
FARM CREDIT
2020
ANNUAL REPORT

Colonial Farm Credit, ACA

2020 ANNUAL REPORT

Contents

Message from the Chairman of the Board and the Chief Executive Officer

Colonial Farm Credit (Association) continued its mission of supporting rural communities and agriculture with reliable, consistent credit and financial services in 2020.

The impact of the COVID-19 pandemic created significant challenges, and we operated under our business continuity plan beginning in March. Loan payment delinquencies peaked in April and then quickly declined. Average delinquencies finished well within Association goals and remained at manageable levels throughout the year. We remain well positioned to help our customers – see more on this below.

Weather conditions and commodity price volatility made farm management very challenging throughout the year. We continued our annual initiative to talk with customers during the fall to assess the harvest and anticipated operational results. The analysis and conclusions reached from this initiative indicate that credit risk remains very manageable for our Association.

Loan demand was good for land, residential construction, and equipment financing. 2020 average month-end loan principal was 4.3% higher than 2019.

Credit quality remained very sound. At year end, non-earning assets (mainly loans for which the accrual of interest has been stopped) was 0.2 percent of total assets. This mirrors the lowest levels we've seen in over 12 years.

Net income in 2020 was $20.1 million. This record income level was much higher than anticipated. The uptick compared to budget was supported mainly by these positive and non-recurring events:

- A $5.9 million special distribution from AgFirst Farm Credit Bank (our funding bank) resulting from a favorable interest rate environment,
- Unexpected refunds from the Farm Credit System Insurance Corporation of $121 thousand, and
- Provision for loan losses $466 thousand lower than budget (and significantly lower than historical averages).

The events noted above and our strong credit quality and capital position allowed your board of directors to approve a record patronage refund of $17.9 million, which is the highest patronage level that we have paid in our history.

The $17.9 million distribution will be paid out in April 2021. This compares very favorably to the budgeted refund of $9.0 million. We expect patronage distributions to return to historical budgeted ranges in future years.

This is the 23rd consecutive year that we have returned a portion of our profits to our customers. We are pleased to be in the financial position to return these earnings to you during a year of unprecedented challenges and uncertainty.

During 2021, we will continue to focus our efforts on serving the credit needs of all eligible customers and assisting customers who have been adversely impacted by difficult economic conditions.

As the Farm Credit System enters its 105th year, your cooperative is positioned to prosper in any foreseeable environment by virtue of our strong financial position, diverse and high quality loan portfolio, sound underwriting standards, excellent employees, and exceptional governance. Our combination of competitive rates, patronage refunds, personal service, and extensive local knowledge is unmatched in the financial services world.

Thank you for your loyalty and support. We look forward to serving your financial needs in 2021 and beyond.

A. Kevin Monahan
Chairman of the Board

Paul B. Franklin, Sr.
Chief Executive Officer

March 11, 2021

Report of Management

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

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

The consolidated financial statements have been audited by independent auditors, whose report appears 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 Colonial 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.

A. Kevin Monahan
Chairman of the Board

Paul B. Franklin, Sr.
Chief Executive Officer

Diane S. Fowlkes
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.

Paul B. Franklin, Sr.
Chief Executive Officer

Diane S. Fowlkes
Chief Financial Officer

March 11, 2021

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	December 31, 2020	2019	2018	2017	2016
Balance Sheet Data					
Cash	**$ 157**	$ 550	$ 66	$ 66	$ 63
Loans	**722,734**	677,201	670,269	636,119	641,762
Allowance for loan losses	**(2,596)**	(2,365)	(2,245)	(2,427)	(3,006)
Net loans	**720,138**	674,836	668,024	633,692	638,756
Equity investments in other Farm Credit institutions	**6,616**	7,066	6,809	6,890	6,949
Other property owned	**—**	535	37	—	78
Other assets	**18,325**	15,755	17,585	16,719	17,677
Total assets	**$ 745,236**	$ 698,742	$ 692,521	$ 657,367	$ 663,523
Notes payable to AgFirst Farm Credit Bank*	**$ 529,440**	$ 489,386	$ 484,103	$ 456,390	$ 467,883
Accrued interest payable and other liabilities with maturities of less than one year	**25,047**	21,014	21,695	16,812	19,977
Total liabilities	**554,487**	510,400	505,798	473,202	487,860
Capital stock and participation certificates	**5,520**	5,238	5,047	4,795	4,699
Unallocated retained earnings	**185,679**	183,461	181,684	179,414	170,978
Accumulated other comprehensive income (loss)	**(450)**	(357)	(8)	(44)	(14)
Total members' equity	**190,749**	188,342	186,723	184,165	175,663
Total liabilities and members' equity	**$ 745,236**	$ 698,742	$ 692,521	$ 657,367	$ 663,523
Statement of Income Data					
Net interest income	**$ 21,892**	$ 21,302	$ 21,403	$ 19,070	$ 19,146
Provision for (reversal of allowance for) loan losses	**234**	6	(78)	(337)	(775)
Noninterest income (expense), net	**(1,526)**	(4,608)	(3,122)	40	(4,837)
Net income	**$ 20,132**	$ 16,688	$ 18,359	$ 19,447	$ 15,084
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.85%**	2.45%	2.76%	2.99%	2.29%
Total members' equity	**10.28%**	8.61%	9.57%	10.66%	8.46%
Net interest income as a percentage of average earning assets	**3.17%**	3.20%	3.29%	3.00%	2.97%
Net (chargeoffs) recoveries to average loans	**0.000%**	0.017%	(0.016)%	(0.038)%	0.003%
Total members' equity to total assets	**25.60%**	26.95%	26.96%	28.02%	26.47%
Debt to members' equity (:1)	**2.91**	2.71	2.71	2.57	2.78
Allowance for loan losses to loans	**0.36%**	0.35%	0.33%	0.38%	0.47%
Permanent capital ratio	**25.19%**	26.71%	26.26%	26.05%	25.93%
Total surplus ratio	**	**	**	**	25.29%
Core surplus ratio	**	**	**	**	25.29%
Common equity tier 1 capital ratio	**25.10%**	26.62%	26.17%	25.94%	**
Tier 1 capital ratio	**25.10%**	26.62%	26.17%	25.94%	**
Total regulatory capital ratio	**25.47%**	26.99%	26.52%	26.38%	**
Tier 1 leverage ratio	**26.80%**	27.90%	27.85%	27.72%	**
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**26.84%**	27.94%	27.93%	27.85%	**
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 17,914**	$ 14,902	$ 16,117	$ 11,046	$ 10,602

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

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

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

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

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

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, ***www.agfirst.com***, or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or writing to Susanne Caughman, 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.colonialfarmcredit.com***, or by calling 1-804-746-1252, or writing to Diane Fowlkes, Colonial Farm Credit, ACA, 7104 Mechanicsville Turnpike, Mechanicsville, VA 23111. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

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

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

IMPACTS OF THE COVID-19 GLOBAL PANDEMIC

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

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

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

COVID-19 Support Programs

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

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

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

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

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

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

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

On August 8, 2020, the PPP was closed and the SBA ceased to accept applications from participating lenders. The Association was approved as a PPP lender and made $886 thousand in loans and recorded approximately $44 thousand in loan-related fee income during 2020.

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

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

AGRICULTURAL OUTLOOK

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

The COVID-19 pandemic affected the production, consumption and supply chain 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 fair value of any collateral. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

  Management considers the following factors in determining and supporting the level 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, 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 US economy, in terms of gross domestic product, shrank 3.5% in 2020. The second half of the year showed solid recovery after the sharp declines experienced earlier in the year as a result of public safety precautions established to limit the spread of the coronavirus. With additional coronavirus relief packages expected from the federal government, extension of emergency unemployment programs, and increasing vaccine availability, US economists have upgraded the outlook for growth in 2021 to 5.7%.

After slashing interest rates by 1.5% in March 2020, the Federal Open Market Committee (FOMC) indicated that it expected to keep the policy rate at near zero rates for the foreseeable future, which likely means through 2024. The housing market was strong prior to the COVID-19 crisis hit. After a brief period of declines in the weekly purchase applications in early spring, demand returned quickly and ticked up with interest rates at all time lows. U.S. Housing demand remains high relative to inventory, contributing to existing home sales increasing 20.7 percent and the median sales price increasing by 11.3 percent from 2019 in the South region, according to the National Association of Realtors.

Economic conditions in Virginia and Maryland generally followed national statistics. Since December 2019, unemployment rates increased by 2.2% and 2.9% in Virginia and Maryland respectively. Jobs were lost in all sectors with the exception of construction in both states and logging and mining in Maryland. Residential housing permits were up in both states, 5.8% in Virginia and 14.6% in Maryland. Housing starts, however, were down.

LOAN PORTFOLIO

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

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

	December 31,					
Loan Type	**2020**		**2019**		**2018**	
Real estate mortgage	$ 478,540	66.21 %	$ 435,210	64.27 %	$ 422,749	63.07 %
Production and intermediate-term	164,816	22.80	171,757	25.36	172,996	25.81
Loans to cooperatives	4,636	0.64	4,278	0.63	4,803	0.72
Processing and marketing	20,120	2.78	18,672	2.75	22,008	3.28
Farm-related business	5,030	0.70	5,730	0.85	5,483	0.82
Communication	–	–	578	0.09	513	0.08
Power and water/waste disposal	720	0.10	2,215	0.33	2,433	0.36
Rural residential real estate	45,565	6.30	35,455	5.23	36,287	5.41
International	3,307	0.46	3,306	0.49	2,997	0.45
Total	$ 722,734	100.00 %	$ 677,201	100.00 %	$ 670,269	100.00 %

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

The Association has a regional office in Hughesville, Maryland. All other regional offices are in the state of Virginia. The geographic distribution of loans by regional office for the past three years is as follows:

	December 31,		
Regional Office	**2020**	**2019**	**2018**
Farmville	26.79%	26.16%	27.15%
Hughesville	10.81	10.22	10.01
Mechanicsville	29.85	30.19	28.70
Tappahannock	9.55	9.30	9.89
Windsor	23.00	24.13	24.25
	100.00%	100.00%	100.00%

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

The major commodities in the Association's loan portfolio are shown below. As an additional hedge against agriculture industry risk, 59 percent of the Association's loans at December 31, 2020 were made to borrowers whose repayment capacity was highly dependent upon off-farm income.

