

Farm Credit 2020 Annual Report

FARMER STRONG





FARMER STRONG

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President's Message

FARMER STRONG

After the incredibly challenging past year, no other phrase seemed appropriate for this annual report than Farmer Strong. I read over my message from last year's report and realized I posed the question "What will this decade bring?" At that time, a global pandemic was definitely not on the list of possibilities. Today, it dominates most conversations we have and influences every decision that we make.

We know the agriculture community is no stranger to adversity, but a pandemic? March of 2020 brought new challenges for all of us, forcing us to shift gears (or "pivot," as they say) and approach everyday life in ways we never thought possible. Masks became a required piece of our everyday attire, students were sent home with laptops and virtual homework, and offices everywhere went remote.

Our industry was tested in new ways. You were tested in new ways. We were with you as you flipped your business model upside down, adapted to the supply chain that came to a screeching halt then slowly started moving again, and found strength in your communities. We found our strength in you.

You've heard us say time and again that our mission is to be here for you "in good times and bad." Well, throughout my entire career in ag there hasn't been a more difficult time than this past year. Like you, we had to make many decisions very quickly, with the information we had at the time, knowing the next day might be different.

Through it all, our mission remained our guiding principal. Everything we did over the past year — note modifications, payment deferrals, the Paycheck Protection Program, distributing over \$50 million in patronage — was to support you during this extraordinary time. More about these efforts can be found on page 8.

As excited as we may have been to turn the page on 2020, many of the same challenges (and some new ones) followed us into the new year. We learned many lessons last year, all of which have made us stronger and more resilient, and will help us navigate whatever it is 2021 throws our way. Our team is standing by to help you, and if there's anything we are not doing that you feel would benefit our membership at this time, I invite you to email me directly at ceo@mafrc.com with your ideas or feedback.

This past year taught me that strength comes in many forms, but there is nothing comparable to the strength of the American farmer.

On behalf of all of us at MidAtlantic Farm Credit, thank you for trusting us.

Stay safe,

Tom Truitt
CEO, MidAtlantic Farm Credit



Thomas H. Truitt, Jr.
Chief Executive Officer



FINANCIAL HIGHLIGHTS

Net Income | **\$78.7**
MILLION



Operating Expenses
as a Percentage of Net Interest
and Non-Interest Income | **34%**



Net Loans | **\$2,869.5**
MILLION



Members' Equity | **\$665.3**
MILLION



Member Cash
Distributions | **\$50.8**
MILLION



Acceptable
Credit Quality | **95.6%**



Consolidated **FIVE-YEAR SUMMARY** of SELECTED FINANCIAL DATA

<i>(dollars in thousands)</i>	December 31,				
	2020	2019	2018	2017	2016
Balance Sheet Data					
Cash	\$ 228	\$ 3,508	\$ 4,376	\$ 4,690	\$ 3,894
Loans	2,905,638	2,844,993	2,803,479	2,717,226	2,607,353
Allowance for loan losses	(36,131)	(32,197)	(30,090)	(25,949)	(24,377)
Net loans	2,869,507	2,812,796	2,773,389	2,691,277	2,582,976
Equity investments in other Farm Credit institutions	30,257	32,825	32,074	31,277	29,172
Other property owned	1,661	1,415	622	240	729
Other assets	80,465	66,855	71,419	70,010	59,954
Total assets	\$ 2,982,118	\$2,917,399	\$2,881,880	\$2,797,494	\$2,676,725
Notes payable to AgFirst Farm Credit Bank*	\$ 2,229,163	\$2,192,656	\$2,181,496	\$2,121,161	\$2,040,901
Accrued interest payable and other liabilities with maturities of less than one year	87,631	63,198	65,434	68,972	67,294
Total liabilities	2,316,794	2,255,854	2,246,930	2,190,133	2,108,195
Capital stock and participation certificates	11,400	10,974	10,744	10,550	10,264
Retained earnings					
Allocated	405,105	409,174	388,255	365,603	332,358
Unallocated	249,314	241,769	236,149	231,530	226,148
Accumulated other comprehensive income (loss)	(495)	(372)	(198)	(322)	(240)
Total members' equity	665,324	661,545	634,950	607,361	568,530
Total liabilities and members' equity	\$ 2,982,118	\$2,917,399	\$2,881,880	\$2,797,494	\$2,676,725
Statement of Income Data					
Net interest income	\$ 76,069	\$ 73,577	\$ 71,266	\$ 69,479	\$ 66,920
Provision for loan losses	5,000	4,000	4,000	2,000	750
Noninterest income (expense), net	7,663	(5,805)	624	9,088	(8,824)
Net income	\$ 78,732	\$ 63,772	\$ 67,890	\$ 76,567	\$ 57,346

* General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 2021.

<i>(dollars in thousands)</i>	December 31,				
	2020	2019	2018	2017	2016
Key Financial Ratios					
Rate of return on average:					
Total assets	2.70%	2.22%	2.43%	2.82%	2.23%
Total members' equity	11.67%	9.74%	10.84%	13.02%	10.26%
Net interest income as a percentage of average earning assets	2.64%	2.61%	2.59%	2.60%	2.65%
Net (chargeoffs) recoveries to average loans	(0.04)%	(0.07)%	0.01%	(0.02)%	(0.05)%
Total members' equity to total assets	22.31%	22.68%	22.03%	21.71%	21.24%
Debt to members' equity (:1)	3.48	3.41	3.54	3.61	3.71
Allowance for loan losses to loans	1.24%	1.13%	1.07%	0.95%	0.93%
Permanent capital ratio	20.69%	20.91%	20.26%	19.67%	20.05%
Total surplus ratio	**	**	**	**	19.71%
Core surplus ratio	**	**	**	**	18.91%
Common equity tier 1 capital ratio	20.31%	19.69%	18.84%	18.55%	**
Tier 1 capital ratio	20.31%	19.69%	18.84%	18.55%	**
Total regulatory capital ratio	21.66%	21.81%	21.09%	20.44%	**
Tier 1 leverage ratio	21.68%	20.78%	19.88%	19.64%	**
Unallocated retained earnings (URE) and URE equivalents leverage ratio	21.67%	20.75%	19.39%	17.89%	**
Net Income Distribution					
Estimated patronage refunds:					
Cash	\$ 51,500	\$ 17,000	\$ 20,000	\$ 18,517	\$ 12,595
Nonqualified retained earnings	17,695	41,251	43,589	52,282	39,885

** Not applicable due to changes in regulatory capital requirements effective January 1, 2017.

STRENGTH | in our Membership

There is no doubt 2020 was a trying year for everyone. Through it all, our mission remained our focus as we strived to provide the support our members needed during those difficult times. We worked with each customer on a case-by-case basis to find the best solution for the situation they were facing. We offered many supportive tools to help navigate the effects of the pandemic last year, four of these tools being:

Loan Modifications – With the falling interest rates last spring, we were in the unique position to be able to **reduce the rates for hundreds of our members**. This allowed us to provide cash flow relief during the COVID crisis and on into the future.

Deferrals – For those of our members who had their income stream eliminated or drastically reduced, we offered the opportunity to defer their monthly payments for up to six months. This tool provided flexibility to borrowers who were not sure how they were going to continue making their payments. Deferrals impacted **over 600 loans** totaling more than **\$141 million** throughout 2020.

Patronage – The financial benefit of being a Farm Credit member was never more on display than in 2020. When our Board recognized the financial hardships that were being brought on in the industry, they acted quickly to send back additional cash patronage to our members. Throughout the year, **\$50.8 million was distributed to our membership** and hopefully provided some much needed liquidity.

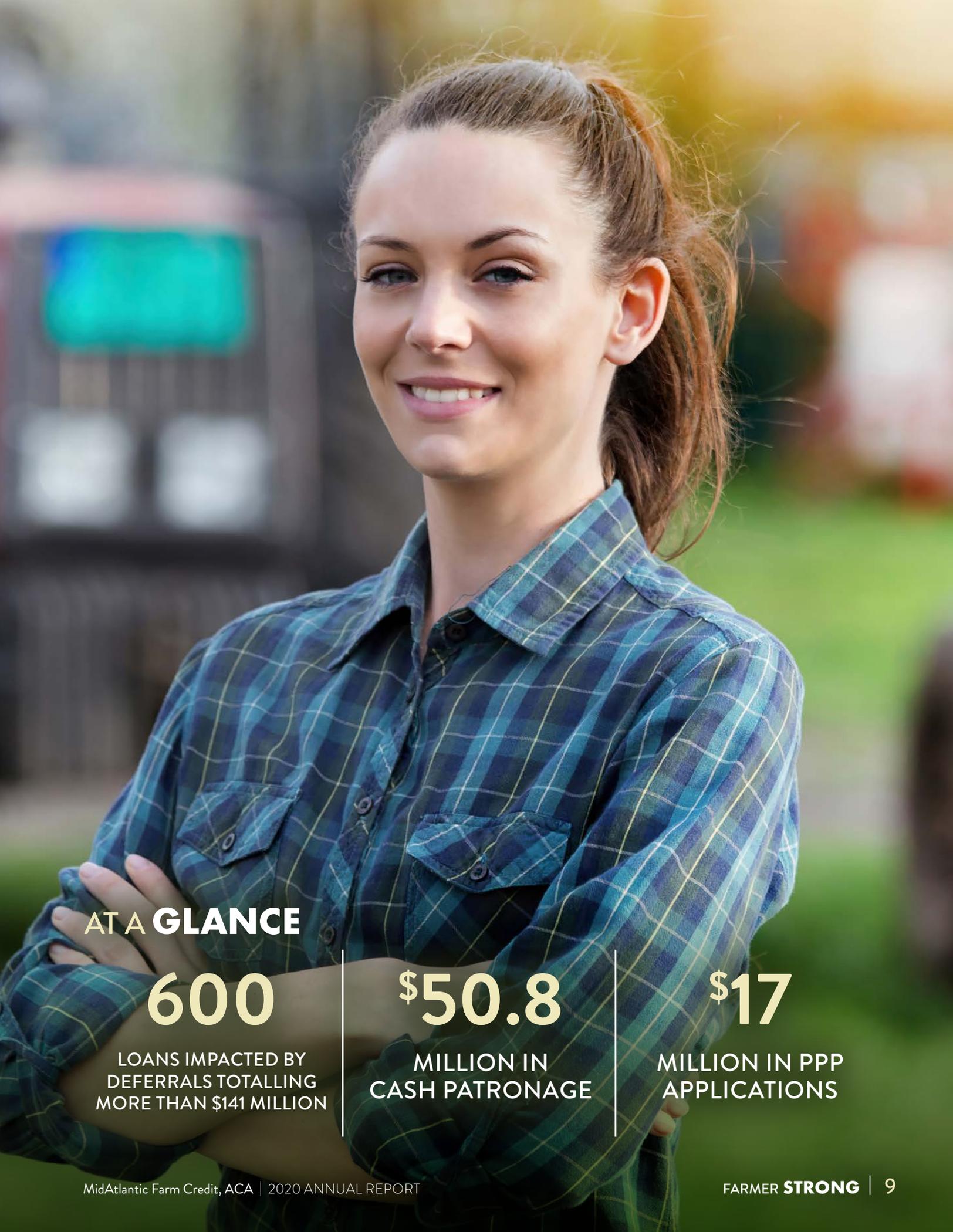
PPP Loans – Our Association began accepting Payment Protection Plan (PPP) applications from our members on April 21, 2020 in anticipation

of a second wave of PPP funds, which became available through the SBA on April 27. From receipt of completed application to notification of approval, the average turnaround at MidAtlantic Farm Credit was less than 24 hours. By the end of the application period for PPP loans on August 8, Farm Credit processed **337 applications, totaling \$17,055,098** to help our members continue paying their workers throughout the economic crisis during the pandemic.

In addition to these major financing tools we implemented for our members, we also enhanced our communication during the pandemic. A landing page was created at **mafc.com/update** with timely information on programs, resources, and updates on our branches and how the association was currently operating. We made our Member Assistance Program for customers more accessible, providing a free, anonymous service for counseling, legal and financial services, identity theft recovery, and more at **mafc.com/map**.

We increased the amount of email communication with our members and implemented digital tools, such as DocuSign®, to limit the amount of in-person contacts when servicing loans. Safety was and continues to be our priority when it comes to serving our membership.

We are proud of all of our members who remained Farmer Strong throughout 2020. As we continue to face the impacts of COVID-19, MidAtlantic Farm Credit is prepared to work with our borrowers and discuss what options may be available to handle what the future brings.



AT A **GLANCE**

600

LOANS IMPACTED BY
DEFERRALS TOTTALLING
MORE THAN \$141 MILLION

\$50.8

MILLION IN
CASH PATRONAGE

\$17

MILLION IN PPP
APPLICATIONS

STRENGTH | in our Community

Community service and local support was more important than ever in 2020. As a cooperative, MidAtlantic Farm Credit strives to give back to the diverse organizations and people within our five state territory. Our staff is proud to support those within our communities, and are always looking for new and different ways to accomplish this.

Every year, each MidAtlantic Farm Credit employee receives eight paid hours of community service time. In 2020, our employees volunteered their time and resources at more than **300 activities, totaling 2,215 hours** — well surpassing the given eight hours. In addition to volunteer hours, MidAtlantic Farm Credit employees donated **over \$6,700** to various local charities and organizations throughout 2020, making a large impact on our neighbors and their families.

As an association, MidAtlantic Farm Credit donated a total of \$95,000 to local food banks in our five state territory:

\$25,000 to the Maryland Food Bank	\$12,500 to Helping Harvest in Pennsylvania
\$25,000 to the Food Bank of Delaware	\$10,000 to the Mountaineer Food Bank in West Virginia
\$12,500 to Blessings of Hope in Pennsylvania	\$10,000 to the Federation of Virginia Food Banks

Some of the organizations our staff volunteered with and donated to include:

4H Therapeutic Riding of Carroll County	Fellowship of Christian Athletes	Maryland Orchid Society
Alpha Kappa Alpha Sorority, Inc.	Mid-Atlantic Women	Maryland Chamber of Commerce
American Lineback Cattle Registry	Food Bank of Southeastern VA	Maryland League of Women Voters
American Marketing Association	Frederick County Farm Bureau	Meals on Wheels
American Red Cross	Georgetown Middle School Robotics Club	MidAtlantic Fellowship of Christian Athletes
Be My Eyes	Grace Lutheran Church	Moutaire Farms-Thanksgiving for Thousands
Beaver Community Fair	HALO (Hope And Life Outreach)	Next Gen Senior Center Inc.
Broadview Equine Assisted Activity and Therapy	Harford County United Way	Penn State University
Brunswick Area Community Show	Hedgesville Middle School	PennAg Industries
Brunswick FFA Alumni	Historic Rugby, Inc.	Salvation Army (Baltimore)
Caroline County Farm Bureau	Hope Family Trust	Service Coordination Inc.
Carroll County Agriculture Center, Inc.	Houston Cardinals 4-H Club	Shenandoah County 4-H
Carroll County Commission on Aging and Disabilities	Just-in-Power	Shenandoah Valley Runners
Carroll County Food Sunday	Kent County 4-H	Sisters Circle
Cecil County Farm Museum and Rural Heritage Center	Kent County Chapter of Ducks Unlimited	Smyrna FFA Alumni
Choptank Ruritan Club	Keystone Development Center	Special Olympics
Clarke County 4-H	Lancaster County 4-H Livestock Judging Team	TTTF (Teach Them to Fish)
Clover Knights 4-H	Lancaster County Ag Council	University of Baltimore
Community Foundation of Carroll County	Leadership Frederick County	Walter H and Elizabeth R Davis Library
Delaware Agricultural Museum	Maryland Ag Council	Westminster Fire Engine
Delaware FFA Foundation, Inc.	Maryland Farm Bureau	Westminster Municipal Band
Delmarva Chicken Association	Maryland FFA Association	Women's Council of Realtors Frederick Chapter
	Maryland Food Bank	
	Maryland LEAD Alumni	



AT A GLANCE

2,215

VOLUNTEER HOURS
BY EMPLOYEES

\$6,700

DONATED BY
EMPLOYEES

\$95,000

DONATED TO LOCAL
FOOD BANKS



STRENGTH | in the Next Generation

2020 SCHOLARSHIPS

Each of the students below were awarded a **\$10,000** scholarship to help them pursue a career in agriculture:

Ashley Abuelhawa, Mt. Airy, MD
Todd Allen, Jefferson, MD
Shoshana Brody, Baltimore, MD
Nathan Brubaker, Mount Joy, PA
Marie Bryant, Manheim, PA
Maci Carter, Harrington, DE
James Dietrich, Hegins, PA
Stephon Fitzpatrick, Princess Anne, MD
Emma Hockman, Maurertown, VA
Amy Middleton, Philadelphia, PA
Lesa Ramsburg, Finksburg, MD
Courtney Schrader, Earleville, MD
Arilyn Tegtmeier-Oatman, Holtwood, PA
Lynne Thomas, Fallston, MD
Abigail West, Frankford, DE

Each of the agriculture educators below were awarded a **\$2,500** scholarship to help them achieve their advanced degree or earn continuing education credits:

Olivia Aten, Milford Central Academy
Brittany Bowman, South Carroll High School
Terra Eby, Sussex Central High School
Erika Edwards, North Harford High School
Thomas Mazzone, Clear Spring High School
Darla Romberger, Cumberland Valley High School
Sarah Ruggiero, Laurel Middle School
Caitlin Walton, Milford Senior High School
Ashley Yanego, Signal Knob Middle School

For more information about the Farm Credit Foundation for Agricultural Advancement and its scholarship program, please visit **[FCFoundationForAg.org](https://www.fccfoundationforag.org)**.



