,733	–
Lease receivables	–	–	4,195	–	–	–	4,195	–
Total	\$ 131,909	\$ 29,634	\$ 299,976	\$ 24,095	\$ 39,259	\$ –	\$ 471,144	\$ 53,729

December 31, 2019

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	\$ 28,561	\$ 5,863	\$ 8,913	\$ 7,459	\$ –	\$ –	\$ 37,474	\$ 13,322
Production and intermediate-term	33,176	4,431	51,410	8,227	–	–	84,586	12,658
Loans to cooperatives	–	–	46,250	–	–	–	46,250	–
Processing and marketing	40,933	5,497	38,814	–	17,114	–	96,861	5,497
Communication	7,626	–	92,585	–	–	–	100,211	–
Power and water/waste disposal	6,638	–	12,162	–	–	–	18,800	–
International	–	–	18,500	–	–	–	18,500	–
Lease receivables	–	–	4,533	–	–	–	4,533	–
Total	\$ 116,934	\$ 15,791	\$ 273,167	\$ 15,686	\$ 17,114	\$ –	\$ 407,215	\$ 31,477

December 31, 2018

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	\$ 13,154	\$ 30,744	\$ 6,357	\$ –	\$ –	\$ –	\$ 19,511	\$ 30,744
Production and intermediate-term	38,665	19,377	35,587	8,948	–	–	74,252	28,325
Loans to cooperatives	–	–	41,139	–	–	–	41,139	–
Processing and marketing	41,624	599	44,410	–	–	–	86,034	599
Farm-related business	–	260	–	–	–	–	–	260
Communication	8,109	–	80,578	–	–	–	88,687	–
Power and water/waste disposal	8,100	–	12,609	–	–	–	20,709	–
Rural residential real estate	–	145	–	–	–	–	–	145
International	–	–	17,000	–	–	–	17,000	–
Lease receivables	–	–	4,956	–	–	–	4,956	–
Total	\$ 109,652	\$ 51,125	\$ 242,636	\$ 8,948	\$ –	\$ –	\$ 352,288	\$ 60,073

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 for the given periods.

	December 31,				December 31,		
	2020	2019	2018		2020	2019	2018
<b>Real estate mortgage:</b>				<b>Power and water/waste disposal:</b>			
Acceptable	94.82%	93.42%	94.98%	Acceptable	100.00%	58.56%	100.00%
OAEM	2.07	3.17	1.89	OAEM	–	26.29	–
Substandard/doubtful/loss	3.11	3.41	3.13	Substandard/doubtful/loss	–	15.15	–
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
<b>Production and intermediate-term:</b>				<b>Rural residential real estate:</b>			
Acceptable	94.13%	93.53%	93.52%	Acceptable	95.82%	93.43%	93.70%
OAEM	2.57	2.97	3.06	OAEM	1.92	3.39	2.48
Substandard/doubtful/loss	3.30	3.50	3.42	Substandard/doubtful/loss	2.26	3.18	3.82
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
<b>Loans to cooperatives:</b>				<b>International:</b>			
Acceptable	100.00%	100.00%	100.00%	Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–	OAEM	–	–	–
Substandard/doubtful/loss	–	–	–	Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
<b>Processing and marketing:</b>				<b>Lease receivables:</b>			
Acceptable	93.57%	91.99%	99.16%	Acceptable	98.67%	100.00%	100.00%
OAEM	5.82	6.68	0.84	OAEM	–	–	–
Substandard/doubtful/loss	0.61	1.33	–	Substandard/doubtful/loss	1.33	–	–
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
<b>Farm-related business:</b>				<b>Total loans:</b>			
Acceptable	97.94%	98.31%	97.18%	Acceptable	95.02%	93.67%	95.19%
OAEM	1.85	1.27	1.15	OAEM	2.37	3.28	2.12
Substandard/doubtful/loss	0.21	0.42	1.67	Substandard/doubtful/loss	2.61	3.05	2.69
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
<b>Communication:</b>							
Acceptable	100.00%	100.00%	97.65%				
OAEM	–	–	2.35				
Substandard/doubtful/loss	–	–	–				
	100.00%	100.00%	100.00%				

The following tables provide an aging analysis of past due loans and related accrued interest for the given periods.

	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 and Accrued Interest	
Real estate mortgage	\$ 1,469	\$ 1,456	\$ 2,925	\$ 1,194,019	\$ 1,196,944	
Production and intermediate-term	2,274	810	3,084	683,727	686,811	
Loans to cooperatives	–	–	–	59,032	59,032	
Processing and marketing	–	–	–	204,234	204,234	
Farm-related business	245	5	250	59,707	59,957	
Communication	–	–	–	95,815	95,815	
Power and water/waste disposal	–	–	–	12,742	12,742	
Rural residential real estate	13	18	31	25,297	25,328	
International	–	–	–	19,792	19,792	
Lease receivables	96	–	96	4,110	4,206	
Total	\$ 4,097	\$ 2,289	\$ 6,386	\$ 2,358,475	\$ 2,364,861	