	Percent of Portfolio		
Commodity Group	**2020**	**2019**	**2018**
Field Crops	29%	30%	29%
Timber	32	30	29
Part-time Farmers and Other	18	19	21
Livestock	15	16	16
Rural Home	6	5	5
Total	100%	100%	100%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers, including part-time farmers. The Association's loan portfolio includes field crops such as cash grains, peanuts, tobacco, and cotton; timber products; and livestock operations including poultry, dairy, beef cattle, swine, and horses. Many of these operations are diversified within their enterprise and/or with crop production, which reduces overall risk exposure. Demand, supply, weather, and international trade are some of the factors affecting the prices of these commodities. Even though the number and average loan size has increased 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 increase in gross loan volume for the twelve months ended December 31, 2020, is primarily attributed to increased demand for loans to finance real estate and construction.

Over the past few years, the majority of the Association's growth has come from real estate mortgages, which make up over half of the Association's portfolio. Production and intermediate-term loans are also a substantial portion of the portfolio. The short-term portfolio, which is comprised heavily of working capital loans, normally reaches a peak balance in late summer and rapidly declines in the fall months as commodities are marketed and proceeds are applied to these loans. While working capital loan balances were repaid in the fall, outstanding balances increased during December to prepay operating expenses for the coming season.

During 2020, the Association continued buying loan participations within the System on a selective basis. This provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income. Competition for quality credits has been strong for the past several years.

	December 31,		
Loan Participations:	**2020**	**2019**	**2018**
Participations Purchased – FCS Institutions	$ 51,862	$ 54,464	$ 50,459
Participations Sold	(886)	–	–
Total	$ 50,976	$ 54,464	$ 50,459

In 2020, the Association originated loans under the SBA Payroll Protection Program (PPP). These loans were subsequently sold to AgFirst and the Association retained servicing of the loans.

The Association sells qualified long-term residential mortgage loans into the secondary market. For the years ended December 31, the Association originated loans for resale totaling $43,609 in 2020, $43,468 in 2019, and $38,815 in 2018, which were sold into the secondary market.

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 reviews 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 the lending staff. Underwriting standards include, among other things, an evaluation of:

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

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Long term real estate loans must be collateralized by first liens on real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Long term real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for most real estate 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. Following, are the classification definitions.

- Acceptable – Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (OAEM) – Assets are currently collectible, but exhibit some potential 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	99.33%	99.13%	98.87%
Substandard	0.67%	0.87%	1.13%
Total	100.00%	100.00%	100.00%

The Association had no loans with credit quality of Doubtful or Loss for the reporting periods above.

The Association's loan portfolio is divided into performing and high-risk categories. The high-risk assets, including accrued interest, are detailed below:

	December 31,		
High-risk Assets	2020	2019	2018
Nonaccrual loans	$ 1,122	$ 2,344	$ 2,804
Restructured loans	391	443	475
Accruing loans 90 days past due	–	–	–
Total high-risk loans	1,513	2,787	3,279
Other property owned	–	535	37
Total high-risk assets	$ 1,513	$ 3,322	$ 3,316
Ratios			
Nonaccrual loans to total loans	0.16%	0.35%	0.42%
High-risk assets to total assets	0.20%	0.48%	0.48%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased $1,222 or 52 percent in 2020. The large reduction in nonaccrual loans in 2020 was primarily due to a significant number of accounts returning to accruing status due to improved performance, and one large account that paid in full. Of the $1,122 in nonaccrual volume at December 31, 2020, $431 or 38 percent, compared to 70 percent and 58 percent at December 31, 2019 and 2018, respectively, were current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be reinstated to accrual status.

Loan restructuring is available to financially distressed borrowers who meet certain criteria. 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 determined according to generally accepted accounting principles and considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio.

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

	Year Ended December 31,		
Allowance for Loan Losses Activity:	2020	2019	2018
Balance at beginning of year	$ 2,365	$ 2,245	$ 2,427
Charge-offs:			
Real estate mortgage	(1)	(6)	(19)
Agribusiness	–	–	–
Rural residential real estate	–	–	–
Production and intermediate-term	(58)	(27)	(177)
Total charge-offs	(59)	(33)	(196)
Recoveries:			
Real estate mortgage	31	26	28
Agribusiness	–	–	–
Rural residential real estate	–	27	14
Production and intermediate-term	25	94	51
Total recoveries	56	147	93
Net (charge-offs) recoveries	(3)	114	(103)
Provision for (reversal of) loan losses	234	6	(79)
Balance at end of year	$ 2,596	$ 2,365	$ 2,245
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.00)%	0.017%	(0.016)%

The net loan charge-offs were primarily associated with default occurring in loans that were under-collateralized. Several nonaccrual loans were fully collected during the year.

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

	December 31,		
Allowance for Loan Losses by Type	2020	2019	2018
Real estate mortgage	$ 1,693	$ 1,488	$ 1,371
Production and intermediate-term	623	637	633
Agribusiness	105	98	104
Communication	-	2	2
Power and Water/Waste Disposal	2	8	8
Rural residential real estate	161	121	117
International	12	11	10
Total allowance	$ 2,596	$ 2,365	$ 2,245

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

Allowance for Loan Losses as a Percentage of:	December 31, 2020	2019	2018
Total loans	0.36%	0.35%	0.33%
High-risk loans	171.58%	84.86%	68.47%
Nonaccrual loans	231.37%	100.90%	80.06%

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, the difference between interest income and interest expense, was $21,892, $21,302 and $21,403 in 2020, 2019, and 2018, respectively. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual Income	Total
12/31/20 - 12/31/19				
Interest income	$ 1,578	$ (3,234)	$ 265	$ (1,391)
Interest expense	865	(2,846)	–	(1,981)
Change in net interest income	$ 713	$ (388)	$ 265	$ 590
12/31/19 - 12/31/18				
Interest income	$ 859	$ 1,561	$ (1,160)	$ 1,260
Interest expense	401	960	–	1,361
Change in net interest income	$ 458	$ 601	$ (1,160)	$ (101)

**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 December 31, 2020	2019	2018	Percentage Increase/(Decrease) 2020/2019	2019/2018
Loan fees	$ 469	$ 531	$ 483	(11.68)%	9.94 %
Fees for financially related services	54	67	69	(19.40)	(2.90)
Lease income	142	134	81	5.97	65.43
Patronage refund from other Farm Credit Institutions	9,701	6,386	7,337	51.91	(12.96)
Gains on sales of rural home loans, net	681	686	564	(0.73)	21.63
Gains on sales of premises and equipment, net	39	51	51	(23.53)	–
Gains (losses) on other transactions	25	72	(18)	(65.28)	500.00
FCSIC refund	121	130	835	(6.92)	(84.43)
Other noninterest income	75	68	101	10.29	(32.67)
Total noninterest income	$ 11,307	$ 8,125	$ 9,503	39.16 %	(14.50)%

Fee income on loans decreased $62 from 2019 to 2020 primarily as a result of a decline in origination fees for construction loans.

The Association receives patronage refunds from the Bank based on its notes payable. In 2020, 2019, and 2018 the Association received a special patronage distribution of $5,872, $2,792, and $3,838 respectively, in addition to the normal patronage of 75 basis points. The special patronage distribution is directly related to the Bank’s earnings and capital level, which fluctuate.

Gains on sale of rural home loans decreased $5 or 1 percent for the year ended December 31, 2020 despite closing 29 more rural home loans in 2020.

Gains on other transactions decreased $47 or 65 percent for the year ended December 31, 2020. The decrease in gains is primarily due to losses from pension plan changes due to market performance in 2020.

The Farm Credit System Insurance Corporation (FCSIC) issued a refund of $121 in 2020 based on 2019 premiums paid, compared to a total refund of $130 in 2019.

Other noninterest income increased $7 or 10 percent in 2020 primarily as a result of an increase in release fees.

Noninterest Expense

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

	For the Year Ended December 31,			Percentage Increase/(Decrease)	
Noninterest Expense	**2020**	**2019**	**2018**	**2020/ 2019**	**2019/ 2018**
Salaries and employee benefits	$ 9,480	$ 9,219	$ 9,237	2.83 %	(0.19)%
Occupancy and equipment	564	599	532	(5.79)	12.59
Insurance Fund premiums	475	425	415	11.51	2.41
(Gains)losses on other property owned, net	(32)	4	3	(874.27)	33.33
Other operating expenses	2,343	2,478	2,426	(5.45)	2.14
Total noninterest expense	$ 12,830	$ 12,725	$ 12,613	0.82 %	0.89 %

Overall, salaries and employee benefits increased from 2019 to 2020. The increase was attributed to an increase in incentives, annual leave, and pension expense, partially offset by an increase in deferred personnel costs.

Insurance Fund premiums increased 2 percent for the year ended December 31, 2020, compared to 2019 as a result of an increase in insured debt outstanding and rate adjustments. FCSIC set premiums at 8 basis points of adjusted insured debt outstanding at the beginning of 2020, but made a mid-year adjustment to 11 basis points . The premium in 2019 was set at 9 basis points. In addition, there was a 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments for all periods reported.

Fluctuations in gains and losses on other property owned occur as a result of the properties held and changes in the market for them. The Association sold an owned property early in 2020 and the gains recorded exceeded necessary maintenance expenses.

Other operating expenses decreased $135 from 2019 to 2020, primarily due to decreased net nonaccrual loan expenses, along with lower training and travel expenses due to the pandemic.

Income Taxes

The Association recorded a provision for income taxes of $3 for the year ended December 31, 2020, as compared to a provision of $8 for 2019 and a provision of $12 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 years 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	2.85%	2.45%	2.76%
Return on average members' equity	10.28%	8.61%	9.57%
Net interest income as a percentage of average earning assets	3.17%	3.20%	3.29%
Net (charge-offs) recoveries to average loans	(0.00)%	0.017%	(0.016)%

A significant portion of the Association's net income for the past several years has been special patronage distributions from AgFirst. While the Association does not budget for these distributions, they have had a meaningful impact on the ratios in the Key Results of Operations Comparison. Additionally they have been a major contributor to the sizeable patronage distributions returned to the Association's borrowers over the past five years. Special distributions from AgFirst are considered extraordinary, despite recent historical precedence. In order to continue to meet the high standards and goals set for performance, the Association must focus on attracting and maintaining high quality loan volume and managing expenses for income growth, without consideration of future extraordinary income.