2020 COMMUNITY EDUCATION PROGRAM

The Farm Credit Foundation for Agricultural Advancement launched their Community Education Program in 2020 to support organizations located within MidAtlantic Farm Credit's territory that provide agricultural education opportunities. Eligible organizations can apply to receive up to \$10,000 in funding, depending on the size and scale of the organization and project.

The following organizations received funding in Phase 1:

- 4-H Therapeutic Riding of Carroll County (\$1,955)
- Center for Dairy Excellence Foundation of PA – Calving Corner (\$10,000)
- Dairy Excellence Foundation (\$10,000)
- Flint Hill Farm (\$7,780)
- Lancaster County Ag Council (\$5,000)
- PA Friends of Ag Foundation (\$10,000)
- VA Foundation for Ag in the Classroom (\$7,500)

The following organizations received funding in Phase 2:

- Delaware Farm Bureau Foundation Ag Education Mobile Lab (\$10,000)
- Center for Dairy Excellence Foundation (\$10,000)
- Kutztown Area High School (\$1,250)
- Maryland Agricultural Education Foundation (\$10,000)
- Virginia 4-H Horse Program (\$3,000)

To learn more about the Community Education Program and the scholarship program, please visit [FCCFoundationForAg.org](https://www.fccfoundationforag.org).



REPORT of **MANAGEMENT**

The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by management of MidAtlantic Farm Credit, ACA in accordance with accounting principles generally accepted in the United States of America. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the consolidated financial statements and financial information contained in this report.

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

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

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

Brian L. Boyd
Chairman of the Board

Thomas H. Truitt, Jr.
Chief Executive Officer

Brian E. Rosati
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.

Thomas H. Truitt, Jr.
Chief Executive Officer

Brian E. Rosati
Chief Financial Officer

March 11, 2021



MANAGEMENT'S DISCUSSION and ANALYSIS

of Financial Condition and Results of Operations

(dollars in thousands, except as noted)

GENERAL OVERVIEW

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

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

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

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association may 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 on the AgFirst website, www.agfirst.com, or may be obtained at no charge by calling 1-800-845-1745, extension 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, www.mafc.com, by calling 1-888-339-3334, or by writing Brian E. Rosati, Chief Financial Officer, MidAtlantic

Farm Credit, ACA, 45 Aileron Court, Westminster, MD, 21157-3022. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Report to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

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

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

IMPACTS OF THE COVID-19 GLOBAL PANDEMIC

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



operations. The actions to contain the pandemic vary by country and by state in the United States.

The extent to which the COVID-19 pandemic impacts the Association's results of operations and financial condition depends on future developments that are highly uncertain and cannot be predicted. The scope, duration and full effects of COVID-19 (including the possibility of further surges or variants of COVID-19), the timing and efficacy of the vaccinations, and the actions to contain the impact of COVID-19 are rapidly evolving and still not fully known, 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.

AGRICULTURAL OUTLOOK

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

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

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

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

products as part of the Coronavirus Food Assistance Program (CFAP).

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

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

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

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

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

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

The USDA is forecasting farm sector solvency ratios to increase slightly in 2020 to 16.1 percent for the debt-to-equity

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

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

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

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES

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

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

Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and

their underlying security that, by nature, contains elements of uncertainty and imprecision. Changes in the agricultural economy and their borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary widely from the Association's expectations and predictions of those circumstances.

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

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, other property owned, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing, and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Association's results of operations.

ECONOMIC CONDITIONS

The Mid-Atlantic region, similar to the national and global economies, was greatly impacted by the COVID-19 global pandemic. The year had a strong beginning for the area, but the pandemic led to economic shut downs and an historic increase in unemployment. Although the economy towards the end of the year began to slowly reopen, and jobs that were lost started to recover, the unemployment rate at the end of the year was still around all-time highs. During the past year, Virginia ranked nationally 17th at 4.9 percent, Delaware ranked nationally 19th at 5.3 percent, Maryland and West Virginia ranked nationally 30th at 6.3 percent, and Pennsylvania ranked nationally 34th at 6.7 percent in the 2020 U.S. Unemployment Rate.

The COVID-19 pandemic hit urban areas harder than rural areas, where most of our stockholders live and have their operations. This was due to less dense populations and the greater ability to social distance, as well as rural areas tend to be more likely to be able to adapt to the remote working environment. Even with the high unemployment rates, the unemployment rates in our states of operation are in line with or below the national average.

The economic recovery both locally and nationally will be largely impacted by the decisions of local government to open up economies as well as the timing of vaccinations. The federal COVID-19 stimulus package offered financial support to households and businesses through stimulus checks and additional federal unemployment subsidies assisted local households, and provided the possibility of additional consumer spending as restrictions are eased. The strength of consumer spending should be beneficial for farmers in the region as consumers have the ability to spend more on locally sourced foods, organics, wine, and other local agricultural products.

However, many factors shape the performance of the agricultural sector, and consumer spending is just one of them. The Mid-Atlantic agricultural sector in 2021 will most likely be impacted by the pace of economic recovery from the COVID-19 pandemic, and commodity prices, which have started to strengthen towards the end of the year.

There are many components which have likely contributed to recovery of commodity prices including changes in yields, increased demands, increased exports and decreasing tariffs as trade deals have been agreed to with Mexico, Canada, Japan and "Phase One" with China, a recently weakening U.S. dollar and reduced supply from foreign large agricultural producers.

Looking ahead to 2021, the global economy is still in flux with the impact from the COVID-19 pandemic still evolving, which could impact commodity prices and overall GDP. Although the economy started to recover towards the end of 2020, with the possibility of an additional surge, the economy is expected to be sluggish at the beginning with the potential of higher growth towards the end of the year as vaccinations are distributed.

The impact of the 2020 elections and the change in administration in Washington add a level of uncertainty, but the potential of additional economic stimulus with continued historically low interest rates could continue to be a positive contributor to economic growth in our region.

Overall, 2021 is expected to have slow but continued recovery, with vaccines being distributed in the early part of the year, a potential robust recovery is possible for the remaining balance of the year. Generally, commodity prices are expected to remain at current levels, interest rates are expected to remain at their current lows, and consumer spending is expected to increase as the economy continues to open. Final policy decisions in Washington on various issues remain somewhat of an unknown regarding the ultimate impact on 2021 performance.

Despite the overall economic challenge, aided by federal stimulus programs, 2020 was a solid year for farmers in our region, but the pandemic impact leaves economic uncertainty heading into 2021.

Acceptable credit quality was expected to be negatively impacted by the pandemic, but the federal assistance and stronger than expected crop prices led to a slight increase in credit quality compared to the prior year. Crop yields varied considerably by geography and commodity, but were roughly in line with historical results. Poultry farmers saw demand for new poultry barn housing continue to decline throughout the year.

A significant number of our borrowers or family members involved in the farming operation are actively employed in off-farm professions that were not hit as hard by the COVID-19 pandemic. The federal stimulus assistance as well as the Association's geographic proximity to several major metropolitan areas reduced the impact of unemployment in the region compared to the rest of the nation.

Generally, available credit to farmers and related businesses has been quite adequate with some commercial banks reentering or continuing to expand their market presence in the agricultural sector after having abruptly curtailed or exited the industry following the 2008 financial collapse. The number of active borrowers has increased 3.2 percent from 11,814 at the end of 2019 to 12,195 at the end of 2020. A knowledgeable lending staff enhanced with newly hired employees, combined with the inherent value of patronage paid under the cooperative structure, have positioned the Association to compete effectively to serve the financing needs for agriculture in the Association's territory, while retaining current members and their business relationships.

For the year ended December 31, 2020, despite the negative impact of the COVID-19 pandemic on the economy, credit quality of the loan portfolio remained strong as Acceptable Loans including Other Assets Especially Mentioned (OAEM) comprised over 95 percent of the portfolio. During 2020, nonperforming assets as a percentage of total loans increased over one percent, and increased over three percent as a percentage of capital. The Loan Loss Provision for 2020, 2019, and 2018 of \$5,000, \$4,000, and \$4,000, although increasing, still reflect the strength of the quality of the portfolio. The provision recorded during 2020 was mainly related to the anticipated impact of COVID-19 on the portfolio, an increase in loan volume and some deterioration on accounts within the portfolio that effected all three of our largest commodity groups, with poultry being the most impacted. Stable fuel costs have continued to favorably impact most sectors of the portfolio. Higher grain prices have been favorable to this sector, the crop yields for the 2020 growing season are expected to be average or better to help mitigate any COVID-19 adverse impact on demand. Conversely, higher grain prices are generally unfavorable for the protein sector. Industries tied to housing such as forestry, sawmills, sod, and landscape nurseries have benefited from the low interest rates and demand for more suburban homes. Over time, the higher inputs are expected to ultimately either be passed on to the consumer or production will be cut to ensure that the supply produced will clear the market at prices that will generate an acceptable profit.

Some of the sectors of the Association's portfolio which have some reliance on off-farm income have had some challenges due to the pandemic, but for the most part are not part of the economy most heavily impacted by the shutdowns. In addition, some of the borrowers classified as loan type "rural residential real estate," which are principally rural home loans, could be negatively impacted by the economy, which has put some pressure on this segment of the portfolio. While the credit quality of the Association loan portfolio is strong, there certainly remains the potential risk of future deterioration based on the factors mentioned, most notably the impact of the COVID-19 pandemic, as well as what impact the new Administration in Washington might have on the areas within the Association's footprint. As mentioned above, lower demand for poultry housing and longer turnaround times for

flock placements by integrators have effected loan quality for that industry. In addition, the Association's poultry farmers are also potentially susceptible to the effects of avian influenza on their flocks which could cause some financial stress to these operators and, accordingly, to their loans with the Association. Significant preparatory measures have been taken; to date, no reports of the virus have been reported in the Association's territory. The impact of COVID-19 on the dairy sector had a slight decrease in pricing, but overall pricing has started to stabilize towards the end of 2020 after experiencing lower prices for a number of years, but delays in the timing of the opening of the economy could cause additional challenges for demand. As a result the Association could realize some deterioration in this portion of the portfolio.

During 2020, the Association continued to target certain areas of our business with the goal of increasing market share. As in prior years, in 2020 the Association continued expansion of its farm equipment financing program, Farm Credit **EXPRESS** (FCE), which provides an efficient electronic loan application process for farm equipment financing. The success of this program has been further realized with members who joined the Association with an equipment loan expanding their borrowing needs with a mortgage or operating loan. At the end of 2020, the Association was providing this service on a per transaction fee basis for twenty associations, both within and outside of the AgFirst District. During 2020, over five thousand six hundred notes were closed by our FCE team for approximately \$205 million, including over \$40 million of loans booked to the Association. During 2020, there were over three thousand three hundred new members to the Farm Credit System as a result of the FCE program. Continued efforts are being made to expand services, increase public knowledge of our services and streamline our current delivery of products to enhance our existing portfolio. FCE also has an equipment leasing program which provides an additional option to borrowers. The leasing program included over \$4 million of additional volume booked to the Association in 2020.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate term loans and long-term real estate mortgage loans through numerous product types. The diversification of 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	\$ 1,866,567	64.24%	\$ 1,771,690	62.28%	\$ 1,740,841	62.10%
Production and intermediate term	737,853	25.39	796,599	28.00	805,435	28.73
Processing and marketing	88,494	3.05	78,001	2.74	66,795	2.38
Communication	58,449	2.01	62,134	2.18	52,853	1.89
Rural residential real estate	50,612	1.74	41,931	1.47	44,339	1.58
Farm-related business	48,852	1.68	49,109	1.73	69,057	2.46
Loans to cooperatives	27,209	0.94	17,437	0.61	20,502	0.73
International	24,956	0.86	24,944	0.88	—	—
Power and water/waste disposal	2,646	0.09	3,148	0.11	3,657	0.13
Total	\$ 2,905,638	100.00%	\$ 2,844,993	100.00%	\$ 2,803,479	100.00%

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

Corporate includes the Association's participation loans purchased, employee loans, as well as all nonaccruing loans.

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

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

Region	December 31,		
	2020	2019	2018
DMV (DelMarVa)	36 %	37%	39%
Potomac	27	27	28
Keystone	23	22	22
Corporate	14	14	11
Total	100 %	100%	100%

The major commodities in the Association loan portfolio are shown below. The predominant commodities are cash grain/crops, poultry, dairy, and landlords/lessors of real estate, which together constitute 62 percent of the entire portfolio.

Commodity Group	December 31,					
	2020		2019		2018	
	<i>(dollars in thousands)</i>					
Cash Grain/Crops	\$ 682,482	23%	\$ 664,263	23%	\$ 656,631	23%
Poultry	602,940	21	605,756	21	613,909	22
Dairy	249,696	9	245,375	9	251,557	9
Landlords/Lessors of Real Estate	249,302	9	241,447	8	246,266	9
Livestock/Animal Specialties	215,266	7	217,150	8	200,090	7
Fruits & Vegetables	190,625	7	197,981	7	189,347	7
Equine	195,778	7	188,333	7	183,839	7
Timber/Forestry	93,781	3	85,582	3	76,834	3
Nurseries/Greenhouses	83,362	3	84,825	3	83,922	3
Other	342,406	11	314,281	11	301,084	10
Total	\$ 2,905,638	100%	\$ 2,844,993	100%	\$ 2,803,479	100%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio is well diversified from both a commodity and number of producers perspective. Further, many of the Association's members are diversified within their enterprise which also reduces overall risk exposure. Demand for poultry, milk and prices of field grains are some of the factors affecting the price of these commodities. While the Association has continued to experience demand for large loans over the past several years, the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

The average daily balance in gross loan volume for twelve months ended December 31, 2020, continues to be well diversified with no significant industry or producer concentration.

During 2020, the Association continued its activity in the buying and selling of loan participations within the Farm Credit System (FCS) as well as external to the FCS. This program provides an important vehicle to the Association by enabling it to further spread credit risk and enhance portfolio diversification while also affording an opportunity of strengthening its capital position through the generation of interest and fee income.

Loan Participations purchased and sold are summarized as follows:

Loan Participations	December 31,		
	2020	2019	2018
	<i>(dollars in thousands)</i>		
Participations Purchased	\$ 276,342	\$ 249,848	\$ 218,331
Participations Sold	(93,543)	(75,988)	(67,926)
Total	\$ 182,799	\$ 173,860	\$ 150,405

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 sells qualified long-term mortgage loans into the secondary market. For the periods ended December 31, 2020, 2019, and 2018, the Association originated loans for resale totaling \$67,913, \$55,951, and \$47,925, respectively, which were sold into the secondary market.

The Association also participates in the Farmer Mac Long Term Stand-By program. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2020, 2019, and 2018, the Association had loans amounting to \$357, \$473, and \$627, respectively, which 100 percent were guaranteed by Farmer Mac.

The Association additionally has loans wherein a certain portion of the loans are guaranteed by various governmental entities for the purpose of reducing risk. At December 31, 2020, 2019, and 2018, the balance of these loans was \$82,366, \$84,076, and \$83,858, respectively.

COVID-19 SUPPORT PROGRAMS

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

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

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

food banks and other non-profits. As of January 31, 2021, the USDA provided \$10.5 billion of direct relief to producers under CFAP.

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

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

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

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

On August 8, 2020, the PPP was closed and the SBA ceased to accept applications from participating lenders. The Association was approved as a PPP lender and made \$17.1 million in loans and recorded approximately \$730 thousand in loan-related fee income. At December 31, 2020, approximately \$15.7 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.

MISSION RELATED INVESTMENTS

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

In October 2005, the FCA authorized AgFirst and the Associations to make investments in Rural America Bonds under a three-year pilot period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program was to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. These bonds may be classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. For all periods referenced in the financial statements, the Association had no loans, investments or commitments to invest in Rural America Bonds.

In partnership with other System entities and community banks, we provide funding to rural community facilities. We also make investments in certain Rural Business Investment Companies (RBICs). Our investments in RBICs focus on small and middle market companies that create jobs and prosperity in rural America. During 2019, the Association signed two commitments for total investments up to \$500 and funded \$113 during the year ended December 31, 2020. No amounts were funded as of December 2019. As of December 2018, the Association had no loans, investments or commitments to invest in RBIC's.