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 and Accrued Interest
Real estate mortgage	\$ 3,727	\$ 1,109	\$ 4,836	\$ 1,066,751	\$ 1,071,587
Production and intermediate-term	2,528	1,848	4,376	663,887	668,263
Loans to cooperatives	—	—	—	46,253	46,253
Processing and marketing	—	—	—	159,898	159,898
Farm-related business	4	—	4	44,916	44,920
Communication	—	—	—	100,091	100,091
Power and water/waste disposal	—	—	—	18,790	18,790
Rural residential real estate	161	102	263	21,555	21,818
International	—	—	—	18,589	18,589
Lease receivables	—	—	—	4,551	4,551
Total	\$ 6,420	\$ 3,059	\$ 9,479	\$ 2,145,281	\$ 2,154,760

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 and Accrued Interest
Real estate mortgage	\$ 1,442	\$ 889	\$ 2,331	\$ 943,295	\$ 945,626
Production and intermediate-term	1,632	1,890	3,522	628,106	631,628
Loans to cooperatives	—	—	—	41,134	41,134
Processing and marketing	—	—	—	143,088	143,088
Farm-related business	—	—	—	41,762	41,762
Communication	—	—	—	88,494	88,494
Power and water/waste disposal	—	—	—	20,674	20,674
Rural residential real estate	170	132	302	19,688	19,990
International	—	—	—	17,109	17,109
Lease receivables	—	—	—	4,976	4,976
Total	\$ 3,244	\$ 2,911	\$ 6,155	\$ 1,948,326	\$ 1,954,481

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

	December 31,		
	2020	2019	2018
<b>Nonaccrual loans:</b>			
Real estate mortgage	\$ 5,400	\$ 8,094	\$ 7,844
Production and intermediate-term	4,042	3,901	3,962
Farm-related business	5	14	20
Rural residential real estate	101	209	163
Total	\$ 9,548	\$ 12,218	\$ 11,989
<b>Accruing restructured loans:</b>			
Real estate mortgage	\$ 13	\$ 39	\$ 60
Production and intermediate-term	—	—	19
Total	\$ 13	\$ 39	\$ 79
<b>Accruing loans 90 days or more past due:</b>			
Total	\$ —	\$ —	\$ —
Total nonperforming loans	\$ 9,561	\$ 12,257	\$ 12,068
Other property owned	—	—	76
Total nonperforming assets	\$ 9,561	\$ 12,257	\$ 12,144
Nonaccrual loans as a percentage of total loans	0.41%	0.57%	0.62%
Nonperforming assets as a percentage of total loans and other property owned	0.41%	0.57%	0.62%
Nonperforming assets as a percentage of capital	2.14%	2.93%	2.99%

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

	December 31,		
	2020	2019	2018
<b>Impaired nonaccrual loans:</b>			
Current as to principal and interest	\$ 6,120	\$ 7,398	\$ 8,836
Past due	3,428	4,820	3,153
Total	<u>\$ 9,548</u>	<u>\$ 12,218</u>	<u>\$ 11,989</u>
<b>Impaired accrual loans:</b>			
Restructured	\$ 13	\$ 39	\$ 79
90 days or more past due	—	—	—
Total	<u>\$ 13</u>	<u>\$ 39</u>	<u>\$ 79</u>
Total impaired loans	<u>\$ 9,561</u>	<u>\$ 12,257</u>	<u>\$ 12,068</u>
Additional commitments to lend	<u>\$ 8</u>	<u>\$ 500</u>	<u>\$ 401</u>

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

	December 31, 2020			Year Ended December 31, 2020	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>Impaired loans:</b>					
<b>With a related allowance for credit losses:</b>					
Production and intermediate-term	\$ 178	\$ 177	\$ 154	\$ 200	\$ 36
Total	<u>\$ 178</u>	<u>\$ 177</u>	<u>\$ 154</u>	<u>\$ 200</u>	<u>\$ 36</u>
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 5,413	\$ 6,681	\$ —	\$ 6,064	\$ 1,088
Production and intermediate-term	3,864	5,053	—	4,329	776
Farm-related business	5	5	—	5	1
Rural residential real estate	101	123	—	113	20
Total	<u>\$ 9,383</u>	<u>\$ 11,862</u>	<u>\$ —</u>	<u>\$ 10,511</u>	<u>\$ 1,885</u>
<b>Total:</b>					
Real estate mortgage	\$ 5,413	\$ 6,681	\$ —	\$ 6,064	\$ 1,088
Production and intermediate-term	4,042	5,230	154	4,529	812
Farm-related business	5	5	—	5	1
Rural residential real estate	101	123	—	113	20
Total	<u>\$ 9,561</u>	<u>\$ 12,039</u>	<u>\$ 154</u>	<u>\$ 10,711</u>	<u>\$ 1,921</u>