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 fund requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

Total notes payable to the Bank at December 31, 2020, were $529,440 as compared to $489,386 at December 31, 2019, and $484,103 at December 31, 2018. The increases from 2019 to 2020 and from 2018 to 2019 were attributable to increased loan volume. The average volume of outstanding notes payable to the Bank was $500,871 and $476,011 for the years ended December 31, 2020 and 2019, respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association's participation in secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association.

The Association had no lines of credit from third party financial institutions as of December 31, 2020.

Funds Management

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

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

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

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:

(dollars in millions)	Due in 2021	Due in 2022 and Thereafter	Total
Loans	$ 8,407	$ 31,557	$ 39,964
Total Assets	$ 8,407	$ 31,557	$ 39,964
Note Payable to AgFirst Farm Credit Bank	$ 6,085	$ 22,843	$ 28,928
Total Liabilities	$ 6,085	$ 22,843	$ 28,928

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, 71.32 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, *Investment in Other Farm Credit Institutions*, of the Notes to the Consolidated Financial Statements.

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

CAPITAL RESOURCES

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

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

Total members' equity at December 31, 2020, increased 1.28 percent to $190,749 from the December 31, 2019 total of $188,342. At December 31, 2019, total members' equity increased 0.87 percent from the December 31, 2018 total of $186,723. The increases were attributed to net income partially offset by cash patronage.

Total capital stock and participation certificates were $5,520 on December 31, 2020, compared to $5,238 on December 31, 2019 and $5,047 on December 31, 2018. The increases in 2019 and 2020 were related to stock purchased by new members.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) non-patronage sourced participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared estimated patronage distributions of $17,914 in 2020, $14,902 in 2019, and $16,117 in 2018.

The Association's Board of Directors adopted a resolution for 2020 that established separate "pools" for any loans (a) originated under the Farm Credit Express Program, (b) acquired purchased participations (c) sold to another institution and (d) made to all other patrons, based on the income generated by each such group.

Additionally, the resolution also included a provision to exclude interest contractually due in prior years from the basis on which patronage is factored for nonaccrual loans. This provision allows a borrower whose account(s) has been in nonaccrual status to receive patronage, on the current year's interest obligation, in the year that the account(s) returns to accruing status or is paid in full.

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

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

The Association is committed to the future success of Young, Beginning and Small farmers.

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

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

	As of December 31, 2020	
	Number of Loans	Amount of Loans
Young	973	$90,848,565
Beginning	2,491	$250,876,092
Small	4,501	$403,046,834

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

The 2017 USDA Ag census is used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory there were 12,630 reported farmers of which by definition 1,406 or 11.1 percent were Young, 3,939 or 31.2 percent were beginning, and 11,776 or 93.2 percent were small.

Comparatively, as of December 31, 2020, the demographics of the Association's agricultural portfolio contained 5,040 farmers, of which by definition 815 or 16.2 percent were Young, 2,189 or 43.4 percent were Beginning, and 3,649 or 72.4 percent were Small.

The Association currently has a high market share of YBS farmers within its territory. As of December 31, 2020, the Association was doing business with 58.0 percent of the Young farmers, 55.6 percent of the Beginning farmers, and 31.0 percent of the Small farmers identified by the 2017 USDA Ag census data.

In spite of that large market share, the Association made 623 loans to farmers classified as Young, Beginning, or Small for $75,526,992 in new volume for the year ending December 31, 2020. The Association has 37 guaranteed loans for $3,193 to Young, Beginning, and Small farmers, representing 37 percent of the total volume of Association loans that are guaranteed by government agencies.

The board-approved YBS farmer goals for the next three years are to have loans with at least 55.0 percent of Young farmers, at least 55.0 percent of Beginning farmers, and at least 30.0 percent of Small farmers. These goals are based on the 2017 USDA Ag census. Progress towards meeting these goals is reported quarterly to the board of directors.

The following strategies and outreach programs have been conducted, allowing the Association to meet its objectives and goals of the YBS farmer program.

- Support of 4-H, FFA, and young farmer organizations through sponsorships and donations
- Sponsor seminars on farm transition planning and financial management.
- Promote FSA guaranteed loan program for YBS borrowers to allow the Association to manage risk while providing more opportunities and financing to this group
- Promote our youth loan program to provide loans to youth involved in 4H and FFA projects, primarily livestock or crop production
- Support the Colonial Agricultural Educational Foundation and Agriculture in the Classroom programs in Virginia and Maryland
- Participating with Virginia and Maryland Farm Bureaus in their young farmer programs
- Partner with neighboring Farm Credit Associations to offer the AgBiz Planner Program. This ten-module course teaches Young farmers about financial management and business planning
- Support YBS activities at Virginia Tech, Virginia State University, and University of Maryland
- Sponsorship and partnership with local farmers' markets and local food cooperatives
- Small farm loan program allows for a lower credit score threshold for applicants with small farms who meet other eligibility criteria

Capital

Effective January 1, 2017, the regulatory capital requirements for System Banks and associations were modified. The new regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. New regulations replaced core surplus and total surplus ratios with common equity tier 1 (CET1) capital, tier 1 capital, and total capital risk-based capital ratios. The new regulations also include a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio (PCR) remains in effect.

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

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

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

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

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

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

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2020	2019	2018	2017
Risk-adjusted ratios:							
CET1 Capital Ratio	4.5%	2.5%	7.0%	25.10%	26.62%	26.17%	25.94%
Tier 1 Capital Ratio	6.0%	2.5%	8.5%	25.10%	26.62%	26.17%	25.94%
Total Capital Ratio	8.0%	2.5%	10.5%	25.47%	26.99%	26.52%	26.38%
Permanent Capital Ratio	7.0%	0.0%	7.0%	25.19%	26.71%	26.26%	26.05%
Non-risk-adjusted:							
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	26.80%	27.90%	27.85%	27.72%
UREE Leverage Ratio	1.5%	0.0%	1.5%	26.84%	27.94%	27.93%	27.85%

** The capital conservation buffers had a 3 year phase-in period and became fully effective January 1, 2020.*

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

The following sets forth regulatory Capital ratios as previously reported:

	Regulatory Minimum	2016	2015	2014	2013	2012
Permanent Capital Ratio	7.00%	25.93%	25.31%	24.39%	23.62%	22.26%
Total Surplus Ratio	7.00%	25.29%	24.64%	23.69%	22.90%	21.52%
Core Surplus Ratio	3.50%	25.29%	24.64%	23.69%	22.90%	21.52%

REGULATORY MATTERS

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

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

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

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

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

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

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

The association is involved in one Unincorporated Business Entities (UBE), which was organized for the purpose of acquiring and managing unusual or complex collateral associated with loans. Colonial OPO, LLC is a limited liability company in Virginia. The sole purpose of Colonial OPO is to acquire, hold, manage, preserve, and if appropriate, operate the assets of acquired property associated with loans until the time such assets may be sold or otherwise disposed.

Description of Property

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

Location	Description	Form of Ownership
7104 Mechanicsville Tnpk. Mechanicsville, VA	Administrative/ Regional Office	Owned
135 Queen Street Tappahannock, VA	Regional Office	Owned
18639 Eltham Road West Point, VA	Office	Owned
428 E. Main Street Waverly, VA	Office	Owned
11295 Windsor Boulevard Windsor, VA	Regional Office	Owned
1700-A S. Main Street Farmville, VA	Regional Office	Owned
201 E. Danville Street South Hill, VA	Office	Owned
22323 E. Main Street Courtland, VA	Office	Rented (1) ($1,065 per month)
7431 Old Leonardtown Road Hughesville, MD	Regional Office	Rented (2) ($3,820 per month)
13915 Boydton Plank Road Ste B Dinwiddie, VA	Office	Rented (3) ($850 per month)
22776 Timberlake Road Ste A Lynchburg, VA	Office	Rented (4) ($1,337 per month)
135 Hanbury Road Ste C - 2 Chesapeake, VA	Office	Rented (5) ($1,504 per month)
2987 River Road West Goochland, VA	Office	Rented (6) ($1,500 per month)

(1) 1 year lease terminating on February 29, 2022.
(2) 3 year lease terminating on May 31, 2022.
(3) 2 year lease terminating on August 31, 2021.
(4) 5 year lease terminating on February 28, 2024.
(5) 3 year lease terminating on July 31, 2023.
(6) 3 year lease terminating on February 1, 2024.

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

The description of liabilities, contingent liabilities and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 6, 9 and 12 of the Consolidated Financial Statements included in this Annual Report.

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

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

Senior Officers

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

Senior Officer	Position
Paul B. Franklin Sr.	***President and Chief Executive Officer*** since March 2017. Previously served as Chief Lending Officer for the Association. Serves as Treasurer and director for the Hanover Education Foundation (non-profit scholarship administration and education advocacy organization) and a director for the Virginia Agribusiness Council (advocates for the business interests of the diversified industry of agricultural and forestry).
James S. Belfield	***Chief Information Officer*** since April 2000.
Diane S. Fowlkes	***Chief Financial Officer and Treasurer*** since August 2013. Serves as a director and finance committee chairperson for the Virginia Foundation for Agriculture in the Classroom (provides youth agricultural education).
Ronnie G. Gill	***Chief Lending Officer -Branch Operations*** since October 2012. Serves as Treasurer for the Virginia Grain Producers Association (promotion and marketing of grain) and as an elected member of the Essex County Board of Supervisors (effective January 1, 2020). He also serves as a director for the Northern Neck Farm Museum (antique farm museum), and the Virginia Tech College of Agriculture and Life Sciences Alumni Organization (support of college and alumni enrichment).
Michael J. Lacks	***Chief Lending Officer-Commercial Loans*** since March 2017. Previously served as Relationship Manager in the Commercial Loan Group for the Association.
Karen Suzanne Nicely	***Chief Human Resources and Corporate Secretary*** since October 2003.
Patrick J. Tewell	***Chief Credit Officer*** since January 2017. Previously served as Examiner for Farm Credit Administration. Serves as Treasurer for the Virginia Ag Expo (agricultural field).