CREDIT RISK MANAGEMENT

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

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

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loans of more than \$250. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

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

- Acceptable – Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (OAEM) – Assets are currently collectible but exhibit some potential weakness.
- Substandard – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – Assets exhibit similar weaknesses to substandard assets. However, doubtful assets have additional weaknesses in existing facts, conditions, and values that make collection in full highly questionable.
- Loss – Assets are considered uncollectible.

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

Credit Quality	2020	2019	2018
Acceptable & OAEM	95.62%	96.12%	96.90%
Substandard	4.38	3.88	3.10
Doubtful	—	—	—
Loss	—	—	—
Total	100.00%	100.00%	100.00%

Nonperforming Assets

The Association's loan portfolio is divided into performing and high-risk categories. A Special Assets Management Department is responsible for servicing the majority of 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	\$ 43,524	\$ 46,344	\$ 43,540
Restructured loans	36,812	31,184	22,109
Accruing loans 90 days past due	—	70	—
Total high-risk loans	80,336	77,598	65,649
Other property owned	1,661	1,415	622
Total high-risk assets	\$ 81,997	\$ 79,013	\$ 66,271
Ratios			
Nonaccrual loans to total loans	1.50%	1.63%	1.55%
High-risk assets to total assets	2.75%	2.71%	2.30%

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 \$2,820 or 6.08 percent in 2020, after having increased \$2,804 or 6.44 percent in 2019, mainly due to some large accounts becoming current in 2020. Of the \$43,524 in nonaccrual volume at December 31, 2020, \$18,079 or 41.54 percent, compared to 45.30 percent and 48.31 percent at December 31, 2019 and 2018, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

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

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio for any of the three years reported.

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	\$ 32,197	\$ 30,090	\$ 25,949
Charge-offs:			
Real estate mortgage	(355)	(1,266)	—
Production and intermediate term	(682)	(628)	(53)
Agribusiness	(94)	(52)	—
Rural residential real estate	—	—	—
Total charge-offs	(1,131)	(1,946)	(53)
Recoveries:			
Real estate mortgage	39	13	86
Production and intermediate term	26	22	102
Agribusiness	—	2	—
Rural residential real estate	—	16	6
Total recoveries	65	53	194
Net (charge-offs) recoveries	(1,066)	(1,893)	141
Provision for (reversal of allowance for) loan losses	5,000	4,000	4,000
Balance at end of year	\$ 36,131	\$ 32,197	\$ 30,090
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.04)%	(0.07)%	0.01%

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>		
Production and intermediate term	\$ 18,333	\$ 17,841	\$ 17,541
Real estate mortgage	15,617	12,754	11,205
Agribusiness	1,719	998	792
Rural residential real estate	323	441	400
Communication	115	139	150
International	22	22	—
Power and water/waste disposal	2	2	2
Total allowance	\$ 36,131	\$ 32,197	\$ 30,090

The increase in allowance for loan losses during 2020 was mainly due to the expected COVID-19 impact on the portfolio, an increase in loan volume and financial stress on some accounts in the Real Estate Mortgage, Field Crops, and Poultry sectors. The net loan charge-offs in 2020 were particularly concentrated in the Poultry sector.

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	1.24%	1.13%	1.07%
Nonaccrual loans	83.01%	69.47%	69.11%

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

RESULTS OF OPERATIONS
Net Interest Income

Net interest income was \$76,069, \$73,577, and \$71,266 in 2020, 2019, and 2018, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual	Total
			Income	
<i>(dollars in thousands)</i>				
12/31/20 - 12/31/19				
Interest income	\$ 4,659	\$(16,400)	\$ 1,892	\$ (9,849)
Interest expense	1,199	(13,266)	(274)	(12,341)
Change in net interest income	<u>\$ 3,460</u>	<u>\$ (3,134)</u>	<u>\$ 2,166</u>	<u>\$ 2,492</u>
12/31/19 - 12/31/18				
Interest income	\$ 2,807	\$ 5,859	\$ (22)	\$ 8,644
Interest expense	1,011	4,929	393	6,333
Change in net interest income	<u>\$ 1,796</u>	<u>\$ 930</u>	<u>\$ (415)</u>	<u>\$ 2,311</u>

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

Noninterest Income

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
<i>(dollars in thousands)</i>					
Loan fees	\$ 1,915	\$ 1,346	\$ 1,101	42.27 %	22.25 %
Fees for financially related services	3,817	3,165	3,240	20.60	(2.31)
Lease income	140	191	–	(26.70)	–
Patronage refund from other Farm Credit Institutions	42,934	29,423	34,076	45.92	(13.65)
Gains (losses) on sales of rural home loans, net	1,393	1,197	972	16.37	23.15
Gains (losses) on sales of premises and equipment, net	219	127	820	72.44	(84.51)
Gains (losses) on other transactions	222	284	(43)	(21.83)	760.47
Insurance fund refund	553	589	2,329	(6.11)	(74.71)
Other noninterest income (expense)	63	50	244	26.00	(79.51)
Total noninterest income	<u>\$ 51,256</u>	<u>\$ 36,372</u>	<u>\$ 42,739</u>	<u>40.92 %</u>	<u>(14.90)%</u>

Noninterest income for each of the three years listed included a Special Patronage declaration from AgFirst, in which the cash was received by the Association the following year of declaration. The Association's share of the Special Patronage was \$25,898, \$12,781, and \$17,624 for the years ended December 31, 2020, 2019, and 2018, respectively.

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, FCSIC made distributions to the Farm Credit System Banks and certain associations, and retired the remaining related Financial Assistance Corporation outstanding shares. The Association's share of this distribution was \$553, \$589, and \$2,329 for the years ended December 31, 2020, 2019, and 2018.

During fiscal year 2020, the Association participated in the Paycheck Protection Program (PPP), which supported approximately \$17 million in members' loan volume, and generated approximately \$730 of related loan fees, which are included in the loan fees above.

Fees for financially related services are related principally to the crop insurance program and the Farm Credit **EXPRESS** program; the Association's income will vary depending upon product usage and commissions earned, and transactions relative to the equipment financing program.

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
	<i>(dollars in thousands)</i>				
Salaries and employee benefits	\$ 23,717	\$ 22,876	\$ 21,992	3.68 %	4.02 %
Post retirement benefits	6,596	6,015	7,241	9.66	(16.93)
Occupancy and equipment	1,994	2,533	2,359	(21.28)	7.38
Insurance Fund premiums	2,089	1,951	1,888	7.07	3.34
(Gains) losses on other property owned, net	404	29	102	(1,293.10)	71.57
Other operating expenses	8,262	8,713	8,338	(5.18)	4.50
Total noninterest expense	\$ 43,062	\$ 42,117	\$ 41,920	2.24 %	0.47 %

Noninterest expense increased \$945 or 2.24 percent for the year ended December 31, 2020, as compared to the same period in 2019, and increased \$197 or 0.47 percent in 2019 compared to 2018.

Salaries and employee benefits increased \$841 or 3.68 percent in 2020 as compared to 2019. This increase is primarily attributable to 2020 salary adjustments and related employee benefit increases. Excluding the impact of the deferral of salaries and employee benefits expenses in accordance with the Accounting Standards Codification 310, salaries and benefits expense increased \$1,390 or 5.30 percent.

Post retirement benefits increased \$581 or 9.66 percent for the year ended December 31, 2020, as compared to the same period in 2019 and decreased \$1,226 or 16.93 percent in 2019 compared to 2018. Refer to Note 9, *Employee Benefit Plans*, of the Notes to the Consolidated Financial Statements, for further information.

The Insurance Fund premium expense increased \$138 or 7.07 percent in 2020 as compared to 2019. The unfavorable change resulted from increased adjusted insured debt outstanding and increased insurance premium in 2020. The insurance premium was .08 percent of loans (8 basis points) for the first half of 2020, and .11 percent of loans (11 basis points) for the second half of 2020 as compared to .09 percent of loans (9 basis points) for 2019 and 2018.

Occupancy and equipment and Other operating expenses decreased a total of \$990 or 8.80 percent from 2019 to 2020, which is due to disruptions caused by the COVID-19 pandemic primarily related to (a) postponed events, building improvements, and restricted business travel, partially offset by, (b) increased hardware and software expenses principally related to the Association's quick response and efforts to establish a remote work environment for staff and customer needs.

The Association's efficiency ratio, which is calculated as Operating Expenses as a percentage of Net interest income plus Total noninterest income continues to be among the lowest in the AgFirst District and significantly below the average efficiency ratio for the District. If the Association's Operating Expenses averaged the District average, then Operating Expenses would be approximately \$4.7 million higher which would result in a decrease of the same amount to Income before income taxes, and, accordingly, would adversely impact the patronage distribution which the Association makes to stockholders.

Income Taxes

The Association recorded a provision for income taxes of \$531 for the year ended December 31, 2020, as compared to a provision of \$60 for 2019 and a provision of \$195 for 2018. Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, and Note 12, *Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	For the Year Ended		
	12/31/20	12/31/19	12/31/18
Return on average assets	2.70 %	2.22 %	2.43 %
Return on average members' equity	11.67 %	9.74 %	10.84 %
Net interest income as a percentage of average earning assets	2.64 %	2.61 %	2.59 %
Net (charge-offs) recoveries to average loans	(0.04)%	(0.07)%	0.01 %

A key factor in maintaining and growing the net income for future years will be an increase in Acceptable loan volume, continued improvement in net interest income and controlling loan losses, while effectively managing noninterest income and noninterest expense. There are many external economic factors that could negatively impact certain sections of the Associations portfolio, and could impact the Association until economic stability is restored.

The return on average assets and return on average members' equity for 2020 compared to 2019 increased primarily as a result of an increase in net income. Higher average shareholders' equity resulted in a decline in the return on average members' equity for 2019 compared to 2018. Higher net interest income resulted in a higher return on average earnings assets in 2020. See *Allowance for Loan Losses, Net Interest Income, Noninterest Income, and Noninterest Expenses* sections for further discussion.

In 2020, the Association recorded a provision for loan losses of \$5,000 and net (charge-offs) recoveries of (\$1,066). In 2019, the Association recorded a provision for loan losses of \$4,000 and net (charge-offs) recoveries of (\$1,893). In 2018, the Association recorded a provision for loan losses of \$4,000 and net (charge-offs) recoveries of \$141, respectively.

The past three years have been favorably impacted by the receipt of Special Patronage distributions from AgFirst Farm Credit Bank which totaled \$25,898, \$12,781, and \$17,624 in 2020, 2019, and 2018, respectively. The \$25,898 was the Association's share of a \$218 million Special Patronage distribution from the Bank. The Association does not forecast continued receipt of these distributions. The fiscal stability of the Association enables it, during these somewhat uncertain times, to continue to emphasize its goals to: consistently meet the needs of our membership by providing quality loan products, generate earnings which are sufficient to fund operations, assure the adequate capitalization of the Association, and achieve an acceptable rate of return for stockholders. To meet these goals, the Association will continue its efforts of attracting and retaining high quality, competitively priced, loan volume while effectively managing credit risk in the entire loan portfolio. The Association uses an Enterprise Risk Management (ERM) process which is expected to further aid the Association in its management of both short and long-term risks. The Association will continue to actively evaluate new or modified products, including recommendations and initiatives offered in conjunction with System projects.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

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

Total notes payable to the Bank at December 31, 2020, was \$2,229,163 as compared to \$2,192,656 at December 31, 2019 and \$2,181,496 at December 31, 2018. The increase of 1.66 percent compared to December 31, 2019 was attributable to (a) the increase in loan volume net of (b) the Association's increase in member's equity attributable to net income. Since the end of 2016, loans have increased \$298,285 or 11.44 percent while Member's Equity has increased \$96,794 or 17.03 percent. The average volume of outstanding notes payable to the Bank was \$2,209,045 and \$2,179,295 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 notes payable to the Bank. The Association's participation in the Farmer Mac agreements, and other secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association.

The Association has a net settlement agreement with CoBank, ACB to settle transactions between the two institutions daily to an aggregate line of credit of \$100 million. The Association had no other lines of credit from third party financial institutions as of December 31, 2020.

Funds Management

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable and rising earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

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

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

Future of LIBOR

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

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

instruments to manage interest rate risk. In addition, there could be other ramifications including those that may arise as a result of the need to redeem or terminate such instruments.

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

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

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

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

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

- reduce LIBOR exposure;
- stop the inflow of new LIBOR volume;
- develop and implement loan products with alternative reference rates;

- assess and, if necessary, revise fallback language on legacy LIBOR indexed loans and contracts;
- adjust operational processes, including accounting and management information systems to handle alternative reference rates; and,
- communicate pending or imminent changes to customers, as appropriate.

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

At this time, it is not known when LIBOR will cease to be available or will become unrepresentative, or if 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 2021	Due in 2022 and Thereafter	Total
Loans	\$ 39,270	\$ 223,588	\$ 262,858
Total Assets	<u>\$ 39,270</u>	<u>\$ 223,588</u>	<u>\$ 262,858</u>
Note Payable to AgFirst Farm Credit Bank	\$ 29,724	\$ 169,236	\$ 198,960
Total Liabilities	<u>\$ 29,724</u>	<u>\$ 169,236</u>	<u>\$ 198,960</u>

The LIBOR transition plan includes implementing fallback language into variable-rate financial instruments maturing after December 31, 2021 which provides the ability to move these instruments to another index if the LIBOR market is no longer viable. At December 31, 2020, 100 percent of loans maturing after December 31, 2021 contain fallback language.

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, *Equity Investments in Other Farm Credit Institutions*, of the Notes to the Consolidated Financial Statements.

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

CAPITAL RESOURCES

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

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2020, nor are any planned for 2021, 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 .57 percent to \$665,324 from the December 31, 2019 total of \$661,545. At December 31, 2019, total members' equity increased 4.19 percent from the December 31, 2018 total of \$634,950. The 2020 increase was primarily attributed to net income, net of various patronage related distributions and the net impact of capital stock/participation certificates issued/retired. See statement "Consolidated Statements of Changes in Members' Equity" in this Annual Report for further details.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. 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 equivalents (UREE) leverage ratio. The permanent capital ratio (PCR) remains in effect.

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

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

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

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

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

The following sets forth the regulatory capital ratios.

Ratio	2020 Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31,			
		2020	2019	2018	2017
Risk-adjusted ratios:					
CET1 Capital Ratio	7.00%	20.31%	19.69%	18.84%	18.55%
Tier 1 Capital Ratio	8.50%	20.31%	19.69%	18.84%	18.55%
Total Capital Ratio	10.50%	21.66%	21.81%	21.09%	20.44%
Permanent Capital Ratio	7.00%	20.69%	20.91%	20.26%	19.67%
Non-risk-adjusted:					
Tier 1 Leverage Ratio	5.00%	21.68%	20.78%	19.88%	19.64%
UREE Leverage Ratio	1.50%	21.67%	20.75%	19.39%	17.89%

	Regulatory Minimum	2016	2015	2014	2013	2012
Permanent Capital Ratio	7.00%	20.05%	20.58%	20.98%	20.21%	18.12%
Total Surplus Ratio	7.00%	19.71%	20.23%	20.61%	19.83%	17.73%
Core Surplus Ratio	3.50%	18.91%	19.86%	20.61%	19.68%	17.57%

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.

For all periods presented, the Association exceeded the minimum regulatory standard for all of the applicable ratios.

The changes in the Association's permanent capital at December 31, 2020 was attributed to net income, net of patronage distribution, an increase in the Association's capital stock and participation certificates outstanding, and an increase in loan volume outstanding.

There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements. See Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) nonpatronage sourced income. 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 \$51,500 in 2020, \$25,250, of which \$8.25 million was an additional 2019 mid-year patronage distribution made with FCA prior approval, in 2019, and \$20,000 in 2018, and distributed cash relative to patronage refunds, dividends paid and retained earnings retired of \$50,811, \$32,462 and \$37,813 to members in 2020, 2019, and 2018, respectively.

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

- 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.

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young, Beginning and Small farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to serve the financing needs of YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers access to a stable source of credit.

The following table outlines the number of borrowers, the number of YBS loans in the portfolio and the loan volume outstanding for the past two years.

	As of December 31, 2020 (dollars in thousands)		
	Number of Borrowers	Number of Loans	Amount of Loans
Young	2,617	3,982	\$ 495,928
Beginning	3,956	5,497	858,206
Small	6,997	9,679	978,701

	As of December 31, 2019 (dollars in thousands)		
	Number of Borrowers	Number of Loans	Amount of Loans
Young	2,585	4,118	\$ 464,574
Beginning	3,771	5,493	782,932
Small	6,737	9,610	910,049

For 2020, the Association's quantitative goals were to book 500 new business relationships, which meet one or more of the established criteria for designation as Young, Beginning, or Small, and to maintain or increase its overall levels of lending to Young, Beginning and Small business relationships as represented by overall percentages of the 2017 USDA Census numbers (the most recent numbers available) in MidAtlantic's territory.