	December 31, 2019			Year Ended December 31, 2019	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>Impaired loans:</b>					
<b>With a related allowance for credit losses:</b>					
Production and intermediate-term	\$ 178	\$ 179	\$ 149	\$ 171	\$ 14
Total	<u>\$ 178</u>	<u>\$ 179</u>	<u>\$ 149</u>	<u>\$ 171</u>	<u>\$ 14</u>
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 8,133	\$ 9,879	\$ —	\$ 7,809	\$ 629
Production and intermediate-term	3,723	5,448	—	3,575	288
Farm-related business	14	17	—	13	1
Rural residential real estate	209	245	—	200	16
Total	<u>\$ 12,079</u>	<u>\$ 15,589</u>	<u>\$ —</u>	<u>\$ 11,597</u>	<u>\$ 934</u>
<b>Total:</b>					
Real estate mortgage	\$ 8,133	\$ 9,879	\$ —	\$ 7,809	\$ 629
Production and intermediate-term	3,901	5,627	149	3,746	302
Farm-related business	14	17	—	13	1
Rural residential real estate	209	245	—	200	16
Total	<u>\$ 12,257</u>	<u>\$ 15,768</u>	<u>\$ 149</u>	<u>\$ 11,768</u>	<u>\$ 948</u>

Impaired loans:	December 31, 2018			Year Ended December 31, 2018	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>					
Production and intermediate-term	\$ 84	\$ 148	\$ 45	\$ 114	\$ 9
Total	\$ 84	\$ 148	\$ 45	\$ 114	\$ 9
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 7,904	\$ 9,821	\$ –	\$ 10,715	\$ 815
Production and intermediate-term	3,897	5,573	–	5,283	402
Farm-related business	20	353	–	26	2
Rural residential real estate	163	277	–	222	17
Total	\$ 11,984	\$ 16,024	\$ –	\$ 16,246	\$ 1,236
<b>Total:</b>					
Real estate mortgage	\$ 7,904	\$ 9,821	\$ –	\$ 10,715	\$ 815
Production and intermediate-term	3,981	5,721	45	5,397	411
Farm-related business	20	353	–	26	2
Rural residential real estate	163	277	–	222	17
Total	\$ 12,068	\$ 16,172	\$ 45	\$ 16,360	\$ 1,245

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivables	Total
<b>Activity related to the allowance for credit losses:</b>									
Balance at December 31, 2019	\$ 3,563	\$ 5,854	\$ 3,705	\$ 1,014	\$ 764	\$ 82	\$ 187	\$ 250	\$ 15,419
Charge-offs	–	–	–	–	(150)	(19)	–	–	(169)
Recoveries	–	1	–	–	–	–	–	–	1
Provision for loan losses	631	(106)	122	(165)	(529)	10	(2)	(33)	(72)
Balance at December 31, 2020	\$ 4,194	\$ 5,749	\$ 3,827	\$ 849	\$ 85	\$ 73	\$ 185	\$ 217	\$ 15,179
Balance at December 31, 2018	\$ 3,193	\$ 5,325	\$ 3,680	\$ 1,257	\$ 232	\$ 92	\$ 276	\$ 276	\$ 14,331
Charge-offs	–	(79)	–	–	–	–	–	–	(79)
Recoveries	–	24	–	–	–	8	–	–	32
Provision for loan losses	370	584	25	(243)	532	(18)	(89)	(26)	1,135
Balance at December 31, 2019	\$ 3,563	\$ 5,854	\$ 3,705	\$ 1,014	\$ 764	\$ 82	\$ 187	\$ 250	\$ 15,419
Balance at December 31, 2017	\$ 3,298	\$ 5,756	\$ 1,888	\$ 803	\$ 1,618	\$ 95	\$ 27	\$ 7	\$ 13,492
Charge-offs	–	(25)	–	–	(304)	(16)	–	(16)	(361)
Recoveries	1	20	–	–	–	–	–	–	21
Provision for loan losses	(106)	(426)	1,792	454	(1,082)	13	249	285	1,179
Balance at December 31, 2018	\$ 3,193	\$ 5,325	\$ 3,680	\$ 1,257	\$ 232	\$ 92	\$ 276	\$ 276	\$ 14,331
<b>Allowance on loans evaluated for impairment:</b>									
Individually	\$ –	\$ 154	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 154
Collectively	4,194	5,595	3,827	849	85	73	185	217	15,025
Balance at December 31, 2020	\$ 4,194	\$ 5,749	\$ 3,827	\$ 849	\$ 85	\$ 73	\$ 185	\$ 217	\$ 15,179
Individually	\$ –	\$ 149	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 149
Collectively	3,563	5,705	3,705	1,014	764	82	187	250	15,270
Balance at December 31, 2019	\$ 3,563	\$ 5,854	\$ 3,705	\$ 1,014	\$ 764	\$ 82	\$ 187	\$ 250	\$ 15,419
Individually	\$ –	\$ 45	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 45
Collectively	3,193	5,280	3,680	1,257	232	92	276	276	14,286
Balance at December 31, 2018	\$ 3,193	\$ 5,325	\$ 3,680	\$ 1,257	\$ 232	\$ 92	\$ 276	\$ 276	\$ 14,331
<b>Recorded investment in loans evaluated for impairment:</b>									
Individually	\$ 3,325	\$ 1,996	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 5,321
Collectively	1,193,619	684,815	323,223	95,815	12,742	25,328	19,792	4,206	2,359,540
Balance at December 31, 2020	\$ 1,196,944	\$ 686,811	\$ 323,223	\$ 95,815	\$ 12,742	\$ 25,328	\$ 19,792	\$ 4,206	\$ 2,364,861
Individually	\$ 4,468	\$ 1,926	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 6,394
Collectively	1,067,119	666,337	251,071	100,091	18,790	21,818	18,589	4,551	2,148,366
Balance at December 31, 2019	\$ 1,071,587	\$ 668,263	\$ 251,071	\$ 100,091	\$ 18,790	\$ 21,818	\$ 18,589	\$ 4,551	\$ 2,154,760
Individually	\$ 5,707	\$ 1,266	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 6,973
Collectively	939,919	630,362	225,984	88,494	20,674	19,990	17,109	4,976	1,947,508
Balance at December 31, 2018	\$ 945,626	\$ 631,628	\$ 225,984	\$ 88,494	\$ 20,674	\$ 19,990	\$ 17,109	\$ 4,976	\$ 1,954,481