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

Name of Individual or Number in Group	Year	Salary	Bonus	Deferred Comp.	Change in Pension Value	Perq/ Other*	Total
Paul B. Franklin	2020	$ 288,269	$ 56,434	$ –	$ 579,301	$ 14,951	$ 938,955
Paul B. Franklin	2019	$ 274,542	$ 59,719	$ –	$ 565,545	$ 15,585	$ 915,391
Paul B. Franklin	2018	$ 261,468	$ 57,750	$ –	$ 175,826	$ 14,828	$ 509,872
6	2020	$ 920,411	$ 180,076	$ –	$ 1,037,896	$ 80,722	$ 2,219,105
6	2019	$ 883,535	$ 181,787	$ –	$ 1,283,219	$ 60,177	$ 2,408,718
7	2018	$ 849,090	$ 177,374	$ –	$ (72,759)	$ 62,882	$ 1,016,587

** The Perquisites/Other amount disclosed in the above chart includes company contributions to 401(k) plan (See Note 9, Employee Benefits Plans, to the Financial Statements), group life insurance premiums, compensation value for Association provided automobile , spouse travel expense and Farm Credit apparel expense.*

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

The institution's shareholders have the authority to petition for an advisory vote on CEO and senior officers' compensation. For the year ended December 31, 2020, no advisory votes were held.

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

The discount rate, which is derived using an AA corporate bond yield curve, is updated every year based on the interest rate environment at December 31. A decrease in the discount rate will normally increase the present values and vice versa. In most cases, an increase in the discount rate assumption from the prior year partially offset by an increase in benefits earned caused the pension values to decrease at December 31, 2020.

At December 31, 2014, the life expectancy actuarial assumption was updated to reflect recent mortality studies indicating longer life spans. This change increased pension values as the benefit payments are expected to be made for a longer time span.

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

Two individuals included in the senior officer or other highly compensated employee group had $0 changes in the value of pension benefits. Due to their hire dates, they are not eligible for the defined benefit pension plan but participate in the defined contribution Farm Credit Benefits Alliance 401(k) plan. See *Note 9, Employee Benefit Plans* for additional details.

Prior to the end of each fiscal year the Board reviews the appropriateness of an incentive plan for all Association employees for the following year. In addition to a base salary, employees and senior officers can earn additional compensation under an incentive plan. The Association's 2019 incentive plan was designed to motivate employees to exceed the business plan goals during the fiscal year and covered all staff members employed as of December 31, 2020. A separate incentive plan is in place for appraisal personnel. The plan focused on meeting target earnings, patronage distribution, credit administration, credit quality, and customer service goals. The plan allowed for both individual and group incentives based on performance criteria. Allowable incentives ranged up to 22 percent of base pay at the end of the plan year for senior officers, and up to 19 percent of base pay in effect at the end of the plan year for other employees depending upon their position. Also, all employees are eligible to receive awards based upon 1) years of service or 2) exceptional performance as defined in the plan. Bonuses and incentives are shown in the year earned and are paid in the first quarter of the subsequent year.

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

The compensation plan for the CEO and other senior officers is approved annually by the Compensation Committee, guided by the following policy objective:

To provide a comprehensive compensation plan that assists management in attracting and retaining professional, motivated, customer-oriented employees, and which appropriately rewards employees taking into consideration competition, local-market compensation levels, expertise, experience and contributions (individual and team) to the association's success. These objectives will be accomplished by:

- Utilizing the AgFirst District salary and grade schedules, as well as other market data and studies, for grade placement, merit increases and salary level.
- Participating in AgFirst District benefit plans, as well as offering other benefits as deemed appropriate by the board.
- Utilizing a combination of salary, variable pay, benefits and special awards.
- Tying compensation to the achievement of business plan objectives and individual goals, and emphasizing balance among the four primary critical performance areas: business development, asset quality, earnings and human resources.
- Providing an honest and objective performance appraisal review to each employee at least annually.

The CEO and other senior officers participate in the identical compensation, retirement, incentive and benefit plans, with the exception of the recently retired CEO's supplemental non-qualified retirement plan, as described below.

Senior officers are paid a competitive, market-based salary commensurate with their tenure, expertise and education. Salary ranges for each position are adjusted periodically based on compensation studies. Senior officers are eligible for an annual salary increase based on merit, as determined by an annual performance appraisal review documenting individual performance relative to individual goals and business plan objectives for the calendar year. The CEO's performance evaluation and any merit increase are approved by the Board of Directors in December, upon recommendation from the Compensation Committee. The CEO prepares and approves the annual performance appraisal review and determines merit increases for other senior officers in February. Merit increases for all senior officers are effective February 1, and generally fall within ranges approved annually by the Compensation Committee. These ranges are differentiated by individual performance rating and current salary relative to the salary range midpoint. Merit increases are typically not granted once an employee reaches the mid-point of the salary range, which is considered the "market value" of the job. Salary ranges are adjusted annually based on market studies.

The Association's salary plan for senior officers (including annual merit increases) provides a base compensation plan that is market-driven, allowing for the attraction and retention of professional managers to implement the Association's strategic and annual business plans. Attracting and retaining high quality employees is critical to the Association's long-term success, including the goal of filling mid-level management and senior officer positions from within. A low rate of senior officer turnover is critical in achieving our mission and providing stable leadership and strong financial performance. Overall senior officer salaries are controlled by the Compensation Committee's approval of salary ranges and merit increase ranges.

Senior officers participate in an incentive compensation plan. The objectives of this plan are to:

- Ensure compensation structure is consistent with the Association's core purpose, core values and strategic business plan,
- Focus decisions and actions on key operating objectives that will provide long-term financial growth and stability to the Association,
- Provide competitive compensation packages in order to attract, motivate, reward and retain superior employees,
- Provide flexibility to management in assigning workload to maximize allocation of resources and expertise,
- Reinforce a sales culture,
- Emphasize teamwork, and
- Respond to an increasingly significant practice of goal oriented cash incentives among financial institutions.

This incentive plan contains several Association-level performance measures which must be met before a payout under either of the two components described below is possible, including: payment of a patronage refund, compliance with funding bank loan agreement covenants, not being under a regulatory enforcement action, and minimum credit management, credit quality and customer service measures.

Payments under either component are based upon performance for the previous calendar year and are made during the first quarter, after the annual external audit is finalized.

The incentive plan contains a profit sharing component. In order to receive payment under this component, the senior officer must receive an "effective" overall annual performance rating, and the Association's core earnings must be equal to or greater than budget. Payout is in increments from 3 percent up to a maximum of 7 percent of year-end salary, depending upon the level of core earnings relative to budget.

The incentive plan also contains an individual performance incentive component, whereby the senior officer can earn up to an additional 15 percent of year-end salary if his/her annual performance rating falls into the highest quadrant ("highly effective"). The level of incentive paid to the CEO, if any, is approved by the board of directors upon recommendation from the Compensation Committee. Payments to other senior officers are determined by the CEO.

Incentive-based compensation for senior officers is reasonable and proportionate to the services performed and results achieved, and it is structured to prevent undue risk to the Association, by virtue of:

- The plan's structure which prevents payout if the Association is experiencing financial or credit problems, doesn't pay a patronage to customers, is not adequately serving its customers or is under a regulatory enforcement action,
- Senior officers having to achieve at least "effective" overall performance ratings to receive payment, and
- The total maximum payment for senior officers being a modest 22 percent of salary, with actual payout level determined by both individual and overall Association performance.

Senior officers participate in plans, depending upon their original date of employment.

A defined benefit plan is provided those officers employed prior to January 1, 2003. Benefits are determined based on years of service times highest consecutive thirty-six month average salary times 2 percent. Full benefit payments are payable upon retirement at age 65, or at age 62 with 10 years of service. Additionally, unreduced benefits are payable based on the "rule of 85", provided the officer is at least 55 years of age and his/her age plus years of service total at least 85.

Senior officers employed on or after January 1, 2003 receive a nonelective employer contribution of 3 percent of total compensation into the 401(k) savings plan. Additionally, any balances accrued under the defined contribution plan (Cash Balance Plan) were disbursed to plan participants in March 2017 according to his/her individual distribution election. See *Note 9- Employee Benefit Plans*.

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

This plan does not expand total compensation or the Association's expenses, but serves only to make the employee "whole" considering IRS payment limitations on the qualified retirement plan.

The total accumulated pension benefits for the CEO and all senior officers as a group as of December 31, 2020, are as follows:

Pension Benefits Table
As of December 31, 2020

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2020
CEO:					
Paul B. Franklin, Sr.	2020	AgFirst Retirement Plan	31	$ 2,972,184	$ –
				$ 2,972,184	$ –
Senior Officers and Highly Compensated Employees:					
6 employees, excluding the CEO	2020	AgFirst Retirement Plan	23*	$ 6,605,408	$ –
				$ 6,605,408	$ –

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

Senior officers may also participate in a 401(k) savings plan, with the level of Association matching contributions determined by date of employment. For officers employed before January 1, 2003, the Association matches employee contributions 50 percent up to 6 percent of salary. For those hired after December 31, 2002, the Association matches employee contributions 100 percent up to 6 percent of salary. Various investment options are available for these funds, and vesting is immediate.

Market-based retirement and tax advantaged savings plans for senior officers are critical components to a competitive overall compensation plan. Such a plan is necessary for the attraction and retention of professionals capable of effectively implementing the Association's strategic and annual business plans. Association financial risk is mitigated by adjusting provisions when necessary to control costs and remain competitive, such as was done for employees hired after December 31, 2002, and subsequent changes to the defined contribution retirement plan and 401(k) savings plan.

Senior officers participate in various other benefits which are also offered to all employees, such as: medical insurance; annual, holiday and sick leave; life and disability insurance; and, milestone service awards. Additionally, senior officers are reimbursed for out-of-pocket business travel, lodging and subsistence costs. A copy of the reimbursement policy is available upon request.

While the Association had record income in 2020, a significant portion of the earnings were from special distributions from AgFirst and not included in core earnings. Virtually all business plan objectives and goals were met or exceeded and the profit sharing component of the incentive plan triggered a payout in the middle of the range. The individual and team performance of the CEO and other senior officers were consistent with the level of the incentive payments and with their overall compensation.

Directors

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

DIRECTOR	ORIGINAL YEAR OF ELECTION OR APPOINTMENT	CURRENT TERM EXPIRATION	TOTAL COMP. PAID DURING 2020
A. Kevin Monahan ***Board Chair***	2011	2023	$12,363
Jennifer U. Cuthbertson ***Vice Chair of the Board***	2007	2025	$9,737
John E. Bickford* *Appointed Stockholder Director*	2014	2022	$10,617
R. Bertsch Cox *Appointed Director*	2017	2025	$10,811
John F. Davis	2005	2020	$11,856
Clarke E. Fox	1997	2021	$15,528
Jeffrey W. Griffith	2014	2024	$12,210
William T. Henley IV	2020	2024	$1,859
Hugh S. Jones	2003	2021	$9,241
Robert M. Jones	2013	2021	$7,992
L. Wayne Kirby	2005	2024	$6,703
Frankie R. Large	2017	2023	$10,843
John N. Mills, Jr.	1996	2023	$14,655
Paul W. Rogers, Jr.	1988	2022	$12,742
Steven H. Walter	2018	2022	$9,742
Robert R. Womack	2014	2022	$6,737
			$163,636

** John E. Bickford also previously served from 2005-2013.*

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

Mr. John F. Davis, Board Chair and Chair of Compensation, Credit Review, and Executive Committees (January 2020-September 2020), is a retired farmer and self-employed farm consultant for Mill Creek Farms, LLC. He served as a director of Colonial Farm Credit until September 2020 (retirement).