The goal for booking new business relationships (BEs) was achieved as evidenced by the following table:

New BEs	1,521
Young BEs	408 or 26.8% of the total
Beginning BEs	677 or 44.5% of the total
Small BEs	874 or 57.5% of the total

The overall goal of 500 new business relationships or greater being designated either Young, Beginning or Small was

achieved as 1,017 or 66.9 percent qualified as Young, Beginning or Small.

The Association experienced a small increase in the overall number of farmers served within its territory with increases occurring across all three farmer categories (comparisons are against USDA data for each category).

	USDA 2017 Census	% YBS USDA	MAFC territory 12/31/19	MAFC as % USDA 12/31/19	MAFC territory 12/31/20	MAFC as % USDA 12/31/20
Total Farmers	30,740	100.0%	9,834	32.0%	9,986	32.5%
Young	5,283	17.2%	2,444	46.3%	2,467	46.7%
Beginning	9,402	30.6%	3,541	37.7%	3,709	39.4%
Small	25,590	83.2%	6,272	24.5%	6,500	25.4%

There are slight differences between the USDA Census data (Census) and the Association’s YBS information as follows:

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

The working definitions of Young and Beginning include a criteria of borrower age and years farming while Small is defined by the level of agricultural sales. With the passage of time, existing borrowers will move out of these two categories regardless of any operational changes or lending activities.

The Association successfully implemented a new program in 2008, **StartRight** that focuses on the needs of Young, Beginning, and Small farmers. Since implementation, over \$289 million of **StartRight** loans have been booked, with over \$20.6 million outstanding as of year-end 2020 and over \$4 million of new money in 2020.

The **StartRight** program includes several outreach efforts to Young, Beginning, and Small (YBS) farmers. This outreach includes a resource center for YBS farmers, found at www.mafc.com. One part of this program is AgBiz Masters, an online and in-person educational program that has been in place since 2010. AgBiz Masters focuses on everything from macroeconomics to marketing to the importance of creating a business plan, and is offered to both members and prospects fitting this segment. You can read more about **StartRight** on the Association’s website, www.mafc.com.

In addition to our **StartRight** program, MidAtlantic also supports a Trade Credit program, Farm Credit **EXPRESS**. This program, supported through local equipment dealers within our territory, has further enhanced the YBS service of the Association. The Farm Credit **EXPRESS** program has also helped to increase sales by local equipment dealers, which promotes economic growth in the rural communities. The Farm Credit **EXPRESS** program has been expanded whereby the Association processes equipment financing applications for all of the other associations in the AgFirst District which enables those associations to further serve YBS borrowers in those territories.

The Association has the goal of serving YBS through extensive outreach programs that includes activities in marketing, education, training, and financial support. The Association continues previously sponsored outreach/sponsorship activities in which the Association participated for the purpose of promoting and supporting YBS efforts, as well as incorporated new outreach/sponsorships to continue building the Association’s commitment to YBS. The Association’s website, www.mafc.com, contains an entire section of information and resources specifically applicable to YBS visitors to the site.

The **Farm Fresh Financing** program offers financing and credit options to local food organizations and “new generation” farmers, a term refers to producers who distribute their products through local food channels.

The Association continues its participation in specific credit programs and partnerships that we have developed to help small farmers, young farmers and farmers just starting out. It includes programs offered by the Farm Service Agency (FSA), such as guaranteed and direct loans to qualifying borrowers. The Association has earned the distinction of a “preferred lender,” the highest status designated by FSA.

In addition to FSA guaranteed loans, the Association is also a Guaranteed Participating Lender for the Small Business Administration (SBA), which offers lending programs specifically for small borrowers, and also participates in a number of State lending programs that promote the agriculture industry and environmental stewardship. The Association also offers flexible financing options in-house for qualifying borrowers.

The Association remains fully committed to serving the financing needs of YBS borrowers and will continue to evaluate its programs and efforts in order to be even more effective in 2021. The Association includes YBS goals in the annual strategic plan, and reports on those goals and achievements to the board of directors on a quarterly basis. The Association is committed to the future success of Young, Beginning, and Small farmers.

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
<i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i>	
<ul style="list-style-type: none"> • Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management’s estimate of current expected credit losses (CECL) over the entire remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to an expected loss model. • Modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit quality. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted. 	<ul style="list-style-type: none"> • Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. • The new guidance is expected to result in a change in allowance for credit losses due to several factors, including: <ol style="list-style-type: none"> 1. The allowance related to loans and commitments will most likely change because it will then cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on any debt securities, 3. The nonaccretible difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of allowance change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts at the adoption date. • The guidance is expected to be adopted in first quarter 2023.

Disclosure Required by FARM CREDIT ADMINISTRATION REGULATIONS

Description of Business

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

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

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity as of December 31, 2020:

Location	Description	Form of Ownership
1614 E. Churchville Road Suite 102 Bel Air, MD 21015	Branch Operations	Rented
112 East Liberty Street Charles Town, WV 25414	Satellite Office	Rented
102 Morgnec Road Chesterstown, MD 21620	Branch Operations	Owned
379 Deep Shore Road Denton, MD 21629	Branch Operations	Owned
1410 South State Street Dover, DE 19901	Branch Operations	Owned
105 Railroad Avenue East New Market, MD 21631	Branch Operations	Owned
925 North East Street Frederick, MD 21701	Branch Operations	Owned
20816 DuPont Boulevard Georgetown, DE 19947	Branch Operations	Owned
1260 Maryland Avenue Suite 103A Hagerstown, MD 21740	Satellite Office	Rented
158 Crimson Circle Martinsburg, WV 25403	Branch Operations	Owned
15 Eby Chiques Road Mount Joy, PA 17552	Branch Operations	Owned
1035 Ocean Highway Pocomoke, MD 21851	Branch Operations	Owned
680 Robert Fulton Highway Quarryville, PA 17566	Branch Operations	Owned
6546 Mid Atlantic Lane Salisbury, MD 21804	Branch Operations	Owned
1513 Main Street Shoemakersville, PA 19555	Branch Operations	Owned

Location	Description	Form of Ownership
45 Aileron Court Westminster, MD 21157	Administrative Headquarters & Branch Operations	Owned
125 Prosperity Drive Winchester, VA 22602	Branch Operations	Owned
1031 South Main Street Woodstock, VA 22664	Branch Operations	Owned
South Main Street Woodstock, VA 22664	Unimproved 1 acre lot	Owned

Rented facilities are leased by the Association at prevailing market rates from independent third parties for periods not currently exceeding five years. The Association leases excess space at two of its owned Branch Operations to third parties at prevailing market rates and expire no later than April 30, 2021.

Legal Proceedings

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

Description of Capital Structure

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

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 Notes to the Consolidated Financial Statements included in this Annual Report to shareholders.

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 to shareholders and is to be disclosed in this section, is incorporated herein by reference.



Disclosure Required by Farm Credit Administration Regulations (continued)

Senior Officers

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

Senior Officer	Position
Thomas H. Truitt, Jr.	<i>President & Chief Executive Officer</i> since January 2016. From June 2013 until December 31, 2015 was Sr. Vice President & Chief Operating Officer. From January 2009 until June 2013 was Sr. Vice President and Regional Lending Manager.
Cathy L. Blair	<i>Sr. Vice President & Corporate Services</i> since September 2017. From February 2016 through August 2017 was Vice President, Administrative Services and Corporate Secretary. Previously served the Association in various positions in the Finance and Human Resources Departments since May 2007.
Stuart D. Cooper	<i>Sr. Vice President & Chief Lending Officer</i> effective January 1, 2019. From September 2015 until December 31, 2018 was <i>Sr. Vice President & Division Manager</i> . Previously served the Association in various operations positions since October 1995.
Kurt H. Fuchs	<i>Sr. Vice President & Legislative Affairs</i> since January 2018. Employed by the Association in August 2012 as Government Affairs Officer.
Bessie H. Moy	<i>Sr. Vice President & Chief Audit Executive</i> since July 2019. Previous four years was Vice President of Internal Audit for a community bank. Prior to that served as the Director of Internal Audit for an international non-profit and was a Senior Manager in public accounting.
Tammy L. Price	<i>Sr. Vice President & Director of Technology and Strategic Partnerships</i> since March 2009. Previously served Association in various positions in the Information Technology Department since July 2000.
Brian E. Rosati	<i>Sr. Vice President & Chief Financial Officer</i> since December 2018. Employed until October 2018 as Vice President of Finance with privately owned international advertising technology company. From 2010 until 2014 was Director of Corporate Finance for a publicly traded software company. His prior twelve years of experience are with major international accounting firms in audit and tax services.
William J. Rutter	<i>Sr. Vice President & Chief Credit Officer</i> since March 2017. From October 2016 through February 2017 he served as the Interim Chief Credit Officer. Previously served the Association in various credit and operations positions since January 1998.
Mark A. Schnebly	<i>Sr. Vice President & Loan Operations Manager</i> since April 2017 until May 2020. From October 2016 through March 2017 he served as the Interim Loan Operations Manager. Previously served the Association in various operations positions since June 2002.
Cheryl L. Steinbacher	<i>Sr. Vice President & Director of Human Resources and Training</i> since March 2015. Previous five years was Senior Vice President of Human Resources & Organizational Development for Cardinal Bank in McLean, Virginia.
Karen S. Swecker	<i>Sr. Vice President & Director of Loan Operations</i> since May 2020. Previous 3 years was the Vice President and Relationship Manager with AgFirst Farm Credit Bank. Her prior 11 years of experience was with MidAtlantic Farm Credit in various sales and operational roles.

Compensation

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

Name of Individual or Number in Group	Year	Change in					Total
		Salary	Bonus	Pension Value	Deferred/Perquisites (d)	Total	
Thomas H. Truitt, Jr.	2020	\$ 530,020	\$ 318,705	\$ 318,086	\$ 242,488	\$ 1,409,299	
Thomas H. Truitt, Jr.	2019	500,019	222,761	442,529	220,593	1,385,902	
Thomas H. Truitt, Jr.	2018	450,018	181,097	(45,237)	145,994	731,872	
10 Officers*	2020(a)	1,750,265	467,553	1,250,984	600,907	4,069,709	
11 Officers	2019(b)	1,524,990	323,200	1,428,557	677,839	3,954,586	
12 Officers	2018(c)	1,860,423	503,386	(245,845)	442,701	2,560,665	

* Disclosure of information on the total compensation paid during 2020 to any senior officers is available to shareholders upon request.
 (a) For 2020, the table includes annual compensation for 1 individual who was a senior officer until May 2020 and 1 senior officer who began employment in May 2020.
 (b) For 2019, the table includes compensation for 1 senior officer until March 2019 and 1 senior officer who began employment in July 2019.
 (c) For 2018, the table includes compensation for 1 senior officer until April 2018 when the officer resigned, 1 senior officer who started employment in October 2018, and 2 senior officers who retired in December 2018.
 (d) Amounts in the table classified as Deferred/Perquisites is comprised primarily of deferred compensation, life insurance, the Association's contributions to thrift plans (see Note 9, Employee Benefit Plans, of the notes to the Financial Statements), sign-on bonus, payment of accrued annual leave, a one-time severance payment, relocation assistance and Association provided automobile.

All of the senior officers of the Association participate in the Senior Management Incentive Plan. Goals are established annually by the Board of Directors based upon the Association's Annual Business Plan and include specific objectives regarding various Profitability objectives, Credit Quality review, and a Board defined Qualitative measure. Award opportunity for the CEO ranges between 0 and 75% of base salary; between 0 and 50% for the CFO, CCO and CLO and 0 to 40% for all other senior officers. For the CEO, 80% of the incentive award is based on Association Performance and the remaining 20% is based on Personal Performance. For the CFO, CCO and CLO, 70% of the incentive is based on

Association Performance and the remaining 30% is based on Personal Performance. For all other senior officers, except the Chief Audit Executive, 60% is based on Association Performance and the remaining 40% is based on Personal Performance. For the Chief Audit Executive, 20% is based on Association Performance and the remaining 80% is based on Personal Performance.

Fifty percent of the annual incentive for all senior officers must be deferred for three years and the deferred portion is at risk during the deferral period. Annual Performance objectives must be obtained during the deferral period. The amount of the

deferred portion can increase by 25% and, conversely, can reduce to 0% if annual Association Performance is not achieved at prescribed levels.

All employees other than the CEO and senior officers are eligible to participate in the Staff Profit Sharing/Incentive Plan. The Staff Plan includes certain requirements regarding Profitability, Credit Quality, Capital and certain regulatory requirements. Awards under the Plan are up to 10% for Association Performance and up to an additional 10% for individual performance for a maximum total of 20% of base salary.

Established targets for both plans are measured at December 31, 2020 so that bonuses can be accrued in the plan year. Payment of accrued bonuses is made by March 31 following the close of the plan year. For the deferred portion of senior officers' incentive, the payment is made by March 31 of the fourth year following the initial plan year.

The FCA regulation, "Disclosure to Shareholders; Pension Benefit Disclosures." Requires the exclusion of employee compensation from being reported in the Summary Compensation Table if the employee would be considered a "highly compensated employee" solely because of payments related to or change(s) in value of the employee's qualified pension plan provided that the plan was available to all similarly situated employees on the same basis at the time the employee joined the plan. This has been reflected in the Associations compensation table.

Pension Benefits Table - 2020	Number of Years of Credited Service	Actuarial Present Value of Accumulated Benefits ⁽²⁾	Payments During Last Fiscal Year
Thomas H. Truitt, Jr., CEO			
AgFirst Retirement Plan	28	\$ 2,559,637	\$ -
Total	28	\$ 2,559,637	\$ -
Senior Officers (excluding CEO) ⁽¹⁾			
Supplemental Executive Retirement Plan	-	\$ -	\$ -
AgFirst Defined Benefit Retirement Plan	23	5,223,838	-
-Total	23	\$ 5,223,838	\$ -

⁽¹⁾ Deferred Benefits Plan.

⁽²⁾ The Present Value of Accumulated Benefits is based upon assumptions and valuation dates that are the same as those used for the valuation of pension liabilities in the 2020 Annual Report, see Note 9, Employee Benefit Plans.

Retirement and Deferred Compensation Plans

The Association's compensation programs include retirement and deferred compensation plans which are designed to provide income following an employee's retirement. Retirement benefits are paid following the employee's retirement while the benefits are earned while employed. The Association's objective is to offer benefit plans which 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 both supports the Association's mission and allows the Association to effectively align the human capital requirements with the Association's overall strategic objectives.

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

Employees hired on or after January 1, 2003, but prior to November 4, 2014, participated in the AgFirst Farm Credit Cash Balance Retirement Plan. This plan was a qualified defined contribution pension plan. The Plan was terminated as of December 31, 2018 and vested benefits of the plan were distributed to plan participants in 2017 after plan termination approval by the Internal Revenue Service.

All employees are eligible to 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 employment. Employees hired prior to January 1, 2003, receive a maximum employer matching contribution equal to \$0.50 for each \$1.00 of employee compensation contributed up to 6.0 percent, subject to Internal Revenue Code limitations 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 contribution up to 6.0 percent, and beginning January 1, 2015, employees hired on or after January 1, 2003 also received an employer nonelective contribution equal to 3.0 percent of employee compensation, subject to the Internal Revenue Code limitation on compensation.

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

Employees who choose to defer a portion of their compensation may defer part or all of their base salary or incentive.

Also, all employees are eligible to receive rewards (a) based on years of service on five year, or multiple of five year, anniversaries, and (b) based on special exemplary performance as defined in the plan. A copy of these plans are available to stockholders upon request.

Directors

Directors and senior officers are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars, 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.

Disclosure Required by Farm Credit Administration Regulations (continued)

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was \$198,032 for 2020, \$410,198 for 2019 and \$327,327 for 2018. The Association provides computer equipment to the directors to provide for an electronic means of communication. Expenses for the equipment are accounted for in accordance with the Association's equipment policy.

Subject to approval by the board, directors are compensated for meeting attendance and special assignments. As of December 31, 2020, an honorarium of \$650 per day is paid for meetings, committee meetings (reduced to \$300 if occurring on the same day as daily honorarium) and special assignments. \$200 is paid for telephone conference meetings. Committee chairs receive an additional \$100 for each meeting of the Committee.

In addition to the honoraria, as of December 31, 2020, directors are paid a quarterly retainer fee of \$1,500 and the chairman and vice-chairman are paid an additional \$700 and \$350, respectively. Directors are compensated at a per hour rate of \$20 for travel time to Board meetings in excess of one hour.