\*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 \$92,760, \$47,461 and \$50,552 at December 31, 2020, 2019 and 2018, respectively. Fees paid for such guarantee commitments totaled \$118, \$20 and \$43 for 2020, 2019 and 2018, respectively. These amounts are classified as noninterest expense.

A restructuring of a debt constitutes a TDR if the creditor, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower 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. There were no new TDRs that occurred during the years ended December 31, 2020 and December 31, 2019.

Outstanding Recorded Investment	Year Ended December 31, 2018				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
<b>Pre-modification:</b>					
Real estate mortgage	\$ 145	\$ -	\$ -	\$ 145	
Production and intermediate-term	42	-	-	42	
Total	\$ 187	\$ -	\$ -	\$ 187	
<b>Post-modification:</b>					
Real estate mortgage	\$ 145	\$ -	\$ -	\$ 145	\$ -
Production and intermediate-term	42	-	-	42	-
Total	\$ 187	\$ -	\$ -	\$ 187	\$ -

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 that might be in the form of cash or other assets.

The following table presents outstanding recorded investment for TDRs that occurred during the previous 12 months, and for which there was a subsequent payment default during that period. Payment default is defined as a payment that was 30 days or more past due.

Defaulted troubled debt restructurings	Year Ended December 31,		
	2020	2019	2018
Real estate mortgage	\$ -	\$ -	\$ 133
Production and intermediate-term	-	-	37
Total	\$ -	\$ -	\$ 170

The following table provides information at period-end on outstanding loans restructured in TDRs. 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	\$ 734	\$ 1,067	\$ 1,161	\$ 721	\$ 1,028	\$ 1,101
Production and intermediate-term	622	1,093	1,451	622	1,093	1,432
Total loans	\$ 1,356	\$ 2,160	\$ 2,612	\$ 1,343	\$ 2,121	\$ 2,533
Additional commitments to lend	\$ -	\$ -	\$ -			

#### Note 4 — Investments

##### Equity Investments in Other Farm Credit Institutions

Equity investments in other 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 \$22,234 for 2020, \$22,234 for 2019 and \$23,108 for 2018. The Association owned 8.25 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 \$1,074 related to other System institutions at December 31, 2020.

**Note 5 — Premises and Equipment**

Premises and equipment consist of the following.

	December 31,		
	2020	2019	2018
Land and improvements	\$ 2,715	\$ 2,706	\$ 2,745
Buildings and improvements	12,071	12,071	12,753
Furniture and equipment	5,446	4,921	5,104
	20,232	19,698	20,602
Less: accumulated depreciation	4,854	4,478	4,836
Total	\$ 15,378	\$ 15,220	\$ 15,766

**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 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 that 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 the FCA regulations, has established limitations on the Association’s ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2020, the Association’s notes payable were within the specified limitations.

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

The weighted-average interest rates on the variable rate advances were 1.46 percent for LIBOR-based loans and 1.57 percent for Prime-based loans, and the weighted-average remaining maturities were 4.0 years and 2.5 years, respectively, at December 31, 2020. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans that are match-funded by the Bank was 2.61 percent, and the weighted average remaining maturity was 11.6 years at December 31, 2020. The weighted-average interest rate on all interest-bearing notes payable was 2.29 percent and the weighted-average remaining maturity was 9.3 years at December 31, 2020. Variable rate and fixed rate notes payable represent approximately 11.60 percent and 88.40 percent, respectively, of total notes payable at December 31, 2020. The weighted average maturities described above are related to match-funded loans. The Direct Note itself has an annual maturity as prescribed in the GFA.

**Note 7 — Members’ Equity**

**A. Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association’s capitalization Bylaws, each borrower is required to invest in Class C 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 statutory minimum investment of \$1,000 or 2 percent of the amount of the loan, whichever is less. The Board may increase the amount of investment if necessary to meet the Association’s capital needs.

Loans designated for sale or sold into the secondary mortgage 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 the borrower. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

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

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

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

The ratios are calculated using three-month average daily balances, in accordance with the 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 seven years, allocated equities held for a minimum of seven 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 five years, subordinated debt and limited-life preferred stock greater than five 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 PCR is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The tier 1 leverage ratio is tier 1 capital, divided by average total assets, less regulatory deductions to tier 1 capital.
- The URE and UREE leverage ratio is unallocated retained earnings, paid-in capital and allocated surplus not subject to revolvment, less certain regulatory required deductions including the amount of allocated investments in other System institutions, divided by average total assets, less regulatory deductions to tier 1 capital.