Mr. A. Kevin Monahan, Vice Chair of the Board (January 2020-September 2020), Chair of Governance Committee, and, from September-December 2020, Chair of the Board (October 2020-current) and Chair of the Compensation, Credit Review, and Executive Committees, is a row crop, beef cattle, and timber farmer. He is owner of Monahan Farms, LLC, Bowling Green Farms, LLC, and partner in Springhill Farms Partnership. Mr. Monahan also serves on the board of the Surry County, Virginia, Planning Commission (county planning), and the Colonial Agricultural Educational Foundation (provides funding for college scholarships and other youth education).

Mrs. Jennifer U. Cuthbertson, Chair of the Audit Committee January 2020-December 2020 and Vice Chair of the Board effective January 1, 2021, is a watermelon, pumpkin, goat, cattle, wheat, corn, soybean, timber, and hay farmer, and a tax advisor for H&R Block. Mrs. Cuthbertson was a business analyst for Southern States Cooperative (agricultural supply cooperative) until May 2009 and serves as a seasonal customer service representative for FERIDIES (retail sales and promotion of Virginia peanuts). She works part-time as a Southampton County 4-H assistant.

Mr. John E. Bickford is a consulting forester involved in timber management, timber sales, and timber evaluations for non-industrial landowners. He owns Bickford Timber and Land Management, Inc., a timber consulting and management business. He also serves as a licensed real estate agent for Cox & Company Real Estate and Insurance and as a member of Buckingham County Planning Commission.

Mr. R. Bertsch Cox, Chair of the Audit Committee (effective January 1, 2021) is the Chief Financial Officer/CPA and shareholder for James River Equipment (equipment dealer). He also serves as board chair for Virginia Foundation for

Agriculture in the Classroom (provides youth agriculture education) and as a member of the Farm Credit System Audit Committee.

Mr. Clarke E. Fox, Legislative Committee Chair, serves as president of Foxhill Farms, Inc., a peanut, cotton, corn, soybean, watermelon, and timber farm.

Mr. Jeffrey W. Griffith is a grain, hay, and vegetable farmer. He serves as a director of the Anne Arundel County Farm Bureau (agriculture insurance, service, and lobbying organization); and is a member of Future Farmers of America Alumni (promoting FFA).

Mr. William T. Henley, IV, is a full-time corn, wheat, soybeans, barley, and food grade soybean farmer and partner in MTG Partners, LLC. He is also a partner in Poorhouse Property, LLC, which owns farm and timberland. He is a board member and vice president of the King and Queen County Farm Bureau and a member of Virginia Grain Producers. He was elected to the Colonial Farm Credit board in September 2020.

Mr. Hugh S. Jones is president, majority owner, and operator of Richlands Dairy Farm, Inc. and a shareholder in Richlands Creamery, LLC. Mr. Jones also serves as a director and member of the steering committee of the Virginia Tech Southern Virginia Research Station (agricultural research) and as a director of the Nottoway Planning Commission (county planning).

Mr. Robert M. Jones is the owner of Poor House Dairy Farm. Mr. Jones also serves as a director of Farmers' Cooperative (agricultural production products), a director of Cooperative Milk Producers (milk marketing), a board member of Prince Edward County Board of Supervisors, and a board member of Prince Edward County Planning Commission.

Mr. L. Wayne Kirby is a row crop and hay farmer and owner of Creamfield Farm, LLC, and a commissioned agent for Helena Chemical Company (agricultural chemical sales and consultation). Mr. Kirby serves as a director of the Colonial Agricultural Educational Foundation (provides funding for college scholarships and other youth education), the Virginia Grain Producers Association, Inc. (promotion and marketing of grain), and the Virginia Agribusiness Council (industry lobbying organization), and serves on the Virginia Board of Agriculture and Consumer Services (promotes Virginia agriculture interests).

Mr. Frankie R. Large is an owner/operator of Cherry Hill Farm (cow/calf operation) and a contract hog grower for Smithfield Foods. He serves as vice-president of Buckingham County Farm Bureau (agriculture insurance, service, and lobbying organization), and as a member of USDA Farm Service Agency County committee (liaison between the farm community and the U.S. Department of Agriculture).

Mr. John N. Mills, Jr., is a partner in John N. Mills & Sons family farm business (growing and marketing corn, wheat, barley, soybean, and beef cattle). He serves as a director of the Virginia Identity Preserved Grains (small grain promotion and marketing) and the King William County Farm Bureau (agriculture insurance, service, and lobbying organization). He is also a partner in H&F LLC, which is a partner in York River Mitigation Bank (wetlands mitigation development).

Mr. Paul W. Rogers, Jr., is a partner of Rogers Farms Partnership, a cotton, grain, timber, and peanut farm and owner of Paul W. Rogers, Jr., LLC.

Mr. Steven H. Walter is an owner/operator of H&S Farms LLC, a soybean, wheat, and, barley farm and president of Walter Greenhouses, Inc. (vegetables and greenhouse plants). He is also a seasonal worker for Suburban Propane (delivers propane). He serves as president and director of Charles County Farm Bureau (agriculture insurance, service, and lobbying organization), director of Maryland Farm Bureau Political Action Committee, Maryland Farm Bureau representative on Southern Maryland Ag Development Commission, and member of the Charles County Extension Advisory Committee.

Mr. Robert R. Womack is owner and operator of Woodville Farm, Inc., a poultry, beef cattle, and row crop farm. He is vice president of Buckingham Cattleman Association (breed promotion and marketing) and a director of Farmers' Cooperative (agricultural production products).

In accordance with board policy, the Association pays directors honoraria ranging from $200 to $600, for attendance at meetings, committee meetings, conference call meetings, or special assignments. Directors are paid a monthly retainer fee of $200, except for the chairman of the board who receives $375 and the chairmen of the Audit, Legislative, and Governance committees who receive $225. Total compensation paid to directors as a group was $138,525 for 2020. No director received more than $5,000 in non-cash compensation during the year.

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

Name of Director	Days Served: Regular Board Meetings	Days Served: Committee Meetings	Committees*	Committee Compensation ($)
A. Kevin Monahan	6	1	Governance	$600
Board Chair		1	Compensation	$600
		4	Other Activities	$2,000
Jennifer U. Cuthbertson	6	4	Audit	$2,400
Vice Chair of the Board			Compensation	$600
John E Bickford	6	1	Compensation	$600
Appointed Stockholder Director		1	Governance	$600
		3	Other Activities	$1,400
R. Bertsch Cox	6	4	Audit	$2,400
Appointed Director		1	Compensation	$600
		1	Other Activities	–
John F. Davis	4	2	Audit	$1,200
			Other Activities	$2,000
Clarke E. Fox	6	4	Audit	$2,400
		1	Compensation	$600
		6	Other Activities	$3,200
Jeffery W. Griffith	6	1	Governance	$600
		4	Other Activities	$2,000
William T. Henley, IV	2	–	Other Activities	–
Hugh S. Jones	6	4	Audit	$2,400
		1	Governance	$600
Robert M. Jones	5	4	Audit	$2,400
L. Wayne Kirby	6	1	Governance	$600
Frankie R. Large	6	4	Audit	$2,400
		1	Governance	$600
		2	Other Activities	$800
John N. Mills, Jr.	6	4	Audit	$2,400
		4	Other Activities	$2,000
Paul W. Rogers, Jr.	5	4	Audit	$2,400
		1	Compensation	$600
		1	Governance	$600
		3	Other Activities	$1,400
Steven H. Walter	6	1	Governance	$600
		4	Other Activities	$2,000
Robert R. Womack	6	1	Governance	$600

**Some committee meetings may be scheduled on the same day as other meetings, resulting in no additional compensation*

Directors 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, laundry, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to shareholders of the Association upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $25,112 for 2020, $69,443 for 2019, and $44,722 for 2018.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 10, *Related Party Transactions*, of the Consolidated Financial Statements included in this Annual Report.

Transactions Other Than Loans

There have been no transactions that occurred at any time during the year ended December 31, 2020 or in aggregate, between the Association and senior officers or directors, their immediate family members or any organizations with which they are affiliated, which exceed $5,000. There were no transactions with any senior officer or director related to the purchase or retirement of preferred stock of the Association for the year ended December 31, 2020.

Involvement in Certain Legal Proceedings

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

Relationship with Independent Auditors

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

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

	2020
Independent Auditors	
PricewaterhouseCoopers LLP	
Audit services	$ 65,782
Total	$ 65,782

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

Consolidated Financial Statements

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 13, 2019 and the report of management, which appear in this Annual Report are incorporated herein by reference. Copies of the Association's Annual and unaudited Quarterly reports are available upon request free of charge by calling (804) 746-1252, writing Diane Fowlkes, Chief Financial Officer, Colonial Farm Credit, ACA, 7104 Mechanicsville Turnpike, Mechanicsville, VA 23111, or accessing the website, ***www.colonialfarmcredit.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. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

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

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

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

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

Shareholder Investment

Shareholder investment in the Association could be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's website at ***www.agfirst.com***. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report, which is available on the Bank's website, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Report of the Audit Committee

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

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

PricewaterhouseCoopers LLP (PwC), the Association's independent auditors for 2020, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance)*. The Committee discussed with PwC its independence from Colonial Farm Credit, ACA. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's independence.

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

R. Bertsch Cox
Chair of the Audit Committee

Members of Audit Committee

Jennifer U. Cuthbertson
Clarke E. Fox
Hugh S. Jones
Robert M. Jones
Frankie R. Large
John N. Mills, Jr.
Paul W. Rogers, Jr.