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

Director	Current Term Expiration	Total Compensation
Brian L. Boyd <i>2020 Chairman</i>	2022	\$ 45,290
Anthony M. Ill <i>2020 Vice Chairman</i> <i>Appointed and Outside</i>	2021	39,420
Paul D. Baumgardner	2024	29,600
Julie A. Bolyard	2021	3,550
Gary L. Grossnickle	2020	13,900
John Travis Hastings	2023	32,260
Laura M. Heilinger	2024	36,020
Walter C. Hopkins	2021	28,130
T. Jeffery Jennings	2023	34,830
Fred R. Moore, Jr.	2021	32,840
Michael S. Nelson	2022	26,200
Jennifer L. Rhodes	2024	44,940
Douglas D. Scott	2022	28,810
Alan N. Siegfried <i>Appointed and Outside</i>	2022	38,200
David R. Smith	2023	32,790
Joseph D. Snapp	2020	21,340
Fred N. West	2022	26,010
Charles M. Wright IV	2023	31,950
Total		\$546,080

The following represents certain information regarding Association Directors and their principal occupations during the past five years:

Brian L. Boyd, Chairman, owns and operates a poultry production facility producing 860,000 broilers annually in four poultry houses on three different farms totaling 160 acres. He owns and operates Boyd's Custom Planting, covering 3,000+ acres per year planting soybeans and small grains. He also is the owner of Boyd Boys, LLC and trucks commodities for a local feed mill. In addition, he is a member of the PA Farm Bureau and serves on the South Lebanon Ag Land Preserve Committee.

Anthony M. Ill, Vice Chairman, was appointed as one of the Board's outside directors effective January 1, 2015. He is a Certified Public Accountant holding an active license in the

state of Maryland. Mr. Ill is the founder of Rock Glenn Advisors, a consulting practice focusing on the financial, operational, and strategic aspects of business and has served as an interim CFO for a variety of companies in transition. His other recent professional experience includes Chairman of the Farm Credit Foundation for Agricultural Advancement Board, a 501(c)(3) organization, and Chief Financial and Operating Officer for Ripken Baseball. Mr. Ill has held various senior positions such as President, CFO, and COO with firms in advertising, agricultural pesticides and herbicides, machine tooling, and heavy utility equipment business sectors. Current clients include high-tech startups in the fields of computing, telecommunications, and optics.

Paul D. Baumgardner owns Baumgardner's Hay and Straw, as well as the Harvest Barn Country Market. He also farms 400 acres, growing corn, soybeans, hay, wheat, as well as produce and proteins for the Market. Mr. Baumgardner also serves on the Farm Credit Foundation for Agricultural Advancement (a 501(c)(3) organization) Board.

Julie A. Bolyard is a third generation producer, owning and operating Fruit Meadow Farms with her husband, where they raise beef cattle and meat goats for local sale. Ms. Bolyard also serves as the Chief Financial Officer for her family's business, Appalachian Orchard Company, a 550 acre operation producing upwards of 300,000 bushels of apples annually. Ms. Bolyard was appointed to the Board in October.

Gary L. Grossnickle is a dairy and crop farmer, and President of Grossnickle Farms, Inc. His operation consists of 1,300 acres (600 owned) in cultivation and 260 cows and 200 replacement heifers. He is also involved in Grossnickle Limited Partnership, a real estate enterprise. Mr. Grossnickle resigned from the Board in July.

John Travis Hastings is the owner and operator of a grain, produce, and processing vegetable farm on a total of 1,500 acres. He currently serves as the Vice President of the Mar-Del Watermelon Association and as a Board member of the Laurel Grain Company.

Laura M. Heilinger is a co-owner with her husband of a dairy and grain operation consisting of 140 Brown Swiss and Holstein cows and 350 acres of corn, alfalfa, soybeans, and some small grains.

Walter C. Hopkins operates a dairy and grain farm consisting of 600 milk cows, 500 replacement heifers, and 1,000 acres of corn, alfalfa, grass and small grain. He owns and serves as President of Green Acres Farm, Inc. (dairy farm), and served as manager of Lyon's, LLC (land holding company). Mr. Hopkins also served on the Board, Governance Committee, and Compensation Committee of the AgFirst Farm Credit District Bank, his term ended December 31, 2020. Mr. Hopkins served on the Farm Credit Foundation for Agricultural Advancement (a 501(c)(3) organization), and on the AgFirst District Farm Credit Council Board. Days of service disclosed here for Mr. Hopkins as a member of the MidAtlantic Board do not reflect activities in his capacity as a board or committee member for the AgFirst Farm Credit District. For further information related to specific duties, compensation, and days served in those positions, please see the AgFirst Farm Credit Bank 2020 Annual Report at www.agfirst.com.

T. Jeffery Jennings operates a farm consisting of 100 head of beef cows. He is a member of the Page and Rockingham County Farm Service Agency Committee.

Fred R. Moore, Jr. owns and operates Fred R. Moore & Son, Inc. and Collins Wharf Sod, consisting of a 750-acre turf production and grain operation. In addition, he is a partner in a land holding and rental management firm. He also serves on the boards of the Wicomico County Farm Bureau and the Wicomico County Soil Conservation District, and is a life member of the Allen Fire Company. He also serves on the Board and Chair of the compensation committee of the AgFirst Farm Credit District Bank, and on the AgFirst District Farm Credit Council Board. Days of service disclosed here for Mr. Moore as a member of the MidAtlantic Board do not reflect activities in his capacity as a member of the AgFirst Board and committees or the AgFirst Farm Credit Council Board. For further information related to specific duties, compensation, and days served in those positions, please see the AgFirst Farm Credit Bank 2020 Annual Report at www.agfirst.com.

Michael S. Nelson is the president of Nelson's Agri-Service, LLC operating in seed sales. As well, he is the owner/operator at Triple Creek Farm, consisting of row crops with a total of 600 acres rented/owned, and 40 head of Black Angus cows.

Jennifer L. Rhodes owns and operates Deerfield Farms LLC, a poultry and grain operation with her two sons. The operation consists of a four-house chicken farm producing antibiotic free broilers and an irrigated grain farm producing corn, wheat, soybeans and cover crops. She is also employed as the Principal Agent for Agriculture and Food Systems, University of Maryland Extension, Queen Anne's County, Maryland. She is the Chair of the newly formed AgFirst District Legislative Advisory Committee. She serves on the following organizations' board of directors: Compass Regional Hospice, Delmarva Chicken Association, US Roundtable for Sustainable Poultry & Eggs, Mid-Shore Community Foundation, County Farm Bureau; Queen Anne's Soil Conservation District, Dean's Global Leadership Council, UMD AGNR. She is the Chair of the USDA MD State Farm Service Agency Committee; member of Delmarva Land and Litter Challenge Steering Committee; past President and past member of the executive committee of the Delmarva Poultry Industry, Inc.; past President of the Maryland Association of County Agricultural Agents; past member of the Maryland Agriculture Commission; and served as the Governor's appointee to the Regulatory Reform Commission.

Douglas D. Scott is owner and President of Walnut Hill Farms, Inc., a family-owned and managed cash-grain and vegetable operation consisting of 1,600 acres. Mr. Scott currently holds leadership positions in: Venture Farms, Inc. (Secretary), Choptank Electric Cooperative (Board member and Secretary/Treasurer) and Mid Atlantic Cooperative Solutions, Inc., a holding company owning Aero-Energy (Board member and Treasurer).

Alan N. Siegfried was appointed as one of the Board's outside directors and its designated financial expert effective January 1, 2015. He is a Certified Public Accountant and currently serves as an adjunct professor at the University of Maryland Smith School of Business. His recent professional experience includes serving as the Director of Internal Audit for the BankFund Staff Federal Credit Union, and as Auditor General for the Inter-American Development Bank. He has recently served on the

Board and Audit Compliance Committee of Bon Secours Health System, Inc., and as the Vice Chair and a member of the UNICEF Audit Committee, and currently is the Audit Committee Chair of the Pan American Health Organization (PAHO). In 2018, Mr. Siegfried was reappointed to serve as an outside director and the Board's designated financial expert effective January 1, 2019.

David R. Smith is the owner and operator of a dairy and crop farm on 432 acres and consisting of 150 dairy replacement heifers. David serves as Executive Director of the Pennsylvania Dairymen's Association and Board member of the Penn State Ag Council. He also serves as a member of the Pennsylvania Farm Bureau, the Pennsylvania Holstein Association, Holstein Association USA, and the Lebanon County Farm Bureau.

Joseph D. Snapp is a self-employed farmer and orchardist operating and managing West Oaks Farm, LLC. His farm operation includes 200 acres in fruit production, 600 acres in row crops, 20 acres in vegetable and sweet corn production, and cow-calf production of over 400 head. The operation also includes West Oaks Farm Market and Event Venue, a family venture. He serves as Directors for the Frederick County Farm Bureau. Mr. Snapp resigned from the Board in August.

Fred N. West owns and operates a poultry and grain (corn, soybeans, wheat) farm consisting of 2,400 acres (200 owned) and producing 440,000 broilers annually. He is a partner in F & F Farm LLC (poultry) and is also a partner of Fred West Farms LLC (grain).

Charles M. Wright IV is owner and President of Cornerstone Farms Inc. t/a Wright's Market, a family owned and managed farm market, vegetable and cash grain operation consisting of 750 acres. He is also co-owner, with his wife, of MC Farms a poultry farm producing 210,000 broilers annually. Mr. Wright is the past President of the Wicomico County Farm Bureau, where he remains a Director, serves on the Executive Board of the Mar-DEL Watermelon Association, and is a member of the Salisbury Chamber of Commerce. Mr. Wright also serves on the Farm Credit Foundation for Agricultural Advancement (a 501(c)(3) organization) Board.

Disclosure Required by Farm Credit Administration Regulations (continued)

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

Director	Days Served		Committee Assignments	Compensation for Other Activities*
	Board Meetings	Other Official Activities		
Brian L. Boyd, <i>2020 Chairman</i>	13	52	Executive, and Audit & Review	\$ 28,700
Anthony M. III <i>2020 Vice Chairman, Appointed and Outside</i>	13	44	Executive, Human Resources, and Risk	24,250
Paul D. Baumgardner	13	29	Executive, and Audit & Review	15,150
Julie A. Bolyard	2	4	Risk	2,250
Gary L. Grossnickle	5	17	Audit & Review, and Governance	7,650
John Travis Hastings	13	34	Governance, and Compensation & Governance	17,750
Laura M. Heilinger	13	40	Governance, Executive, and Compensation & Governance	21,550
Walter C. Hopkins	12	26	Executive, Human Resources, and Risk	14,250
T. Jeffery Jennings	13	37	Human Resources, Executive, and Compensation & Governance	20,300
Fred R. Moore, Jr.	12	34	Executive, and Audit & Review	19,000
Michael S. Nelson	12	25	Governance, and Risk	12,400
Jennifer L. Rhodes	13	52	Executive, and Compensation & Governance	29,050
Douglas D. Scott	13	25	Human Resources, Executive, and Risk	14,300
Alan N. Siegfried, <i>Appointed and Outside</i>	13	42	Audit & Review	23,750
David R. Smith	13	36	Human Resources, and Risk	18,300
Joseph D. Snapp	9	25	Compensation & Governance, and Audit & Review	10,950
Fred N. West	12	26	Governance, Audit & Review, and Compensation & Governance	12,150
Charles M. Wright IV	13	36	Audit & Review	17,500
Total	207	584		\$309,250

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

Board of Director Committees

Our Board of Directors is organized into the following committees to carry out Board responsibilities: Committee members are appointed by the Board chair.

- The Audit Committee fulfills oversight responsibilities in relation to the quality of financial reporting and internal controls including those relating to accounting and reporting practices of the Association; those relating to the internal and external auditor; and to serve as an independent and objective party to review the financial information presented by management to shareholders, regulators, and the general public. The Committee also oversees the adequacy of management's actions with respect to recommendations arising from auditing activities.
- The Compensation and Governance Committee addresses issues of Board governance and the Board's continuing efforts to strengthen and renew the Board, manages the Board annual self-assessment, oversees and provides overall direction and/or recommendations for compensation, training and education of Board members, the outside director election process, director compensation, ethics and conflict of interest matters, human resource performance management programs, and assists the Board of Directors in fulfilling its responsibilities concerning evaluation, development, and compensation of the CEO.
- The Risk Committee oversees the integration of risk management activities throughout our organization. Committee members review ongoing risk assessments of current and emerging risks to ensure adequate planning and resources are directed at managing the identified risks. The Committee also establishes and promotes an effective risk culture throughout our organization.

- The Executive Committee members consist of the board chair, vice chair and generally the immediate past board chair and chairs of the other three committees. Additional members may be engaged by the Committee for consultation to better ensure geographic representation, diversity and subject matter expertise. The committee is primarily responsible for providing input and direction to management on the development and implementation of the Association's strategic plan, policies and other significant matters requiring attention between board meetings.

Other Committees

Nominating Committee

Each year, twelve customers from each of MidAtlantic Farm Credit's six election regions are elected by voting customers to serve on the Nominating Committee. The Nominating Committee meets each November to nominate candidates for open Director and Nominating Committee positions. This committee, which consists of customers who are not seated on the Board of Directors, proactively identifies qualified candidates for Board membership and reviews director nominations, helping to ensure that the Association continues to attract a highly qualified and diverse Board. The Nominating Committee makes a best effort to recommend at least two candidates for each open Board position. Members of this committee are compensated for their time and travel.

Transactions with Senior Officers and Directors

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

Involvement in Certain Legal Proceedings

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

Relationship with Independent Auditors

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

For the year ended December 31, 2020, the Association paid fees and expenses of \$67,604 for audit services rendered by its independent auditors, PricewaterhouseCoopers LLP, (PwC). No other fees were paid to PwC.

Consolidated Financial Statements

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 11, 2021 and the report of management, which appear in this Annual Report to shareholders are incorporated herein by reference. Copies of the Association's Annual and unaudited Quarterly reports are available upon request free of charge by calling 1-888-339-3334 or writing Brian E. Rosati, MidAtlantic Farm Credit, ACA, 45 Aileron Court, Westminster, Maryland 21157-3022, or accessing the website, www.mafc.com. The Association prepares an electronic version of the Annual Report which is available on the Association's website within 75 days after the end of the fiscal year and distributes the Annual 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 need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

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

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

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

Information to be disclosed in this section is incorporated herein by reference to the similarly named section in the

Management's Discussion and Analysis of Financial Condition and Results of Operations section included in this Annual Report to shareholders.

Shareholder Investment

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

Whistleblower

Reports of suspected or actual wrongdoing involving the Association, its employees and/or Directors, can be made anonymously and confidentially through the Association's Whistleblower Hotline (SpeakUp) at 1-844-321-9164 or a link to the website is available at www.convercent.com/report.

Privacy Policy

Your privacy is a top priority in all aspects of our business. Our employees are informed of their responsibility to protect your confidential information and are governed by strict standards of conduct, which prohibit unauthorized use of your information. Security procedures and internal controls are also in place to protect your privacy.

We collect personally identifiable information (name, address, SSN) only if specifically and knowingly provided by you. We do not give, sell, or transfer any personal information to third parties, unless required by law or under such other permissible purposes as set forth by regulation.

For more details, visit www.mafc.com/privacy-security.