The following sets forth the regulatory capital ratios.

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31,		
				2020	2019	2018
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	17.06%	17.72%	18.29%
Tier 1 Capital	6.0%	2.5%	8.5%	17.06%	17.72%	18.29%
Total Capital	8.0%	2.5%	10.5%	17.71%	18.41%	18.99%
Permanent Capital	7.0%	0.0%	7.0%	17.17%	17.84%	18.42%
Non-risk-adjusted ratios:						
Tier 1 Leverage	4.0%	1.0%	5.0%	18.29%	19.17%	19.76%
URE and UREE Leverage	1.5%	0.0%	1.5%	18.33%	19.16%	19.87%

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

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

- C. **Description of Equities:** The Association is authorized to issue or have outstanding Classes A and D preferred stock, Classes A and C common stock, Class 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 \$5 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	1,694,034	\$ 8,470
C Participation Certificates/Nonvoting	No	104,844	525
Total Capital Stock and Participation Certificates		1,798,878	\$ 8,995

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.

### Surplus

The Association maintains an unallocated surplus account and an allocated surplus account. The minimum aggregate amount of these two accounts is determined by the Board. At the end of any fiscal year, if the surplus 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 will apply earnings for the year to the unallocated surplus account in such amounts as may be determined necessary by the Board.

The Association maintains an allocated surplus 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 surplus 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 surplus 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 by the Board, may order any and all surplus account allocations owned by such borrower to be applied on the indebtedness.

Allocated equities will 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 \$161,489 of nonqualified retained surplus.

*Patronage Distributions*

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

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

*Dividends*

Dividends may be paid on stock and participation certificates as determined by the Board's resolution. Dividends may not be paid on common stock and participation certificates during any fiscal year with respect to which the Association has obligated itself to distribute earnings on a patronage basis pursuant to the Bylaws. The rate of dividends paid on Class A preferred stock for any fiscal year may not be less than the rate of dividend paid on common stock or participation certificates for such year. All dividends will be paid on a per share basis. Dividends on

common stock and participation certificates will be noncumulative without preference between classes.

*Transfer*

Class A common stock, Class C common stock and Class C participation certificates and Class A preferred stock may be transferred to persons or entities eligible to receive or to hold such stock or certificates under the Bylaws.

*Impairment*

Losses that result in any impairment of the Association's capital will be borne ratably by, first, unallocated surplus account; second, allocated surplus account (latest allocation first); third, each share of Class A common stock, Class C common stock and unit of Class C participation certificates outstanding and, fourth, each share of Class A preferred stock and Class D preferred stock outstanding. Notwithstanding the above sentence, the Association, when retiring stock and participation certificates, will retire such equities at par value to the extent required by the Farm Credit Act.

*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 order that follows.

1. Classes A and D preferred stock.
2. Classes A and C common stock and Class C participation certificates.
3. Allocated surplus evidenced by qualified written notices of allocation on the basis of oldest allocations first.
4. Allocated surplus evidenced by nonqualified notices of allocation on the basis of oldest allocations first.
5. Unallocated surplus will be distributed to holders of Class C common stock, Class A common stock and Class C participation certificates on a patronage basis.

**D. Accumulated Other Comprehensive Income (AOCI).**

	Changes in Accumulated Other Comprehensive Income by Component (a)					
	For the Year Ended December 31,					
	2020		2019		2018	
<b>Employee Benefit Plans:</b>						
Balance at beginning of period	\$	(85)	\$	(57)	\$	(70)
Other comprehensive income before reclassifications		(15)		(30)		11
Amounts reclassified from AOCI		3		2		2
Net current period OCI		(12)		(28)		13
Balance at end of period	\$	(97)	\$	(85)	\$	(57)

	Reclassifications Out of Accumulated Other Comprehensive Income (b)				
	For the Year Ended December 31,				
	2020	2019	2018	Income Statement Line Item	
<b>Defined Benefit Pension Plans:</b>					
Periodic pension costs	\$	(3)	\$	(2)	See Note 9.
Amounts reclassified	\$	(3)	\$	(2)	

(a) Amounts in parentheses indicate debits to AOCI.

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

**Note 8 — Fair Value Measurement**

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

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

Estimating the fair value of the Association's equity investments in the Bank and other System 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 has no Level 2 assets or 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) that 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.

OPO 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 OPO. OPO 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, the FCA regulations require that these types of properties be disposed of within a reasonable period of time.