March 11, 2021

Report of Independent Auditors

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

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

PricewaterhouseCoopers LLP

Atlanta, Georgia
March 11, 2021

Consolidated Balance Sheets

(dollars in thousands)	2020	December 31, 2019	2018
Assets			
Cash	**$ 157**	$ 550	$ 66
Loans	**722,734**	677,201	670,269
Allowance for loan losses	**(2,596)**	(2,365)	(2,245)
Net loans	**720,138**	674,836	668,024
Loans held for sale	**—**	310	1,316
Accrued interest receivable	**5,461**	5,824	5,985
Equity investments in other Farm Credit institutions	**6,616**	7,066	6,809
Premises and equipment, net	**1,859**	1,935	1,881
Other property owned	**—**	535	37
Accounts receivable	**9,865**	6,513	7,445
Other assets	**1,140**	1,173	958
Total assets	**$ 745,236**	$ 698,742	$ 692,521
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 529,440**	$ 489,386	$ 484,103
Accrued interest payable	**1,179**	1,362	1,399
Patronage refunds payable	**18,057**	14,574	16,207
Accounts payable	**1,230**	547	2,036
Other liabilities	**4,581**	4,531	2,053
Total liabilities	**554,487**	510,400	505,798
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**5,520**	5,238	5,047
Unallocated retained earnings	**185,679**	183,461	181,684
Accumulated other comprehensive income (loss)	**(450)**	(357)	(8)
Total members' equity	**190,749**	188,342	186,723
Total liabilities and members' equity	**$ 745,236**	$ 698,742	$ 692,521

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2020	2019	2018
Interest Income			
Loans	**$ 36,468**	$ 37,858	$ 36,598
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**14,576**	16,556	15,195
Net interest income	**21,892**	21,302	21,403
Provision for (reversal of allowance for) loan losses	**234**	6	(78)
Net interest income after provision for (reversal of allowance for) loan losses	**21,658**	21,296	21,481
Noninterest Income			
Loan fees	**469**	531	483
Fees for financially related services	**54**	67	69
Lease income	**142**	134	81
Patronage refunds from other Farm Credit institutions	**9,701**	6,386	7,337
Gains (losses) on sales of rural home loans, net	**681**	686	564
Gains (losses) on sales of premises and equipment, net	**39**	51	51
Gains (losses) on other transactions	**25**	72	(18)
Insurance Fund refunds	**121**	130	835
Other noninterest income	**75**	68	101
Total noninterest income	**11,307**	8,125	9,503
Noninterest Expense			
Salaries and employee benefits	**9,480**	9,219	9,237
Occupancy and equipment	**564**	599	532
Insurance Fund premiums	**475**	425	415
(Gains) losses on other property owned, net	**(32)**	4	3
Other operating expenses	**2,343**	2,478	2,426
Total noninterest expense	**12,830**	12,725	12,613
Income before income taxes	**20,135**	16,696	18,371
Provision for income taxes	**3**	8	12
Net income	**$ 20,132**	$ 16,688	$ 18,359
Other comprehensive income net of tax			
Employee benefit plans adjustments	**(93)**	(349)	36
Comprehensive income	**$ 20,039**	$ 16,339	$ 18,395

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2017	$ 4,795	$ 179,414	$ (44)	$ 184,165
Comprehensive income		18,359	36	18,395
Capital stock/participation certificates issued/(retired), net	252			252
Patronage distribution				
Cash		(16,117)		(16,117)
Patronage distribution adjustment		28		28
Balance at December 31, 2018	$ 5,047	$ 181,684	$ (8)	$ 186,723
Cumulative effect of change in accounting principle		(9)		(9)
Comprehensive income		16,688	(349)	16,339
Capital stock/participation certificates issued/(retired), net	191			191
Patronage distribution				
Cash		(14,902)		(14,902)
Balance at December 31, 2019	$ 5,238	$ 183,461	$ (357)	$ 188,342
Comprehensive income		**20,132**	**(93)**	**20,039**
Capital stock/participation certificates issued/(retired), net	**282**			**282**
Patronage distribution				
Cash		**(17,914)**		**(17,914)**
Balance at December 31, 2020	**$ 5,520**	**$ 185,679**	**$ (450)**	**$ 190,749**

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2020	2019	2018
Cash flows from operating activities:			
Net income	**$ 20,132**	$ 16,688	$ 18,359
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**269**	284	176
Amortization (accretion) of net deferred loan costs (fees)	**287**	429	382
Provision for (reversal of allowance for) loan losses	**234**	6	(78)
(Gains) losses on other property owned	**(52)**	(13)	—
(Gains) losses on sales of premises and equipment, net	**(39)**	(51)	(51)
(Gains) losses on sales of rural home loans, net	**(681)**	(686)	(564)
(Gains) losses on other transactions	**(25)**	(72)	18
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(43,609)**	(43,468)	(38,515)
Proceeds from sales of loans held for sale, net	**44,600**	45,160	38,898
(Increase) decrease in accrued interest receivable	**363**	161	(1,119)
(Increase) decrease in accounts receivable	**(3,352)**	932	429
(Increase) decrease in other assets	**33**	(224)	178
Increase (decrease) in accrued interest payable	**(183)**	(37)	243
Increase (decrease) in accounts payable	**683**	(1,489)	416
Increase (decrease) in other liabilities	**(18)**	2,201	(852)
Total adjustments	**(1,490)**	3,133	(439)
Net cash provided by (used in) operating activities	**18,642**	19,821	17,920
Cash flows from investing activities:			
Net (increase) decrease in loans	**(45,288)**	(7,782)	(34,673)
(Increase) decrease in equity investments in other Farm Credit institutions	**450**	(257)	81
Purchases of premises and equipment	**(199)**	(341)	(350)
Proceeds from sales of premises and equipment	**45**	54	52
Proceeds from sales of other property owned	**52**	50	—
Net cash provided by (used in) investing activities	**(44,940)**	(8,276)	(34,890)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**40,054**	5,283	27,713
Capital stock and participation certificates issued/(retired), net	**282**	191	252
Patronage refunds and dividends paid	**(14,431)**	(16,535)	(10,995)
Net cash provided by (used in) financing activities	**25,905**	(11,061)	16,970
Net increase (decrease) in cash	**(393)**	484	—
Cash, beginning of period	**550**	66	66
Cash, end of period	**$ 157**	$ 550	$ 66
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	**$ 535**	$ —	$ —
Receipt of property in settlement of loans	**—**	535	37
Estimated cash dividends or patronage distributions declared or payable	**17,914**	14,902	16,117
Employee benefit plans adjustments (Note 9)	**93**	349	(36)
Supplemental information:			
Interest paid	**$ 14,759**	$ 16,593	$ 14,952
Taxes (refunded) paid, net	**8**	14	12

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:** Colonial Farm Credit, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Amelia, Amherst, Appomattox, Brunswick, Buckingham, Campbell, Caroline, Charles City, Charlotte, Chesterfield, Cumberland, Dinwiddie, Essex, Fluvanna, Gloucester, Goochland, Greensville, Hanover, Henrico, Isle of Wight, King and Queen, King George, King William, James City, Lancaster, Louisa, Lunenburg, Mathews, Mecklenburg, Middlesex, New Kent, Northumberland, Nottoway, Powhatan, Prince Edward, Prince George, Richmond, Southampton, Surry, Sussex, Westmoreland, York, and the cities of Chesapeake, Newport News, Suffolk and Virginia Beach in the state of Virginia and the counties of Anne Arundel, Calvert, Charles, Prince George's and Saint Mary's in the state of Maryland.

   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.

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

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

Note 2 — Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Additional information may be found in Note 9.

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

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

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

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

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

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

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

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

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

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

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

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

K. **Valuation Methodologies:** FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. This guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It prescribes three levels of inputs that may be used to measure fair value.
Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

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

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

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

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

Additional information may be found in Note 8.

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

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

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

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

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

Contracts with Customers
The Association maintains contracts with customers to provide support services in various areas such as accounting, lending transactions, consulting, insurance, and information technology. As most of the contracts are to provide access to expertise or system capacity that the

Association maintains, there are no material incremental costs to fulfill these contracts that should be capitalized. The Association also does not generally incur costs to obtain contracts. Revenue is recognized to reflect the transfer of goods and services to customers in an amount equal to the consideration the Association receives or expects to receive.

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

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

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

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

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

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

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

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

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

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

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

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.

A summary of loans outstanding at period end follows:

	December 31, 2020	December 31, 2019	December 31, 2018
Real estate mortgage	$ 478,540	$ 435,210	$ 422,749
Production and intermediate-term	164,816	171,757	172,996
Loans to cooperatives	4,636	4,278	4,803
Processing and marketing	20,120	18,672	22,008
Farm-related business	5,030	5,730	5,483
Communication	–	578	513
Power and water/waste disposal	720	2,215	2,433
Rural residential real estate	45,565	35,455	36,287
International	3,307	3,306	2,997
Total loans	$ 722,734	$ 677,201	$ 670,269

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	$ 8,567	$ –	$ –	$ –	$ –	$ –	$ 8,567	$ –
Production and intermediate-term	13,272	773	3,620	–	–	–	16,892	773
Loans to cooperatives	3,791	–	852	–	–	–	4,643	–
Processing and marketing	14,928	41	2,473	–	–	–	17,401	41
Farm-related business	321	72	–	–	–	–	321	72
Power and water/waste disposal	727	–	–	–	–	–	727	–
International	3,311	–	–	–	–	–	3,311	–
Total	$ 44,917	$ 886	$ 6,945	$ –	$ –	$ –	$ 51,862	$ 886

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	$ 9,546	$ –	$ –	$ –	$ –	$ –	$ 9,546	$ –
Production and intermediate-term	14,685	–	4,056	–	–	–	18,741	–
Loans to cooperatives	3,527	–	764	–	–	–	4,291	–
Processing and marketing	12,939	–	2,500	–	–	–	15,439	–
Farm-related business	321	–	–	–	–	–	321	–
Communication	579	–	–	–	–	–	579	–
Power and water/waste disposal	2,236	–	–	–	–	–	2,236	–
International	3,311	–	–	–	–	–	3,311	–
Total	$ 47,144	$ –	$ 7,320	$ –	$ –	$ –	$ 54,464	$ –

	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	$ 7,973	$ –	$ –	$ –	$ –	$ –	$ 7,973	$ –
Production and intermediate-term	13,075	–	2,217	–	–	–	15,292	–
Loans to cooperatives	3,847	–	968	–	–	–	4,815	–
Processing and marketing	13,719	–	2,693	–	–	–	16,412	–
Communication	515	–	–	–	–	–	515	–
Power and water/waste disposal	2,452	–	–	–	–	–	2,452	–
International	3,000	–	–	–	–	–	3,000	–
Total	$ 44,581	$ –	$ 5,878	$ –	$ –	$ –	$ 50,459	$ –