Report of the **AUDIT COMMITTEE**

The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee are employees of MidAtlantic Farm Credit (Association) and in the opinion of the Board of Directors, each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

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

PricewaterhouseCoopers LLP (PwC), the Association's independent auditors for 2020, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards AU-C 260 and 265 (*The Auditor's Communication With Those Charged With Governance*). The Committee discussed with PwC its independence from MidAtlantic Farm Credit. 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:

Fred R. Moore, Jr.
Chairman of the Audit Committee

Members of Audit Committee

Charles M. Wright IV
Vice Chairman

Paul D. Baumgardner
Walter C. Hopkins
Alan N. Siegfried
Fred N. West

March 11, 2021

Report of **INDEPENDENT AUDITORS**



Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of MidAtlantic 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 MidAtlantic 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

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

Consolidated **BALANCE SHEETS**

<i>(dollars in thousands)</i>	December 31,		
	2020	2019	2018
Assets			
Cash	\$ 228	\$ 3,508	\$ 4,376
Loans	2,905,638	2,844,993	2,803,479
Allowance for loan losses	(36,131)	(32,197)	(30,090)
Net loans	2,869,507	2,812,796	2,773,389
Loans held for sale	2,894	900	593
Other investments	113	—	—
Accrued interest receivable	14,454	16,249	17,069
Equity investments in other Farm Credit institutions	30,257	32,825	32,074
Premises and equipment, net	15,931	15,938	16,438
Other property owned	1,661	1,415	622
Accounts receivable	43,347	29,895	34,519
Other assets	3,726	3,873	2,800
Total assets	\$ 2,982,118	\$ 2,917,399	\$ 2,881,880
Liabilities			
Notes payable to AgFirst Farm Credit Bank	\$ 2,229,163	\$ 2,192,656	\$ 2,181,496
Accrued interest payable	4,430	5,796	5,900
Patronage refunds payable	51,791	27,346	30,836
Accounts payable	4,188	2,748	2,420
Advanced conditional payments	48	—	—
Other liabilities	27,174	27,308	26,278
Total liabilities	2,316,794	2,255,854	2,246,930
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	11,400	10,974	10,744
Retained earnings			
Allocated	405,105	409,174	388,255
Unallocated	249,314	241,769	236,149
Accumulated other comprehensive income (loss)	(495)	(372)	(198)
Total members' equity	665,324	661,545	634,950
Total liabilities and members' equity	\$ 2,982,118	\$ 2,917,399	\$ 2,881,880

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
Interest Income			
Loans	\$ 135,777	\$ 145,626	\$ 136,982
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	59,708	72,049	65,716
Net interest income	76,069	73,577	71,266
Provision for loan losses	5,000	4,000	4,000
Net interest income after provision for loan losses	71,069	69,577	67,266
Noninterest Income			
Loan fees	1,915	1,346	1,101
Fees for financially related services	3,817	3,165	3,240
Lease income	140	191	—
Patronage refunds from other Farm Credit institutions	42,934	29,423	34,076
Gains (losses) on sales of rural home loans, net	1,393	1,197	972
Gains (losses) on sales of premises and equipment, net	219	127	820
Gains (losses) on other transactions	222	284	(43)
Insurance Fund refunds	553	589	2,329
Other noninterest income	63	50	244
Total noninterest income	51,256	36,372	42,739
Noninterest Expense			
Salaries and employee benefits	30,313	28,891	29,233
Occupancy and equipment	1,994	2,533	2,359
Insurance Fund premiums	2,089	1,951	1,888
(Gains) losses on other property owned, net	404	29	102
Other operating expenses	8,262	8,713	8,338
Total noninterest expense	43,062	42,117	41,920
Income before income taxes	79,263	63,832	68,085
Provision for income taxes	531	60	195
Net income	\$ 78,732	\$ 63,772	\$ 67,890
Other comprehensive income net of tax			
Employee benefit plans adjustments	(123)	(174)	124
Comprehensive income	\$ 78,609	\$ 63,598	\$ 68,014

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

Consolidated Statements of CHANGES in MEMBERS' EQUITY

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2017	\$ 10,550	\$ 365,603	\$ 231,530	\$ (322)	\$ 607,361
Comprehensive income			67,890	124	68,014
Capital stock/participation certificates issued/(retired), net	194				194
Patronage distribution					
Cash			(20,000)		(20,000)
Nonqualified retained earnings		43,589	(43,589)		—
Retained earnings retired		(20,702)			(20,702)
Patronage distribution adjustment		(235)	318		83
Balance at December 31, 2018	\$ 10,744	\$ 388,255	\$ 236,149	\$ (198)	\$ 634,950
Cumulative effect of change in accounting principle			(11)		(11)
Comprehensive income			63,772	(174)	63,598
Capital stock/participation certificates issued/(retired), net	230				230
Patronage distribution					
Cash			(17,000)		(17,000)
Nonqualified retained earnings		41,251	(41,251)		—
Retained earnings retired		(20,222)			(20,222)
Patronage distribution adjustment		(110)	110		—
Balance at December 31, 2019	\$ 10,974	\$ 409,174	\$ 241,769	\$ (372)	\$ 661,545
Comprehensive income			78,732	(123)	78,609
Capital stock/participation certificates issued/(retired), net	426				426
Patronage distribution					
Cash			(51,500)		(51,500)
Nonqualified retained earnings		17,695	(17,695)		—
Retained earnings retired		(23,756)			(23,756)
Patronage distribution adjustment		1,992	(1,992)		—
Balance at December 31, 2020	\$ 11,400	\$ 405,105	\$ 249,314	\$ (495)	\$ 665,324

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
Cash flows from operating activities:			
Net income	\$ 78,732	\$ 63,772	\$ 67,890
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	1,268	1,273	1,234
Amortization (accretion) of net deferred loan costs (fees)	1,468	1,520	1,002
Provision for loan losses	5,000	4,000	4,000
(Gains) losses on other property owned	314	(82)	51
(Gains) losses on sales of premises and equipment, net	(219)	(127)	(820)
(Gains) losses on sales of rural home loans, net	(1,393)	(1,197)	(972)
(Gains) losses on other transactions	(222)	(284)	43
Changes in operating assets and liabilities:			
Origination of loans held for sale	(67,913)	(55,951)	(47,925)
Proceeds from sales of loans held for sale, net	67,312	56,841	48,304
(Increase) decrease in accrued interest receivable	1,795	820	(1,802)
(Increase) decrease in accounts receivable	(13,452)	4,624	2,394
(Increase) decrease in other assets	147	(1,084)	4
Increase (decrease) in accrued interest payable	(1,366)	(104)	882
Increase (decrease) in accounts payable	1,440	328	(1,750)
Increase (decrease) in other liabilities	(31)	1,043	(5,395)
Total adjustments	(5,852)	11,620	(750)
Net cash provided by (used in) operating activities	72,880	75,392	67,140
Cash flows from investing activities:			
Net (increase) decrease in loans	(63,979)	(46,482)	(87,754)
(Increase) decrease in equity investments in other Farm Credit institutions	2,568	(751)	(797)
Purchases of other investments	(113)	—	—
Purchases of premises and equipment	(1,200)	(803)	(3,472)
Proceeds from sales of premises and equipment	158	157	1,646
Proceeds from sales of other property owned	236	941	207
Net cash provided by (used in) investing activities	(62,330)	(46,938)	(90,170)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	36,507	11,160	60,335
Net increase (decrease) in advanced conditional payments	48	—	—
Capital stock and participation certificates issued/(retired), net	426	230	194
Patronage refunds and dividends paid	(27,055)	(20,490)	(17,111)
Retained earnings retired	(23,756)	(20,222)	(20,702)
Net cash provided by (used in) financing activities	(13,830)	(29,322)	22,716
Net increase (decrease) in cash	(3,280)	(868)	(314)
Cash, beginning of period	3,508	4,376	4,690
Cash, end of period	\$ 228	\$ 3,508	\$ 4,376
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	\$ —	\$ 413	\$ —
Receipt of property in settlement of loans	800	1,968	640
Estimated cash dividends or patronage distributions declared or payable	51,500	17,000	20,000
Employee benefit plans adjustments (Note 9)	123	174	(124)
Supplemental information:			
Interest paid	\$ 61,074	\$ 72,153	\$ 64,834
Taxes (refunded) paid, net	368	59	228

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:** MidAtlantic Farm Credit, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to borrowers in the counties of Kent, New Castle and Sussex in the state of Delaware; counties of Baltimore, Caroline, Carroll, Cecil, Dorchester, Frederick, Harford, Howard, Kent, Montgomery, Queen Anne's, Somerset, Talbot, Washington, Wicomico and Worcester in the state of Maryland; counties of Berks, Bucks, Carbon, Chester, Dauphin, Delaware, Lancaster, Lebanon, Lehigh, Monroe, Montgomery, Northampton, Philadelphia, Pike and Schuylkill in the state of Pennsylvania; counties of Accomack, Clarke, Frederick, Northampton, Page, Shenandoah and Warren, in the state of Virginia; and the counties of Berkeley, Jefferson and Morgan, 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 bank. System Banks are also responsible for supervising the activities of associations within their districts. AgFirst (Bank) and its related associations (Associations or District Associations) are collectively referred to as the AgFirst District. The District Associations jointly own substantially all of AgFirst's voting stock. As of year-end, the District consisted of the Bank and nineteen District Associations. All nineteen were structured as ACA holding companies, with PCA and FLCA subsidiaries. FLCAs are tax-exempt while ACAs and PCAs are taxable.

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

subject to the prior approval of the FCA and the supervising bank.

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

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

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

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

In addition to providing funding for earning assets, the Bank provides District Associations with banking and support services such as accounting, human resources, information systems, and marketing. The costs of these



support services are included in the cost of the Direct Note or in some cases billed directly to certain Associations that use a specific service.

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

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

Note 2 — Summary of Significant Accounting Policies

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

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

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

- A. **Cash:** Cash represents cash on hand and on deposit at banks. At the most recent year-end, the Association held no cash in excess of insured amounts.
- B. **Loans and Allowance for Loan Losses:** The Association is authorized to make long-term real estate loans with maturities of 5 to 40 years and certain short- and intermediate term loans for agricultural production or operating purposes with maturities of not more than 10 years.

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

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

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

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

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

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

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

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

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

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

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

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

- C. **Loans Held for Sale:** Loans are classified as held for sale when there is intent to sell the loans within a reasonable

period of time. Loans intended for sale are carried at the lower of cost or fair value.

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

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

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

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

Equity Investments in Other Farm Credit System Institutions

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

Other Equity Investments

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

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

Other Investments

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

Investment Income

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

- G. **Voluntary Advance Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as other liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.
- H. **Employee Benefit Plans:** The Association participates in District and multi-district sponsored benefit plans. These plans may include defined benefit final average pay retirement, defined benefit cash balance retirement, defined benefit other postretirement benefits, and defined contribution plans.

Defined Contribution Plans

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

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

Additional information may be found in Note 9.

Multiemployer Defined Benefit Plans

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

In addition to pension benefits, the Association provides certain health care and life insurance benefits for retired employees (other postretirement benefits) through a multi-district sponsored retiree healthcare plan. Substantially all employees are eligible for those benefits when they reach early retirement age while working for the Association. Authoritative accounting guidance requires the accrual of

the expected cost of providing these benefits to an employee, their beneficiaries and covered dependents during the years the employee renders service necessary to become eligible for benefits.

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

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

Single Employer Defined Benefit Plan

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

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

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

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

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

The Association accounts for income taxes under the asset and liability method, recognizing deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and

liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

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

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

K. Valuation Methodologies: FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. This guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It prescribes three levels of inputs that may be used to measure fair value.

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

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

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

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

A number of methodologies may be employed to value items for which an observable active market does not exist. Examples of these items include: impaired loans, other property owned, and certain derivatives, investment securities and other financial instruments. Inputs to these valuations can involve estimates and assumptions that require a substantial degree of judgment. Some of the assumptions used include, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing, and liquidation values. The use of different assumptions could produce

significantly different asset or liability values, which could have material positive or negative effects on results of operations.

Additional information may be found in Note 8.

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

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

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

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

Financial Instruments

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

Contracts with Customers

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

Gains and Losses from Nonfinancial Assets

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

consideration received is or becomes nonrefundable, a gain or loss may be recognized at that time.

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

Lessee

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

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

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

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

Lessor

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

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

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

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

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

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

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

guidance may have on the statements of financial condition and results of operations is in progress.

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

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

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

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

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

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

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

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

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

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

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

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

Note 3 — Loans and Allowance for Loan Losses

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

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

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

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

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

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

- Real estate mortgage loans — loans made to full-time or part-time farmers secured by first lien real estate mortgages with maturities from five to thirty years. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.
- Production and intermediate term loans — loans to full-time or part-time farmers that are not real estate mortgage loans. These loans fund eligible financing needs including operating inputs (such as labor, feed, fertilizer, and repairs), livestock, living expenses, income taxes, machinery or equipment, farm buildings, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically one year or less. Intermediate term loans are made for a specific term, generally greater than one year and less than or equal to ten years.
- Loans to cooperatives — loans for any cooperative purpose other than for communication, power, and water and waste disposal.
- Processing and marketing loans — loans for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.
- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.
- Rural residential real estate loans — loans made to individuals, who are not farmers, to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a

population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans are generally secured by a first lien on the property.

- Communication loans — loans primarily to finance rural communication providers.
- Power loans — loans primarily to finance electric generation, transmission and distribution systems serving rural areas.
- Water and waste disposal loans — loans primarily to finance water and waste disposal systems serving rural areas.
- International loans — primarily loans or credit enhancements to other banks to support the export of U.S.

agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.

- Lease receivables — the net investment for all finance leases such as direct financing leases, leveraged leases, and sales-type leases.
- Other (including Mission Related) — additional investments in rural America approved by the FCA on a program or a case-by-case basis. Examples of such investments include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding at period end follows:

	December 31,		
	2020	2019	2018
Real estate mortgage	\$ 1,866,567	\$ 1,771,690	\$ 1,740,841
Production and intermediate term	737,853	796,599	805,435
Loans to cooperatives	27,209	17,437	20,502
Processing and marketing	88,494	78,001	66,795
Farm-related business	48,852	49,109	69,057
Communication	58,449	62,134	52,853
Power and water/waste disposal	2,646	3,148	3,657
Rural residential real estate	50,612	41,931	44,339
International	24,956	24,944	—
Total loans	<u>\$ 2,905,638</u>	<u>\$ 2,844,993</u>	<u>\$ 2,803,479</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 receivables. Long-term real estate loans are collateralized by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent, if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in loan to value ratios in excess of the regulatory maximum.

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

	December 31, 2020							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 42,818	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 42,818	\$ —
Production and intermediate term	44,076	73,020	30,018	2,135	—	—	74,094	75,155
Loans to cooperatives	11,962	—	15,286	—	—	—	27,248	—
Processing and marketing	37,674	17,892	4,141	—	2,538	—	44,353	17,892
Farm-related business	1,579	496	—	—	—	—	1,579	496
Communication	21,260	—	37,342	—	—	—	58,602	—
Power and water/waste disposal	—	—	2,648	—	—	—	2,648	—
International	—	—	25,000	—	—	—	25,000	—
Total	<u>\$ 159,369</u>	<u>\$ 91,408</u>	<u>\$ 114,435</u>	<u>\$ 2,135</u>	<u>\$ 2,538</u>	<u>\$ —</u>	<u>\$ 276,342</u>	<u>\$ 93,543</u>

Notes to the Consolidated Financial Statements (continued)

December 31, 2019

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Real estate mortgage	\$ 44,750	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 44,750
Production and intermediate term	51,029	56,028	10,795	4,333	—	—	61,824	60,361
Loans to cooperatives	6,911	—	10,573	—	—	—	17,484	—
Processing and marketing	29,367	15,627	4,426	—	—	—	33,793	15,627
Farm-related business	1,579	—	—	—	—	—	1,579	—
Communication	18,251	—	44,010	—	—	—	62,261	—
Power and water/waste disposal	—	—	3,157	—	—	—	3,157	—
International	—	—	25,000	—	—	—	25,000	—
Total	\$ 151,887	\$ 71,655	\$ 97,961	\$ 4,333	\$ —	\$ —	\$ 249,848	\$ 75,988

December 31, 2018

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Real estate mortgage	\$ 27,347	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 27,347
Production and intermediate term	52,526	41,906	10,719	4,410	—	—	63,245	46,316
Loans to cooperatives	8,016	—	12,510	—	—	—	20,526	—
Processing and marketing	18,185	21,610	7,821	—	—	—	26,006	21,610
Farm-related business	1,533	—	23,027	—	—	—	24,560	—
Communication	15,968	—	37,013	—	—	—	52,981	—
Power and water/waste disposal	—	—	3,666	—	—	—	3,666	—
Total	\$ 123,575	\$ 63,516	\$ 94,756	\$ 4,410	\$ —	\$ —	\$ 218,331	\$ 67,926

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

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

	December 31,				December 31,		
	2020	2019	2018		2020	2019	2018
Real estate mortgage:				Communication:			
Acceptable	91.43%	91.41%	92.92%	Acceptable	100.00%	100.00%	100.00%
OAEM	3.30	4.66	4.01	OAEM	0.00	0.00	0.00
Substandard/doubtful/loss	5.27	3.93	3.07	Substandard/doubtful/loss	0.00	0.00	0.00
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Production and intermediate term:				Power and water/waste disposal:			
Acceptable	92.04%	89.25%	91.77%	Acceptable	100.00%	100.00%	100.00%
OAEM	4.25	5.87	4.30	OAEM	0.00	0.00	0.00
Substandard/doubtful/loss	3.71	4.88	3.93	Substandard/doubtful/loss	0.00	0.00	0.00
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Loans to cooperatives:				Rural residential real estate:			
Acceptable	68.12%	100.00%	100.00%	Acceptable	95.51%	92.66%	94.80%
OAEM	31.88	0.00	0.00	OAEM	2.22	3.32	2.58
Substandard/doubtful/loss	0.00	0.00	0.00	Substandard/doubtful/loss	2.27	4.02	2.62
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Processing and marketing:				International:			
Acceptable	94.63%	93.67%	100.00%	Acceptable	100.00%	100.00%	0.00%
OAEM	5.37	6.33	0.00	OAEM	0.00	0.00	0.00
Substandard/doubtful/loss	0.00	0.00	0.00	Substandard/doubtful/loss	0.00	0.00	0.00
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>	<u>0.00%</u>
Farm-related business:				Total loans:			
Acceptable	92.66%	95.37%	99.11%	Acceptable	91.81%	91.28%	93.13%
OAEM	6.68	4.11	0.10	OAEM	3.81	4.84	3.77
Substandard/doubtful/loss	0.66	0.52	0.79	Substandard/doubtful/loss	4.38	3.88	3.10
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