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

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

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

		December 31, 2020				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in trust funds	\$	330	\$ 330	\$ –	\$ –	\$ 330
Recurring Assets	\$	330	\$ 330	\$ –	\$ –	\$ 330
<b>Liabilities:</b>						
Recurring Liabilities	\$	–	\$ –	\$ –	\$ –	\$ –
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$	24	\$ –	\$ –	\$ 24	\$ 24
Other property owned		–	–	–	–	–
Nonrecurring Assets	\$	24	\$ –	\$ –	\$ 24	\$ 24
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$	875	\$ 875	\$ –	\$ –	\$ 875
Loans		2,341,325	–	–	2,364,249	2,364,249
Other Financial Assets	\$	2,342,200	\$ 875	\$ –	\$ 2,364,249	\$ 2,365,124
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$	1,920,964	\$ –	\$ –	\$ 1,940,758	\$ 1,940,758
Other Financial Liabilities	\$	1,920,964	\$ –	\$ –	\$ 1,940,758	\$ 1,940,758

		December 31, 2019				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in trust funds	\$	498	\$ 498	\$ –	\$ –	\$ 498
Recurring Assets	\$	498	\$ 498	\$ –	\$ –	\$ 498
<b>Liabilities:</b>						
Recurring Liabilities	\$	–	\$ –	\$ –	\$ –	\$ –
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$	29	\$ –	\$ –	\$ 29	\$ 29
Other property owned		–	–	–	–	–
Nonrecurring Assets	\$	29	\$ –	\$ –	\$ 29	\$ 29
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$	42	\$ 42	\$ –	\$ –	\$ 42
Loans		2,131,088	–	–	2,132,504	2,132,504
Other Financial Assets	\$	2,131,130	\$ 42	\$ –	\$ 2,132,504	\$ 2,132,546
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$	1,731,992	\$ –	\$ –	\$ 1,735,998	\$ 1,735,998
Other Financial Liabilities	\$	1,731,992	\$ –	\$ –	\$ 1,735,998	\$ 1,735,998

December 31, 2018

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Recurring Measurements</b>					
<b>Assets:</b>					
Assets held in trust funds	\$ 601	\$ 601	\$ -	\$ -	\$ 601
Recurring Assets	\$ 601	\$ 601	\$ -	\$ -	\$ 601
<b>Liabilities:</b>					
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Nonrecurring Measurements</b>					
<b>Assets:</b>					
Impaired loans	\$ 39	\$ -	\$ -	\$ 39	\$ 39
Other property owned	76	-	-	86	86
Nonrecurring Assets	\$ 115	\$ -	\$ -	\$ 125	\$ 125
<b>Other Financial Instruments</b>					
<b>Assets:</b>					
Cash	\$ 83	\$ 83	\$ -	\$ -	\$ 83
Loans	1,931,814	-	-	1,904,355	1,904,355
Other Financial Assets	\$ 1,931,897	\$ 83	\$ -	\$ 1,904,355	\$ 1,904,438
<b>Liabilities:</b>					
Notes payable to AgFirst Farm Credit Bank	\$ 1,557,913	\$ -	\$ -	\$ 1,541,821	\$ 1,541,821
Other Financial Liabilities	\$ 1,557,913	\$ -	\$ -	\$ 1,541,821	\$ 1,541,821

**Uncertainty in Measurements of Fair Value**

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

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

certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

**Inputs to Valuation Techniques**

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

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

**Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements**

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 24	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

**Information about Other Financial Instrument Fair Value Measurements**

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment 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 Form 5500 is not 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 who are not employees of the Association. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. FAP Plan expenses included in employee benefit costs on the Association's Statements of Comprehensive Income were \$2,086 for 2020, \$1,686 for 2019 and \$2,450 for 2018. At December 31, 2020, 2019 and 2018, the total liability balance for the FAP Plan was \$114,449, \$129,713, and \$94,491, respectively. The FAP Plan was 89.63 percent, 87.55 percent, and 89.56 percent funded to the projected benefit obligation as of December 31, 2020, 2019 and 2018, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum age

of 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 System employees who 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 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 Income were \$396 for 2020, \$424 for 2019 and \$412 for 2018. The total AgFirst District liability balance for the OPEB Plan presented in the 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 six percent of contribution (based on total compensation) up to the maximum employer contribution of three 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 six percent of contribution up to the maximum employer contribution of six percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the IRS. The 401(k) Plan costs are expensed as funded. Employer contributions to this Plan included in salaries and employee benefit costs were \$1,092, \$1,038 and \$958 for the years ended December 31, 2020, 2019 and 2018, respectively. Beginning in 2015, contributions include an additional three 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, \$(12), \$(28) and \$13 respectively, have been recognized as a net debit, a net debit, and a net credit to AOCI to reflect these elements.

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

In addition to the multiemployer plans described above, the Association sponsors nonqualified supplemental retirement and 401(k) plans. The supplemental retirement plan is unfunded and had a projected benefit obligation of \$253 and a net under-funded status of \$253 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 \$17, \$16 and \$16 for 2020, 2019 and 2018, respectively.

**Note 10 — Related Party Transactions**

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

Total loans to such persons at December 31, 2020 amounted to \$18,986. During 2020, \$13,156 of new loans were made and repayments totaled \$11,704. 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, there were no commercial letters of credit outstanding and \$508,727 of commitments to extend credit outstanding with a related reserve for unfunded commitments of \$565 included in Other Liabilities in the Consolidated Balance Sheets.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2020, standby letters of credit outstanding totaled \$10,583 with expiration dates ranging from January 1, 2021 to December 12, 2023. The maximum potential amount of future payments that may be required under these guarantees was \$10,583.