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

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

	December 31,		
	2020	2019	2018
Real estate mortgage:			
Acceptable	97.58%	97.00%	96.52%
OAEM	1.56	1.87	2.15
Substandard/doubtful/loss	0.86	1.13	1.33
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	96.84%	97.25%	95.95%
OAEM	2.88	2.41	3.40
Substandard/doubtful/loss	0.28	0.34	0.65
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	99.78%	99.71%	99.72%
OAEM	–	–	–
Substandard/doubtful/loss	0.22	0.29	0.28
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	98.85%	97.62%	96.18%
OAEM	1.15	2.38	2.45
Substandard/doubtful/loss	–	–	1.37
	100.00%	100.00%	100.00%

	December 31,		
	2020	2019	2018
Communication:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Power and water/waste disposal:			
Acceptable	100.00%	14.50%	100.00%
OAEM	–	85.50	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	98.81%	98.19%	97.56%
OAEM	0.71	0.95	0.52
Substandard/doubtful/loss	0.48	0.86	1.92
	100.00%	100.00%	100.00%
International:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Total loans:			
Acceptable	97.59%	96.97%	96.59%
OAEM	1.74	2.16	2.28
Substandard/doubtful/loss	0.67	0.87	1.13
	100.00%	100.00%	100.00%

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

	December 31, 2020				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 3,353	$ 432	$ 3,785	$ 478,208	$ 481,993
Production and intermediate-term	2,938	159	3,097	163,486	166,583
Loans to cooperatives	–	–	–	4,637	4,637
Processing and marketing	–	–	–	20,147	20,147
Farm-related business	–	–	–	5,046	5,046
Power and water/waste disposal	–	–	–	721	721
Rural residential real estate	323	–	323	45,430	45,753
International	–	–	–	3,315	3,315
Total	$ 6,614	$ 591	$ 7,205	$ 720,990	$ 728,195

	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	$	4,331	$	187	$	4,518	$	434,143	$	438,661
Production and intermediate-term		1,916		151		2,067		171,786		173,853
Loans to cooperatives		–		–		–		4,290		4,290
Processing and marketing		–		–		–		18,720		18,720
Farm-related business		14		–		14		5,746		5,760
Communication		–		–		–		578		578
Power and water/waste disposal		–		–		–		2,217		2,217
Rural residential real estate		29		55		84		35,540		35,624
International		–		–		–		3,322		3,322
Total	$	6,290	$	393	$	6,683	$	676,342	$	683,025

	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	$	3,271	$	251	$	3,522	$	422,805	$	426,327
Production and intermediate-term		1,612		198		1,810		173,299		175,109
Loans to cooperatives		68		–		68		4,741		4,809
Processing and marketing		–		–		–		22,064		22,064
Farm-related business		20		–		20		5,495		5,515
Communication		–		–		–		513		513
Power and water/waste disposal		–		–		–		2,435		2,435
Rural residential real estate		19		37		56		36,411		36,467
International		–		–		–		3,015		3,015
Total	$	4,990	$	486	$	5,476	$	670,778	$	676,254

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

	December 31,					
		2020		2019		2018
Nonaccrual loans:						
Real estate mortgage	$	698	$	1,799	$	1,808
Production and intermediate-term		236		320		783
Processing and marketing		46		54		61
Rural residential real estate		142		171		152
Total	$	1,122	$	2,344	$	2,804
Accruing restructured loans:						
Real estate mortgage	$	366	$	401	$	424
Production and intermediate-term		–		4		9
Rural residential real estate		25		38		42
Total	$	391	$	443	$	475
Accruing loans 90 days or more past due:						
Total	$	–	$	–	$	–
Total nonperforming loans	$	1,513	$	2,787	$	3,279
Other property owned		–		535		37
Total nonperforming assets	$	1,513	$	3,322	$	3,316
Nonaccrual loans as a percentage of total loans		0.16%		0.35%		0.42%
Nonperforming assets as a percentage of total loans and other property owned		0.21%		0.49%		0.49%
Nonperforming assets as a percentage of capital		0.79%		1.76%		1.78%

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	$ 431	$ 1,636	$ 1,618
Past due	691	708	1,186
Total	$ 1,122	$ 2,344	$ 2,804
Impaired accrual loans:			
Restructured	$ 391	$ 443	$ 475
90 days or more past due	–	–	–
Total	$ 391	$ 443	$ 475
Total impaired loans	$ 1,513	$ 2,787	$ 3,279
Additional commitments to lend	$ –	$ –	$ –

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

Impaired loans:	December 31, 2020 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2020 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	163	261	38	226	50
Processing and marketing	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 163	$ 261	$ 38	$ 226	$ 50
With no related allowance for credit losses:					
Real estate mortgage	$ 1,064	$ 1,558	$ –	$ 1,480	$ 327
Production and intermediate-term	73	813	–	103	22
Processing and marketing	46	64	–	64	14
Rural residential real estate	167	274	–	232	51
Total	$ 1,350	$ 2,709	$ –	$ 1,879	$ 414
Total impaired loans:					
Real estate mortgage	$ 1,064	$ 1,558	$ –	$ 1,480	$ 327
Production and intermediate-term	236	1,074	38	329	72
Processing and marketing	46	64	–	64	14
Rural residential real estate	167	274	–	232	51
Total	$ 1,513	$ 2,970	$ 38	$ 2,105	$ 464

Impaired loans:	December 31, 2019 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2019 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	210	297	47	261	15
Processing and marketing	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 210	$ 297	$ 47	$ 261	$ 15
With no related allowance for credit losses:					
Real estate mortgage	$ 2,200	$ 3,082	$ –	$ 2,738	$ 159
Production and intermediate-term	114	831	–	143	9
Processing and marketing	54	68	–	67	4
Rural residential real estate	209	317	–	260	15
Total	$ 2,577	$ 4,298	$ –	$ 3,208	$ 187
Total impaired loans:					
Real estate mortgage	$ 2,200	$ 3,082	$ –	$ 2,738	$ 159
Production and intermediate-term	324	1,128	47	404	24
Processing and marketing	54	68	–	67	4
Rural residential real estate	209	317	–	260	15
Total	$ 2,787	$ 4,595	$ 47	$ 3,469	$ 202

Impaired loans:	December 31, 2018 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2018 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	486	625	70	710	201
Processing and marketing	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 486	$ 625	$ 70	$ 710	$ 201
With no related allowance for credit losses:					
Real estate mortgage	$ 2,232	$ 3,110	$ –	$ 3,258	$ 925
Production and intermediate-term	306	986	–	446	127
Processing and marketing	61	71	–	90	26
Rural residential real estate	194	345	–	283	80
Total	$ 2,793	$ 4,512	$ –	$ 4,077	$ 1,158
Total impaired loans:					
Real estate mortgage	$ 2,232	$ 3,110	$ –	$ 3,258	$ 925
Production and intermediate-term	792	1,611	70	1,156	328
Processing and marketing	61	71	–	90	26
Rural residential real estate	194	345	–	283	80
Total	$ 3,279	$ 5,137	$ 70	$ 4,787	$ 1,359

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:								
Balance at December 31, 2019	$ 1,488	$ 637	$ 98	$ 2	$ 8	$ 121	$ 11	$ 2,365
Charge-offs	(1)	(58)	–	–	–	–	–	(59)
Recoveries	31	25	–	–	–	–	–	56
Provision for loan losses	175	19	7	(2)	(6)	40	1	234
Balance at December 31, 2020	$ 1,693	$ 623	$ 105	$ –	$ 2	$ 161	$ 12	$ 2,596
Balance at December 31, 2018	$ 1,371	$ 633	$ 104	$ 2	$ 8	$ 117	$ 10	$ 2,245
Charge-offs	(6)	(27)	–	–	–	–	–	(33)
Recoveries	26	94	–	–	–	27	–	147
Provision for loan losses	97	(63)	(6)	–	–	(23)	1	6
Balance at December 31, 2019	$ 1,488	$ 637	$ 98	$ 2	$ 8	$ 121	$ 11	$ 2,365
Balance at December 31, 2017	$ 1,287	$ 912	$ 94	$ 2	$ 10	$ 112	$ 10	$ 2,427
Charge-offs	(19)	(177)	–	–	–	–	–	(196)
Recoveries	27	51	–	–	–	14	–	92
Provision for loan losses	76	(153)	10	–	(2)	(9)	–	(78)
Balance at December 31, 2018	$ 1,371	$ 633	$ 104	$ 2	$ 8	$ 117	$ 10	$ 2,245
Allowance on loans evaluated for impairment:								
Individually	$ –	$ 38	$ –	$ –	$ –	$ –	$ –	$ 38
Collectively	1,693	585	105	–	2	161	12	2,558
Balance at December 31, 2020	$ 1,693	$ 623	$ 105	$ –	$ 2	$ 161	$ 12	$ 2,596
Individually	$ –	$ 47	$ –	$ –	$ –	$ –	$ –	$ 47
Collectively	1,488	590	98	2	8	121	11	2,318
Balance at December 31, 2019	$ 1,488	$ 637	$ 98	$ 2	$ 8	$ 121	$ 11	$ 2,365
Individually	$ –	$ 70	$ –	$ –	$ –	$ –	$ –	$ 70
Collectively	1,371	563	104	2	8	117	10	2,175
Balance at December 31, 2018	$ 1,371	$ 633	$ 104	$ 2	$ 8	$ 117	$ 10	$ 2,245
Recorded investment in loans evaluated for impairment:								
Individually	$ 1,064	$ 236	$ 46	$ –	$ –	$ 167	$ –	$ 1,513
Collectively	480,929	166,347	29,784	–	721	45,586	3,315	726,682
Balance at December 31, 2020	$ 481,993	$ 166,583	$ 29,830	$ –	$ 721	$ 45,753	$ 3,315	$ 728,195
Individually	$ 2,200	$ 324	$ 54	$ –	$ –	$ 209	$ –	$ 2,787
Collectively	436,461	173,529	28,716	578	2,217	35,415	3,322	680,238
Balance at December 31, 2019	$ 438,661	$ 173,853	$ 28,770	$ 578	$ 2,217	$ 35,624	$ 3,322	$ 683,025
Individually	$ 2,232	$ 792	$ 61	$ –	$ –	$ 194	$ –	$ 3,279
Collectively	424,095	174,317	32,327	513	2,435	36,273	3,015	672,975
Balance at December 31, 2018	$ 426,327	$ 175,109	$ 32,388	$ 513	$ 2,435	$ 36,467	$ 3,015	$ 676,254