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

	December 31, 2020				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	\$ 6,531	\$ 17,770	\$ 24,301	\$ 1,851,801	\$ 1,876,102
Production and intermediate term	3,504	6,349	9,853	732,348	742,201
Loans to cooperatives	—	—	—	27,237	27,237
Processing and marketing	—	—	—	88,652	88,652
Farm-related business	78	15	93	48,952	49,045
Communication	—	—	—	58,454	58,454
Power and water/waste disposal	—	—	—	2,667	2,667
Rural residential real estate	311	252	563	50,182	50,745
International	—	—	—	24,989	24,989
Total	\$ 10,424	\$ 24,386	\$ 34,810	\$ 2,885,282	\$ 2,920,092

	December 31, 2019				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	\$ 8,265	\$ 14,832	\$ 23,097	\$ 1,758,779	\$ 1,781,876
Production and intermediate term	2,779	6,932	9,711	792,259	801,970
Loans to cooperatives	—	—	—	17,502	17,502
Processing and marketing	—	—	—	78,208	78,208
Farm-related business	217	145	362	48,956	49,318
Communication	—	—	—	62,142	62,142
Power and water/waste disposal	—	—	—	3,173	3,173
Rural residential real estate	514	835	1,349	40,700	42,049
International	—	—	—	25,004	25,004
Total	\$ 11,775	\$ 22,744	\$ 34,519	\$ 2,826,723	\$ 2,861,242

	December 31, 2018				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	\$ 14,382	\$ 13,367	\$ 27,749	\$ 1,723,731	\$ 1,751,480
Production and intermediate term	6,516	5,687	12,203	798,856	811,059
Loans to cooperatives	—	—	—	20,615	20,615
Processing and marketing	—	—	—	67,040	67,040
Farm-related business	118	80	198	69,126	69,324
Communication	—	—	—	52,865	52,865
Power and water/waste disposal	—	—	—	3,686	3,686
Rural residential real estate	507	144	651	43,828	44,479
Total	\$ 21,523	\$ 19,278	\$ 40,801	\$ 2,779,747	\$ 2,820,548

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

	December 31,		
	2020	2019	2018
Nonaccrual loans:			
Real estate mortgage	\$ 31,148	\$ 26,256	\$ 26,695
Production and intermediate term	11,772	18,900	15,963
Farm-related business	15	75	77
Rural residential real estate	589	1,113	805
Total	\$ 43,524	\$ 46,344	\$ 43,540
Accruing restructured loans:			
Real estate mortgage	\$ 28,842	\$ 18,458	\$ 13,866
Production and intermediate term	7,316	12,344	8,058
Farm-related business	164	—	—
Rural residential real estate	490	382	185
Total	\$ 36,812	\$ 31,184	\$ 22,109
Accruing loans 90 days or more past due:			
Farm-related business	\$ —	\$ 70	\$ —
Total	\$ —	\$ 70	\$ —
Total nonperforming loans	\$ 80,336	\$ 77,598	\$ 65,649
Other property owned	1,661	1,415	622
Total nonperforming assets	\$ 81,997	\$ 79,013	\$ 66,271
Nonaccrual loans as a percentage of total loans	1.50%	1.63%	1.55%
Nonperforming assets as a percentage of total loans and other property owned	2.82%	2.78%	2.36%
Nonperforming assets as a percentage of capital	12.32%	11.94%	10.44%

Notes to the Consolidated Financial Statements (continued)

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

	December 31,		
	2020	2019	2018
Impaired nonaccrual loans:			
Current as to principal and interest	\$ 18,079	\$ 20,992	\$ 21,032
Past due	25,445	25,352	22,508
Total impaired nonaccrual loans	<u>\$ 43,524</u>	<u>\$ 46,344</u>	<u>\$ 43,540</u>
Impaired accrual loans:			
Restructured	\$ 36,812	\$ 31,184	\$ 22,109
90 days or more past due	—	70	—
Total impaired accrual loans	<u>\$ 36,812</u>	<u>\$ 31,254</u>	<u>\$ 22,109</u>
Total impaired loans	<u>\$ 80,336</u>	<u>\$ 77,598</u>	<u>\$ 65,649</u>
Additional commitments to lend	<u>\$ 413</u>	<u>\$ 1,384</u>	<u>\$ 153</u>

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

Impaired loans:	December 31, 2020			Year Ended December 31, 2020	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	\$ 12,022	\$ 13,495	\$ 4,252	\$ 12,304	\$ 347
Production and intermediate term	7,374	8,192	3,954	7,548	213
Farm-related business	15	31	4	16	—
Rural residential real estate	398	479	140	407	11
Total	<u>\$ 19,809</u>	<u>\$ 22,197</u>	<u>\$ 8,350</u>	<u>\$ 20,275</u>	<u>\$ 571</u>
With no related allowance for credit losses:					
Real estate mortgage	\$ 47,968	\$ 52,119	\$ —	\$ 49,097	\$ 1,383
Production and intermediate term	11,714	14,322	—	11,989	338
Farm-related business	164	307	—	167	5
Rural residential real estate	681	761	—	697	20
Total	<u>\$ 60,527</u>	<u>\$ 67,509</u>	<u>\$ —</u>	<u>\$ 61,950</u>	<u>\$ 1,746</u>
Total impaired loans:					
Real estate mortgage	\$ 59,990	\$ 65,614	\$ 4,252	\$ 61,401	\$ 1,730
Production and intermediate term	19,088	22,514	3,954	19,537	551
Farm-related business	179	338	4	183	5
Rural residential real estate	1,079	1,240	140	1,104	31
Total	<u>\$ 80,336</u>	<u>\$ 89,706</u>	<u>\$ 8,350</u>	<u>\$ 82,225</u>	<u>\$ 2,317</u>

Impaired loans:	December 31, 2019			Year Ended December 31, 2019	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	\$ 8,627	\$ 9,877	\$ 2,351	\$ 8,032	\$ 51
Production and intermediate term	8,055	8,999	3,829	7,499	48
Farm-related business	75	89	16	70	—
Rural residential real estate	1,117	1,238	230	1,039	7
Total	<u>\$ 17,874</u>	<u>\$ 20,203</u>	<u>\$ 6,426</u>	<u>\$ 16,640</u>	<u>\$ 106</u>
With no related allowance for credit losses:					
Real estate mortgage	\$ 36,087	\$ 41,397	\$ —	\$ 33,595	\$ 213
Production and intermediate term	23,189	25,246	—	21,587	137
Farm-related business	70	122	—	65	1
Rural residential real estate	378	396	—	353	2
Total	<u>\$ 59,724</u>	<u>\$ 67,161</u>	<u>\$ —</u>	<u>\$ 55,600</u>	<u>\$ 353</u>
Total impaired loans:					
Real estate mortgage	\$ 44,714	\$ 51,274	\$ 2,351	\$ 41,627	\$ 264
Production and intermediate term	31,244	34,245	3,829	29,086	185
Farm-related business	145	211	16	135	1
Rural residential real estate	1,495	1,634	230	1,392	9
Total	<u>\$ 77,598</u>	<u>\$ 87,364</u>	<u>\$ 6,426</u>	<u>\$ 72,240</u>	<u>\$ 459</u>

	December 31, 2018			Year Ended December 31, 2018	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans:					
With a related allowance for credit losses:					
Real estate mortgage	\$ 9,241	\$ 10,635	\$ 2,861	\$ 7,396	\$ 67
Production and intermediate term	9,010	9,871	6,355	7,212	65
Farm-related business	77	92	16	62	1
Rural residential real estate	684	803	184	548	5
Total	\$ 19,012	\$ 21,401	\$ 9,416	\$ 15,218	\$ 138
With no related allowance for credit losses:					
Real estate mortgage	\$ 31,320	\$ 35,289	\$ —	\$ 25,072	\$ 228
Production and intermediate term	15,011	17,520	—	12,016	109
Farm-related business	—	—	—	—	—
Rural residential real estate	306	446	—	244	2
Total	\$ 46,637	\$ 53,255	\$ —	\$ 37,332	\$ 339
Total impaired loans:					
Real estate mortgage	\$ 40,561	\$ 45,924	\$ 2,861	\$ 32,468	\$ 295
Production and intermediate term	24,021	27,391	6,355	19,228	174
Farm-related business	77	92	16	62	1
Rural residential real estate	990	1,249	184	792	7
Total	\$ 65,649	\$ 74,656	\$ 9,416	\$ 52,550	\$ 477

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

	Real Estate Mortgage	Production and Intermediate term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:								
Balance at December 31, 2019	\$ 12,754	\$ 17,841	\$ 998	\$ 139	\$ 2	\$ 441	\$ 22	\$ 32,197
Charge-offs	(355)	(682)	(94)	—	—	—	—	(1,131)
Recoveries	39	26	—	—	—	—	—	65
Provision for loan losses	3,179	1,148	815	(24)	—	(118)	—	5,000
Balance at December 31, 2020	\$ 15,617	\$ 18,333	\$ 1,719	\$ 115	\$ 2	\$ 323	\$ 22	\$ 36,131
Balance at December 31, 2018	\$ 11,205	\$ 17,541	\$ 792	\$ 150	\$ 2	\$ 400	\$ —	\$ 30,090
Charge-offs	(1,266)	(628)	(52)	—	—	—	—	(1,946)
Recoveries	13	22	2	—	—	16	—	53
Provision for loan losses	2,802	906	256	(11)	—	25	22	4,000
Balance at December 31, 2019	\$ 12,754	\$ 17,841	\$ 998	\$ 139	\$ 2	\$ 441	\$ 22	\$ 32,197
Balance at December 31, 2017	\$ 10,216	\$ 14,379	\$ 711	\$ 168	\$ 5	\$ 470	\$ —	\$ 25,949
Charge-offs	—	(53)	—	—	—	—	—	(53)
Recoveries	86	102	—	—	—	6	—	194
Provision for loan losses	903	3,113	81	(18)	(3)	(76)	—	4,000
Balance at December 31, 2018	\$ 11,205	\$ 17,541	\$ 792	\$ 150	\$ 2	\$ 400	\$ —	\$ 30,090
Allowance on loans evaluated for impairment:								
Individually	\$ 4,252	\$ 3,954	\$ 4	\$ —	\$ —	\$ 140	\$ —	\$ 8,350
Collectively	11,365	14,379	1,715	115	2	183	22	27,781
Balance at December 31, 2020	\$ 15,617	\$ 18,333	\$ 1,719	\$ 115	\$ 2	\$ 323	\$ 22	\$ 36,131
Individually	\$ 2,351	\$ 3,829	\$ 16	\$ —	\$ —	\$ 230	\$ —	\$ 6,426
Collectively	10,403	14,012	982	139	2	211	22	25,771
Balance at December 31, 2019	\$ 12,754	\$ 17,841	\$ 998	\$ 139	\$ 2	\$ 441	\$ 22	\$ 32,197
Individually	\$ 2,861	\$ 6,355	\$ 16	\$ —	\$ —	\$ 184	\$ —	\$ 9,416
Collectively	8,344	11,186	776	150	2	216	—	20,674
Balance at December 31, 2018	\$ 11,205	\$ 17,541	\$ 792	\$ 150	\$ 2	\$ 400	\$ —	\$ 30,090
Recorded investment in loans evaluated for impairment:								
Individually	\$ 31,148	\$ 11,772	\$ 15	\$ —	\$ —	\$ 589	\$ —	\$ 43,524
Collectively	1,844,954	730,429	164,919	58,454	2,667	50,156	24,989	2,876,568
Balance at December 31, 2020	\$ 1,876,102	\$ 742,201	\$ 164,934	\$ 58,454	\$ 2,667	\$ 50,745	\$ 24,989	\$ 2,920,092
Individually	\$ 26,256	\$ 18,900	\$ 75	\$ —	\$ —	\$ 1,113	\$ —	\$ 46,344
Collectively	1,755,620	783,070	144,953	62,142	3,173	40,936	25,004	2,814,898
Balance at December 31, 2019	\$ 1,781,876	\$ 801,970	\$ 145,028	\$ 62,142	\$ 3,173	\$ 42,049	\$ 25,004	\$ 2,861,242
Individually	\$ 26,695	\$ 15,963	\$ 77	\$ —	\$ —	\$ 805	\$ —	\$ 43,540
Collectively	1,724,785	795,096	156,902	52,865	3,686	43,674	—	2,777,008
Balance at December 31, 2018	\$ 1,751,480	\$ 811,059	\$ 156,979	\$ 52,865	\$ 3,686	\$ 44,479	\$ —	\$ 2,820,548

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

Notes to the Consolidated Financial Statements (continued)

To mitigate risk of loan losses, the Association has entered into Long-Term Standby Commitments to Purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac). The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of default (typically four months past due), subject to certain conditions. The balance of loans under Long-Term Standby Commitments to Purchase held by the Association was \$357, \$473, and \$627 at December 31, 2020, 2019, and 2018, respectively. Fees paid to Farmer Mac for such commitments totaled \$2, \$3, and \$3 for 2020, 2019, and 2018, respectively.

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

Year Ended December 31, 2020					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 10,865	\$ 21,777	\$ –	\$ 32,642	
Production and intermediate term	442	18,546	–	18,988	
Farm-related business	157	–	–	157	
Rural residential real estate	–	267	–	267	
Total	\$ 11,464	\$ 40,590	\$ –	\$ 52,054	
Post-modification:					
Real estate mortgage	\$ 10,801	\$ 21,473	\$ –	\$ 32,274	\$ –
Production and intermediate term	441	18,516	–	18,957	–
Farm-related business	166	–	–	166	–
Rural residential real estate	–	269	–	269	–
Total	\$ 11,408	\$ 40,258	\$ –	\$ 51,666	\$ –

Year Ended December 31, 2019					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 5,242	\$ 3,008	\$ –	\$ 8,250	
Production and intermediate term	5,177	25,972	–	31,149	
Total	\$ 10,419	\$ 28,980	\$ –	\$ 39,399	
Post-modification:					
Real estate mortgage	\$ 5,241	\$ 3,011	\$ –	\$ 8,252	\$ –
Production and intermediate term	5,186	25,980	–	31,166	–
Total	\$ 10,427	\$ 28,991	\$ –	\$ 39,418	\$ –

Year Ended December 31, 2018					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 2,673	\$ 3,437	\$ –	\$ 6,110	
Production and intermediate term	678	12,179	–	12,857	
Rural residential real estate	222	–	8	230	
Total	\$ 3,573	\$ 15,616	\$ 8	\$ 19,197	
Post-modification:					
Real estate mortgage	\$ 2,678	\$ 3,430	\$ –	\$ 6,108	\$ –
Production and intermediate term	680	12,157	–	12,837	–
Rural residential real estate	224	–	8	232	–
Total	\$ 3,582	\$ 15,587	\$ 8	\$ 19,177	\$ –

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

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

Defaulted troubled debt restructurings	Year Ended December 31,		
	2020	2019	2018
Real estate mortgage	\$ 1,102	\$ 14	\$ 1,632
Production and intermediate term	1,106	563	525
Rural residential real estate	–	–	413
Total	\$ 2,208	\$ 577	\$ 2,570

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. 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	\$ 38,730	\$ 21,518	\$ 18,907	\$ 9,888	\$ 3,060	\$ 5,041
Production and intermediate term	12,484	21,408	15,769	5,168	9,064	7,711
Farm-related business	179	18	25	15	18	25
Rural residential real estate	711	624	749	221	242	564
Total loans	\$ 52,104	\$ 43,568	\$ 35,450	\$ 15,292	\$ 12,384	\$ 13,341
Additional commitments to lend	\$ 318	\$ 1,287	\$ 152			

Note 4 — Investments

Equity Investments in Other Farm Credit Institutions

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

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association's investment in the Bank totaled \$27,633 for 2020, \$30,387 for 2019 and \$29,612 for 2018. The Association owned 10.26 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 \$2,624 related to other Farm Credit institutions at December 31, 2020.

Note 5 — Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2020	2019	2018
Land	\$ 2,844	\$ 2,844	\$ 2,843
Buildings and improvements	18,058	17,892	17,668
Furniture and equipment	9,060	8,189	8,719
	29,962	28,925	29,230
Less: accumulated depreciation	14,031	12,987	12,792
Total	\$ 15,931	\$ 15,938	\$ 16,438

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2020, the Association's notes payable were within the specified limitations.