**Note 12 — Income Taxes**

The provision (benefit) for income taxes follows.

	Year Ended December 31,		
	2020	2019	2018
Current:			
Federal	\$ 448	\$ 244	\$ 173
	448	244	173
Deferred:			
Federal	—	—	—
	—	—	—
Total provision (benefit) for income taxes	\$ 448	\$ 244	\$ 173

The provision (benefit) 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.

	Year Ended December 31,		
	2020	2019	2018
Federal tax at statutory rate	\$ 14,636	\$ 11,158	\$ 11,015
Patronage distributions	(8,925)	(7,140)	(5,397)
Tax-exempt FLCA earnings	(4,594)	(3,880)	(5,465)
Change in valuation allowance	(650)	154	163
Other	(19)	(48)	(143)
Provision (benefit) for income taxes	\$ 448	\$ 244	\$ 173

Deferred tax assets and liabilities are comprised of the following.

	December 31,		
	2020	2019	2018
Deferred income tax assets:			
Allowance for loan losses	\$ 1,446	\$ 1,462	\$ 1,457
Nonaccrual loan interest	288	388	427
Net operating loss – carryforward	941	901	860
Gross deferred tax assets	2,675	2,751	2,744
Less: valuation allowance	(171)	(821)	(667)
Gross deferred tax assets, net of valuation allowance	2,504	1,930	2,077
Deferred income tax liabilities:			
Bank patronage allocation	(2,276)	(1,521)	(1,684)
Loan origination fees	(190)	(331)	(308)
Depreciation	(38)	(78)	(85)
Gross deferred tax liability	(2,504)	(1,930)	(2,077)
Net deferred tax asset (liability)	\$ —	\$ —	\$ —

At December 31, 2020, deferred income taxes have not been provided by the Association on approximately \$9,400 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 \$171, \$821 and \$667 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 related to unrecognized tax benefits as a component of income tax expense.

At December 31, 2020 the Association has federal loss carryforwards totaling approximately \$4,482, of which \$458 has no expiration date, and the remainder expires in varying amounts beginning in 2033. The valuation allowance at December 31, 2020 was primarily related to nonaccrual interest loans and federal loss carryforwards that, in the judgment of management, are more likely than not to expire before realized. In evaluating the Association's ability to recover its deferred income tax assets, it considers all available evidence, both positive and negative, including operating results, ongoing tax planning and forecasts of future taxable income on a jurisdiction by jurisdiction basis.

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	\$ 14,335	\$ 15,375	\$ 14,517	\$ 14,559	\$ 58,786
Provision for (reversal of allowance for) loan losses	492	232	(321)	(475)	(72)
Noninterest income (expense), net	(2,771)	(2,868)	(2,602)	18,632	10,391
Net income	\$ 11,072	\$ 12,275	\$ 12,236	\$ 33,666	\$ 69,249

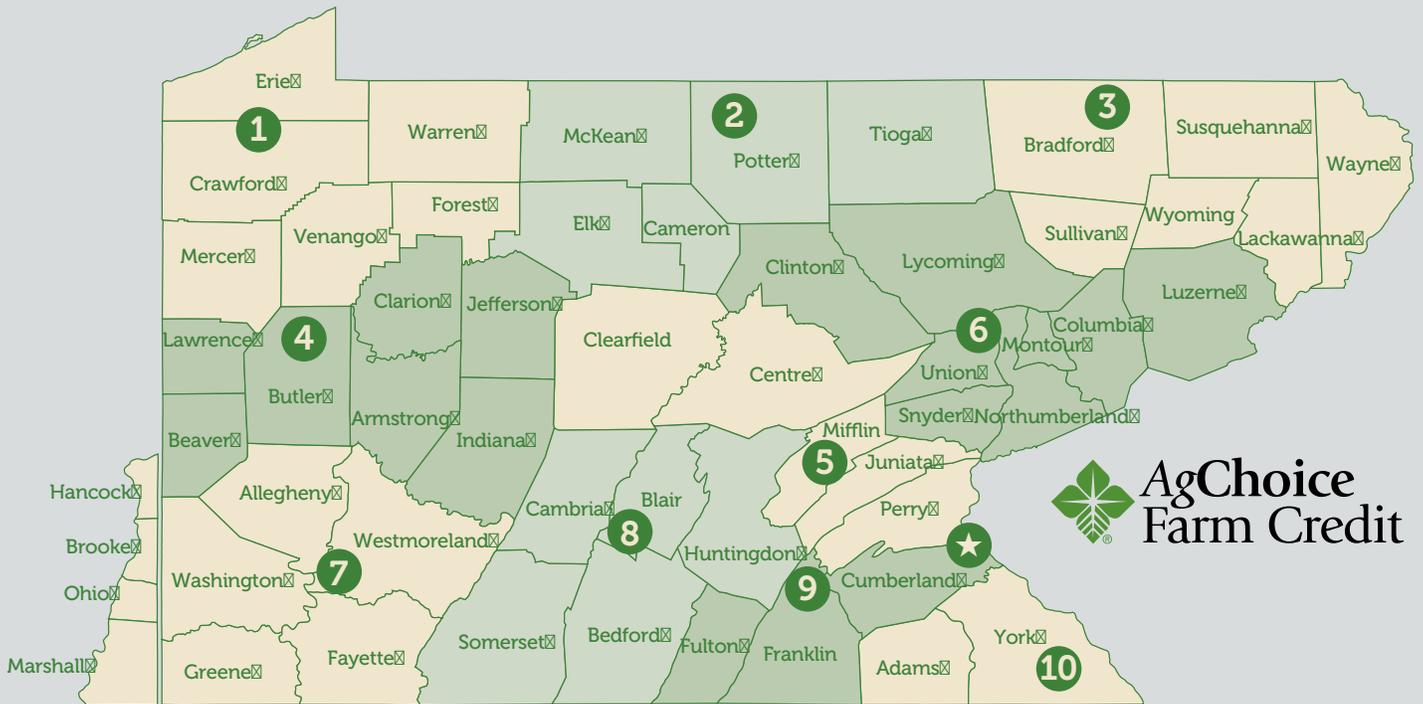
	2019				
	First	Second	Third	Fourth	Total
Net interest income	\$ 13,769	\$ 13,823	\$ 14,146	\$ 14,341	\$ 56,079
Provision for (reversal of allowance for) loan losses	864	(220)	458	33	1,135
Noninterest income (expense), net	(3,016)	(2,360)	(3,063)	6,385	(2,054)
Net income	\$ 9,889	\$ 11,683	\$ 10,625	\$ 20,693	\$ 52,890

	2018				
	First	Second	Third	Fourth	Total
Net interest income	\$ 12,745	\$ 12,875	\$ 13,357	\$ 13,306	\$ 52,283
Provision for (reversal of allowance for) loan losses	(180)	498	502	359	1,179
Noninterest income (expense), net	(2,065)	(3,152)	(3,187)	9,580	1,176
Net income	\$ 10,860	\$ 9,225	\$ 9,668	\$ 22,527	\$ 52,280

**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.

# AgChoice Farm Credit, ACA Branch Office Listing



## ★ AgChoice Headquarters

300 Winding Creek Boulevard  
Mechanicsburg, PA 17050

Phone: (800) 349-3568  
Fax: (717) 796-9830

## 1 Meadville Office

11555 State Highway 98  
Meadville, PA 16335

Phone: (814) 336-3149  
(800) 927-3149  
Fax: (814) 333-8890

Territory: Crawford, Erie, Forest,  
Mercer, Venango and Warren  
counties

## 2 Coudersport Office

1 Buffalo Street, Suite 3  
Coudersport, PA 16915

Phone: (814) 274-9425  
(800) 327-6878  
Fax: (814) 274-0438

Territory: Cameron, Elk,  
McKean, Potter and Tioga  
counties

## 3 Endless Mountains Office

24668 Route 6  
Towanda, PA 18848

Phone: (570) 265-8161  
(800) 277-6234  
Fax: (570) 265-4572

Territory: Bradford, Lackawanna,  
Sullivan, Susquehanna, Wayne  
and Wyoming counties

## 4 Butler Office

610 Evans City Road  
Butler, PA 16001

Phone: (724) 482-2173  
(800) 829-0056  
Fax: (724) 482-4201

Territory: Armstrong, Beaver,  
Butler, Clarion, Jefferson,  
Indiana and Lawrence counties

## 5 Seven Mountains Office

45 Sheetz Drive  
Reedsville, PA 17084

Phone: (717) 248-7331  
(800) 278-3469  
Fax: (717) 248-2625

Territory: Centre, Clearfield,  
Juniata, Mifflin and Perry counties

## 6 Susquehanna Valley Office

450 International Drive  
Lewisburg, PA 17837

Phone: (570) 524-2204  
(800) 223-3276  
Fax: (570) 524-2022

Territory: Clinton, Columbia,  
Luzerne, Lycoming, Montour,  
Northumberland, Snyder and  
Union counties

## 7 New Stanton Office

921 S. Center Avenue  
Hunker, PA 15639

Phone: (724) 696-3276  
(800) 487-4135  
Fax: (724) 696-4526

Territory: Allegheny, Fayette,  
Greene, Washington and  
Westmoreland counties in  
Pennsylvania and Brooke,  
Hancock, Marshall and Ohio  
counties in West Virginia

## 8 Martinsburg Office

2322 Curryville Road  
Martinsburg, PA 16662

Phone: (814) 793-3783  
(800) 733-3183  
Fax: (814) 793-3040

Territory: Bedford, Blair,  
Cambria, Huntingdon and  
Somerset counties

## 9 Cumberland Valley Office

109 Farm Credit Drive  
Chambersburg, PA 17202

Phone: (717) 263-3315  
(800) 554-9055  
Fax: (717) 263-1568

Territory: Cumberland, Franklin  
and Fulton counties

## 10 York Office

1434 Seven Valleys Road  
York, PA 17408

Phone: (717) 792-2641  
(800) 822-1218  
Fax: (717) 792-1499

Territory: Adams and York  
counties



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