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

The weighted average interest rates on the variable rate advances were 1.45 percent for LIBOR-based loans and 1.57 percent for Prime-based loans, and the weighted average remaining maturities were 4.2 years and 2.1 years, respectively, at December 31, 2020. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 2.56 percent, and the weighted average remaining maturity was 10.1 years at December 31, 2020. The weighted-average interest rate on all interest-bearing notes payable was 2.39 percent and the weighted-average remaining maturity was 9.0 years at December 31, 2020. Gross notes payable consisted of approximately 15.94 percent variable rate and 84.06 percent fixed rate portions, representing a match-funding of the Association's loan volume at December 31, 2020. Notes Payable to AgFirst Farm Credit Bank, as reflected on the Consolidated Balance Sheets, also includes a credit which reduces the notes payable balance and corresponding interest expense. The weighted average maturities described above are related to matched-funded loans. The Direct Note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

- A. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans,

or Class C 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 equal two percent of the loan amount or one thousand dollars, whichever is less. The Association's Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 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, usually as part of the loan proceeds and not as a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

B. Regulatory Capitalization Requirements and

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

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

The capital regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. Regulatory ratios include common equity Tier 1 (CET1) capital, Tier 1 capital, and

total capital risk-based ratios. The regulations also include a Tier 1 leverage ratio and an unallocated retained earnings (URE) and URE equivalents (UREE) leverage ratio. The permanent capital ratio (PCR) remains in effect.

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

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

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31,		
				2020	2019	2018
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	20.31%	19.69%	18.84%
Tier 1 Capital	6.0%	2.5%	8.5%	20.31%	19.69%	18.84%
Total Capital	8.0%	2.5%	10.5%	21.66%	21.81%	21.09%
Permanent Capital	7.0%	0.0%	7.0%	20.69%	20.91%	20.26%
Non-risk-adjusted ratios:						
Tier 1 Leverage	4.0%	1.0%	5.0%	21.68%	20.78%	19.88%
URE and UREE Leverage	1.5%	0.0%	1.5%	21.67%	20.75%	19.39%

* 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, C, D and E 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 five dollars (\$5.00) per share.

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

Class	Protected	Shares Outstanding	
		Number	Aggregate Par Value
C Common/Voting	No	2,082,183	\$ 10,411
C Participation Certificates/Nonvoting	No	197,866	989
Total Capital Stock and Participation Certificates		2,280,049	\$ 11,400

At-risk common stock and participation certificates are retired at the sole discretion of the Association's Board of Directors at book value not to exceed par or face amounts, provided the minimum capital adequacy standards established by the Board are met.

Retained Earnings

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

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

The Association has a first lien and security interest on all 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 of the Board of Directors, may order any and all surplus account allocations owned by such borrower to be applied against the indebtedness.

Allocated equities shall be retired solely at the discretion of the Board of Directors, provided that minimum capital standards established by the FCA and the Board are met. Nonqualified retained equity is considered to be permanently invested in the Association and 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 \$405,105 of nonqualified retained surplus.

Voting Rights

Classes A and E Common Stock and Class C Participation Certificates are nonvoting. Classes C and D Common Stock have voting rights. Each voting shareholder shall be entitled to only one vote.

Dividends

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed eight percent (8%) of the par value of the respective capital stock and participation certificates.

The rate of dividends paid on Classes A, C, D and E Common Stock and Class C Participation Certificates shall be at the same rate per share.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards.

Patronage Distributions

Prior to the beginning of any fiscal year, the Board of Directors, 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 each fiscal year. 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 of Directors. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash.

Transfer

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

Impairment

Any net losses recorded by the Association shall first be applied against unallocated members' equity. To the extent that such losses would exceed unallocated members' equity, such losses would be applied consistent with the Association's bylaws and shall be borne ratably by each share of Class A, C, D and E Common Stock and Class C Participation Certificates outstanding.

Impaired stock and participation certificates shall be restored in the reverse of the impairment sequence until each share of stock and participation certificates has a book value equal to its par or face value, respectively.

Liquidation

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

First, to the holders of Class A Common Stock, Class C Common Stock, Class D Common Stock, Class E Common Stock, and Participation Certificates pro rata in proportion to the number of shares or units of each such class of stock or participation certificates then issued and outstanding,

until an amount equal to the aggregate par value or face amount of all such shares or units has been distributed to such holders;

Second, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed;

Third, to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed; and

Fourth, insofar as is practicable, any remaining assets shall be distributed to past and present Patrons on a patronage basis in a fair and equitable manner determined by the Board or receiver.

D. Accumulated Other Comprehensive Income (AOCI):

Changes in Accumulated Other Comprehensive Income by Component (a)			
For the Year Ended December 31,			
	2020	2019	2018
Employee Benefit Plans:			
Balance at beginning of period	\$ (372)	\$ (198)	\$ (322)
Other comprehensive income before reclassifications	(132)	(175)	117
Amounts reclassified from AOCI	9	1	7
Net current period OCI	(123)	(174)	124
Balance at end of period	\$ (495)	\$ (372)	\$ (198)

Reclassifications Out of Accumulated Other Comprehensive Income (b)				
For the Year Ended December 31,				
	2020	2019	2018	Income Statement Line Item
Defined Benefit Pension Plans:				
Periodic pension costs	\$ (9)	\$ (1)	\$ (7)	See Note 9.
Amounts reclassified	\$ (9)	\$ (1)	\$ (7)	

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

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

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

Level 1

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

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

Level 2

The Association has no Level 2 assets or liabilities measured at fair value on a recurring basis at December 31, 2020.

Level 3

Because no active market exists for the Association’s accruing loans, fair value is estimated by discounting the expected future cash flows using the Association’s current interest rates at

which similar loans currently would be made to borrowers with similar credit risk. The loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves. Certain loans evaluated for impairment under FASB guidance have fair values based upon the underlying collateral, as the loans were collateral-dependent. Specific reserves were established for these loans when the value of the collateral, less estimated cost to sell, was less than the principal balance of the loan. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters.

Notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the

Association's loan receivables. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

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

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

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

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

		December 31, 2020						
		Total Carrying Amount	Level 1	Level 2	Level 3			Total Fair Value
Recurring Measurements								
Assets:								
Assets held in trust funds		\$ 2,826	\$ 2,826	\$ -	\$ -			\$ 2,826
Recurring Assets		\$ 2,826	\$ 2,826	\$ -	\$ -			\$ 2,826
Liabilities:								
Recurring Liabilities		\$ -	\$ -	\$ -	\$ -			\$ -
Nonrecurring Measurements								
Assets:								
Impaired loans		\$ 11,459	\$ -	\$ -	\$ 11,459			\$ 11,459
Other property owned		1,661	-	-	1,846			1,846
Nonrecurring Assets		\$ 13,120	\$ -	\$ -	\$ 13,305			\$ 13,305
Other Financial Instruments								
Assets:								
Cash		\$ 228	\$ 228	\$ -	\$ -			\$ 228
Loans		2,860,942	-	-	2,890,727			2,890,727
Other Financial Assets		\$ 2,861,170	\$ 228	\$ -	\$ 2,890,727			\$ 2,890,955
Liabilities:								
Notes payable to AgFirst Farm Credit Bank		\$ 2,229,163	\$ -	\$ -	\$ 2,255,469			\$ 2,255,469
Other Financial Liabilities		\$ 2,229,163	\$ -	\$ -	\$ 2,255,469			\$ 2,255,469

Notes to the Consolidated Financial Statements (continued)

December 31, 2019						
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	
Recurring Measurements						
Assets:						
Assets held in trust funds	\$ 2,687	\$ 2,687	\$ –	\$ –	\$ –	\$ 2,687
Recurring Assets	\$ 2,687	\$ 2,687	\$ –	\$ –	\$ –	\$ 2,687
Liabilities:						
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –
Nonrecurring Measurements						
Assets:						
Impaired loans	\$ 11,448	\$ –	\$ –	\$ 11,448	\$ –	\$ 11,448
Other property owned	1,415	–	–	1,572	–	1,572
Nonrecurring Assets	\$ 12,863	\$ –	\$ –	\$ 13,020	\$ –	\$ 13,020
Other Financial Instruments						
Assets:						
Cash	\$ 3,508	\$ 3,508	\$ –	\$ –	\$ –	\$ 3,508
Loans	2,802,248	–	–	2,801,621	–	2,801,621
Other Financial Assets	\$ 2,805,756	\$ 3,508	\$ –	\$ 2,801,621	\$ –	\$ 2,805,129
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$ 2,192,656	\$ –	\$ –	\$ 2,199,173	\$ –	\$ 2,199,173
Other Financial Liabilities	\$ 2,192,656	\$ –	\$ –	\$ 2,199,173	\$ –	\$ 2,199,173

December 31, 2018						
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	
Recurring Measurements						
Assets:						
Assets held in trust funds	\$ 2,495	\$ 2,495	\$ –	\$ –	\$ –	\$ 2,495
Recurring Assets	\$ 2,495	\$ 2,495	\$ –	\$ –	\$ –	\$ 2,495
Liabilities:						
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –
Nonrecurring Measurements						
Assets:						
Impaired loans	\$ 9,596	\$ –	\$ –	\$ 9,596	\$ –	\$ 9,596
Other property owned	622	–	–	714	–	714
Nonrecurring Assets	\$ 10,218	\$ –	\$ –	\$ 10,310	\$ –	\$ 10,310
Other Financial Instruments						
Assets:						
Cash	\$ 4,376	\$ 4,376	\$ –	\$ –	\$ –	\$ 4,376
Loans	2,764,386	–	–	2,708,265	–	2,708,265
Other Financial Assets	\$ 2,768,762	\$ 4,376	\$ –	\$ 2,708,265	\$ –	\$ 2,712,641
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$ 2,181,496	\$ –	\$ –	\$ 2,153,868	\$ –	\$ 2,153,868
Other Financial Liabilities	\$ 2,181,496	\$ –	\$ –	\$ 2,153,868	\$ –	\$ 2,153,868

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 at December 31, 2020

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 13,305	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 ERISA and no Form 5500 is required. As such, the following information is neither available for nor applicable to the plans:

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

The FAP Plan covers employees hired prior to January 1, 2003 and includes other District employees that are not employees of the Association. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. FAP Plan expenses included in employee benefit costs on the Association's Statements of Comprehensive Income were \$4,514 for 2020, \$4,110 for 2019, and \$5,444 for 2018. At December 31, 2020, 2019, and 2018, the total liability balance for the FAP Plan was \$114,449, \$129,713, and \$94,491, respectively. The FAP Plan was 89.63 percent, 87.55 percent, and 89.56 percent funded to the projected benefit obligation as of December 31, 2020, 2019, and 2018, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Association or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs on the Association's Statements of Comprehensive Income were \$633 for 2020, \$613 for 2019, and \$594 for 2018. The total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition was \$219,990, \$209,531, and \$181,820 at December 31, 2020, 2019, and 2018, respectively.

The Association also participates in the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes \$0.50 for each \$1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes \$1.00 for each \$1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were \$1,435, \$1,284, and \$1,185 for the years ended December 31, 2020, 2019, and 2018, respectively. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2002.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2020, 2019, and 2018, \$(123), \$(174) and \$124, respectively, has been recognized as a net debit, a net debit and a net credit, respectively, to AOCI to reflect these elements.

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

In addition to the multiemployer plans described above, the Association sponsors nonqualified supplemental retirement and 401(k) plans. The supplemental retirement plan is unfunded and had a projected benefit obligation of \$1,943 and a net underfunded status of \$1,943 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 \$82, \$83, and \$94 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 \$26,246. During 2020, \$6,979 of new loans were made and repayments totaled \$6,340. Additionally, \$3,873 was added and \$7,377 was removed due to changes in directors throughout the year. 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, \$479,620 of commitments to extend credit and \$108 of commercial letters of credit were outstanding. The reserve for unfunded commitments totaled \$1,500 at December 31, 2020, and was 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 \$3,429 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 \$3,429.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2020	2019	2018
Current:			
Federal	\$ 437	\$ 30	\$ 85
State	94	30	110
	<u>531</u>	<u>60</u>	<u>195</u>
Deferred:			
Federal	—	—	—
State	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
Total provision (benefit) for income taxes	<u>\$ 531</u>	<u>\$ 60</u>	<u>\$ 195</u>

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

	December 31,		
	2020	2019	2018
Federal tax at statutory rate	\$ 16,645	\$ 13,405	\$ 14,298
State tax, net	94	48	—
Patronage distributions	(10,815)	(3,570)	(4,200)
Tax-exempt FLCA earnings	(13,498)	(10,641)	(12,794)
Dividends from tax-exempt FLCA	8,512	434	1,807
Change in deferred tax asset valuation allowance	(275)	453	991
Impact of tax reform	—	—	—
Other	(132)	(69)	93
Provision (benefit) for income taxes	<u>\$ 531</u>	<u>\$ 60</u>	<u>\$ 195</u>

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

	December 31,		
	2020	2019	2018
Deferred income tax assets:			
Allowance for loan losses	\$ 5,151	\$ 5,100	\$ 5,030
Net operating loss – carryforward	553	608	600
Nonaccrual loan interest	558	762	450
Other	253	275	266
Gross deferred tax assets	<u>6,515</u>	<u>6,745</u>	<u>6,346</u>
Less: valuation allowance	<u>(3,016)</u>	<u>(3,656)</u>	<u>(2,981)</u>
Gross deferred tax assets, net of valuation allowance	<u>3,499</u>	<u>3,089</u>	<u>3,365</u>
Deferred income tax liabilities:			
Bank patronage allocation	(2,855)	(2,337)	(2,681)
Loan fees	(644)	(752)	(684)
Other	—	—	—
Gross deferred tax liability	<u>(3,499)</u>	<u>(3,089)</u>	<u>(3,365)</u>
Net deferred tax asset	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

At December 31, 2020, deferred income taxes have not been provided by the Association on approximately \$17.8 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of \$3,016, \$3,656 and \$2,981 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.

At December 31, 2020 the Company has Federal loss carryforwards totaling approximately \$2.2M that expire in varying amounts beginning in 2033. The valuation allowance at December 31, 2020 was primarily related to allowance for loan losses and federal loss carryforwards that, in the judgement of management, are more likely than not to expire before realized. In evaluating the Company'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.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2020 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2017 and forward.

Notes to the Consolidated Financial Statements (continued)

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2020				
	First	Second	Third	Fourth	Total
Net interest income	\$ 18,845	\$ 17,322	\$ 16,985	\$ 22,917	\$ 76,069
Provision for (reversal of allowance for) loan losses	1,000	2,000	1,000	1,000	5,000
Noninterest income (expense), net	(4,868)	(3,426)	(4,194)	20,151	7,663
Net income	\$ 12,977	\$ 11,896	\$ 11,791	\$ 42,068	\$ 78,732

	2019				
	First	Second	Third	Fourth	Total
Net interest income	\$ 18,270	\$ 18,162	\$ 18,481	\$ 18,664	\$ 73,577
Provision for (reversal of allowance for) loan losses	1,000	1,000	1,000	1,000	4,000
Noninterest income (expense), net	(4,547)	(4,804)	(4,486)	8,032	(5,805)
Net income	\$ 12,723	\$ 12,358	\$ 12,995	\$ 25,696	\$ 63,772

	2018				
	First	Second	Third	Fourth	Total
Net interest income	\$ 17,561	\$ 17,682	\$ 17,827	\$ 18,196	\$ 71,266
Provision for (reversal of allowance for) loan losses	1,000	1,000	1,000	1,000	4,000
Noninterest income (expense), net	(2,946)	(4,656)	(4,122)	12,348	624
Net income	\$ 13,615	\$ 12,026	\$ 12,705	\$ 29,544	\$ 67,890

Note 14 — Subsequent Events

The Association evaluated subsequent events and determined that aside from the event listed below there were no other events requiring disclosure through March 11, 2021, which was the date the financial statements were issued.

On February 25, 2021 Association Board of Directors approved an additional \$3,000 2020 cash patronage distribution to be paid out in 2021. This increases the total cash patronage distribution from \$51,500 as disclosed in the Annual Report to \$54,500.

BOARD of DIRECTORS



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Chairman



Anthony M. III
Vice Chairman
Outside Director



Paul D. Baumgardner



Julie A. Bolyard



Laura M. Heilinger



Fred R. Moore, Jr.



Michael S. Nelson



Jennifer L. Rhodes



Douglas D. Scott



Alan N. Siegfried
Outside Director





Walter C. Hopkins



T. Jeffery Jennings



John Travis Hastings



David R. Smith



Fred N. West



Charles M. Wright IV





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President &
Chief Executive Officer



Cathy L. Blair
Sr. Vice President,
Corporate Services



Stuart D. Cooper
Sr. Vice President,
Chief Lending Officer



Kurt H. Fuchs
Sr. Vice President,
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Bessie H. Moy
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Tammy L. Price
Sr. Vice President,
Director of Technology
and Strategic Partnerships



Brian E. Rosati
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William J. Rutter
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Cheryl L. Steinbacher
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