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

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	$ –	$ 133	$ –	$ 133	
Production and intermediate-term	–	–	2	2	
Processing and marketing	–	98	–	98	
Total	$ –	$ 231	$ 2	$ 233	
Post-modification:					
Real estate mortgage	$ –	$ 133	$ –	$ 133	$ –
Production and intermediate-term	–	–	3	3	–
Processing and marketing	–	98	–	98	–
Total	$ –	$ 231	$ 3	$ 234	$ –

	Year Ended December 31, 2019				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 24	$ –	$ 24	
Production and intermediate-term	–	40	–	40	
Processing and marketing	–	55	–	55	
Total	$ –	$ 119	$ –	$ 119	
Post-modification:					
Real estate mortgage	$ –	$ 25	$ –	$ 25	$ –
Production and intermediate-term	–	123	–	123	(90)
Processing and marketing	–	55	–	55	–
Total	$ –	$ 203	$ –	$ 203	$ (90)

	Year Ended December 31, 2018				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 105	$ –	$ 105	
Processing and marketing	–	63	–	63	
Total	$ –	$ 168	$ –	$ 168	
	-		-		
Post-modification:					
Real estate mortgage	$ –	$ 107	$ –	$ 107	$ –
Processing and marketing	–	64	–	64	–
Total	$ –	$ 171	$ –	$ 171	$ –

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

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the periods presented. Payment default is defined as a payment that was thirty days or more past due.

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

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2020	**2019**	**2018**	**2020**	**2019**	**2018**
Real estate mortgage	$ 633	$ 686	$ 755	$ 267	$ 285	$ 331
Production and intermediate-term	101	162	187	101	158	178
Processing and marketing	46	54	62	46	54	62
Rural residential real estate	87	109	122	62	71	80
Total loans	$ 867	$ 1,011	$ 1,126	$ 476	$ 568	$ 651
Additional commitments to lend	$ –	$ –	$ –			

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 $6,167 for 2020, $6,652 for 2019 and $6,382 for 2018. The Association owned 2.29 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 $449 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	$ 427	$ 427	$ 481
Buildings and improvements	2,575	2,462	2,323
Furniture and equipment	2,300	2,331	2,291
	5,302	5,220	5,095
Less: accumulated depreciation	3,443	3,285	3,214
Total	$ 1,859	$ 1,935	$ 1,881

Note 6 — Debt

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

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

The weighted average interest rates on the variable rate advances were 1.44 percent for LIBOR-based loans and 1.57 percent for Prime-based loans, and the weighted average remaining maturities were 3.8 years and 0.5 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 2.94 percent, and the weighted average remaining maturity was 12.9 years at December 31, 2020. The weighted-average interest rate on all interest-bearing notes payable was 2.68 percent and the weighted-average remaining maturity was 10.9 years at December 31, 2020. Gross notes payable consists of approximately 17.94 percent variable rate and 82.06 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 B stock for agricultural loans, or participation certificates in the case of rural home and farm-related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to $1 thousand or two percent of the loan amount, whichever is less. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

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

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

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

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

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

- The CET1 capital ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to 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%	25.10%	26.62%	26.17%
Tier 1 Capital	6.0%	2.5%	8.5%	25.10%	26.62%	26.17%
Total Capital	8.0%	2.5%	10.5%	25.47%	26.99%	26.52%
Permanent Capital	7.0%	0.0%	7.0%	25.19%	26.71%	26.26%
Non-risk-adjusted ratios:						
Tier 1 Leverage	4.0%	1.0%	5.0%	26.80%	27.90%	27.85%
URE and UREE Leverage	1.5%	0.0%	1.5%	26.84%	27.94%	27.93%

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

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

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

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

Class	Protected	Shares Outstanding Number	Aggregate Par Value
C Common/Voting	No	973,646	$ 4,868
Participation Certificates/Nonvoting	No	130,420	652
Total Capital Stock and Participation Certificates		1,104,066	$ 5,520

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

Retained Earnings

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

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

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

Allocated equities shall be retired solely at the discretion of the Board; provided, however, that minimum capital standards established by the FCA and the Board are met.

Dividends

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

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

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

Patronage Distributions

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

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

Transfer

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

Impairment

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

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

Liquidation

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

1. Class C Preferred Stock
2. Classes A, B, and D Common Stock and Participation Certificates
3. Holders of allocated retained earnings pro rata, until an amount equal to the total account has been distributed.

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	$ (357)	$ (8)	$ (44)
Other comprehensive income before reclassifications	(150)	(349)	36
Amounts reclassified from AOCI	57	–	–
Net current period OCI	(93)	(349)	36
Balance at end of period	$ (450)	$ (357)	$ (8)

	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	$ (57)	$ –	$ –	See Note 9.
Amounts reclassified	$ (57)	$ –	$ –	

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

Note 8 — Fair Value Measurement

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

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

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

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

Level 1
Assets held in trust funds related to deferred compensation plans are classified as Level 1. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace. Additional information for the above may be found in the Notes to the Annual Information Statement of the Farm Credit System.

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

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

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

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

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

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

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

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

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

	December 31, 2020				
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 886	$ 886	$ –	$ –	$ 886
Recurring Assets	$ 886	$ 886	$ –	$ –	$ 886
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 125	$ –	$ –	$ 125	$ 125
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 125	$ –	$ –	$ 125	$ 125
Other Financial Instruments					
Assets:					
Cash	$ 157	$ 157	$ –	$ –	$ 157
Loans	720,013	–	–	729,667	729,667
Other Financial Assets	$ 720,170	$ 157	$ –	$ 729,667	$ 729,824
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 529,440	$ –	$ –	$ 535,957	$ 535,957
Other Financial Liabilities	$ 529,440	$ –	$ –	$ 535,957	$ 535,957

	December 31, 2019				
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 922	$ 922	$ –	$ –	$ 922
Recurring Assets	$ 922	$ 922	$ –	$ –	$ 922
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 163	$ –	$ –	$ 163	$ 163
Other property owned	535	–	–	571	571
Nonrecurring Assets	$ 698	$ –	$ –	$ 734	$ 734
Other Financial Instruments					
Assets:					
Cash	$ 550	$ 550	$ –	$ –	$ 550
Loans	674,983	–	–	677,176	677,176
Other Financial Assets	$ 675,533	$ 550	$ –	$ 677,176	$ 677,726
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 489,386	$ –	$ –	$ 490,564	$ 490,564
Other Financial Liabilities	$ 489,386	$ –	$ –	$ 490,564	$ 490,564

	December 31, 2018				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 933	$ 933	$ –	$ –	$ 933
Recurring Assets	$ 933	$ 933	$ –	$ –	$ 933
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 416	$ –	$ –	$ 416	$ 416
Other property owned	37	–	–	45	45
Nonrecurring Assets	$ 453	$ –	$ –	$ 461	$ 461
Other Financial Instruments					
Assets:					
Cash	$ 66	$ 66	$ –	$ –	$ 66
Loans	668,924	–	–	656,761	656,761
Other Financial Assets	$ 668,990	$ 66	$ –	$ 656,761	$ 656,827
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 484,103	$ –	$ –	$ 476,749	$ 476,749
Other Financial Liabilities	$ 484,103	$ –	$ –	$ 476,749	$ 476,749

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 estimate.

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 125	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 $1,839 for 2020, $1,612 for 2019, and $1,944 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 $188 for 2020, $212 for 2019, and $252 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 $432, $419, and $380 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, $(93), $(349), and $36, respectively, have been recognized as a net debit, a net debit, and a net credit to AOCI to reflect these elements.

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

The supplemental retirement plan is unfunded and had a projected benefit obligation of $973 and a net under-funded status of $973 at December 31, 2020. Expenses included in noninterest expenses were $94, $20, and $19 for 2020, 2019, and 2018, respectively. Assumptions used to determine the projected benefit obligation as of December 31, 2020 included a discount rate of 2.60 percent and a rate of compensation increase of 3.00 percent.

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 $13,009. During 2020, $7,874 of new loans were made and repayments totaled $9,694. Additionally, $612 was added and $810 were 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, $140,552 of commitments to extend credit and no commercial letters of credit were outstanding. A related reserve for unfunded commitments of $240 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 $626 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 $626.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2020	2019	2018
Current:			
Federal	$ 2	$ 7	$ 9
State	1	1	3
	3	8	12
Deferred:			
Federal	–	–	–
State	–	–	–
Total provision (benefit) for income taxes	$ 3	$ 8	$ 12

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	$ 4,228	$ 3,506	$ 3,858
State tax, net	2	2	2
Patronage distributions	(3,762)	(3,041)	(3,384)
Tax-exempt FLCA earnings	(558)	(431)	(479)
Changes in tax law/rates			
Change in deferred tax asset valuation allowance	122	(33)	19
Other	(29)	5	(4)
Provision (benefit) for income taxes	$ 3	$ 8	$ 12

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

	December 31,		
	2020	2019	2018
Deferred income tax assets:			
Allowance for loan losses	$ 381	$ 338	$ 330
Other property owned writedown	–	–	–
Nonaccrual loan interest	116	106	92
Fixed assets (asset)	5	–	6
Gross deferred tax assets	502	444	428
Less: valuation allowance	(380)	(258)	(291)
Gross deferred tax assets, net of valuation allowance	122	186	137
Deferred income tax liabilities:			
Depreciation	–	–	–
Fixed assets	–	(56)	–
Loan origination fees	(122)	(130)	(137)
Gross deferred tax liability	(122)	(186)	(137)
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2020, deferred income taxes have not been provided by the Association on approximately $0.9 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 $380, $258, and $291 as of December 31, 2020, 2019 and 2018, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

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

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2020				
	First	Second	Third	Fourth	Total
Net interest income	$ 5,356	$ 5,430	$ 5,445	$ 5,661	$ 21,892
Provision for (reversal of allowance for) loan losses	144	(25)	118	(3)	234
Noninterest income (expense), net	(1,826)	(1,790)	(1,727)	3,817	(1,526)
Net income	$ 3,386	$ 3,665	$ 3,600	$ 9,481	$ 20,132

	2019				
	First	Second	Third	Fourth	Total
Net interest income	$ 5,167	$ 5,275	$ 5,449	$ 5,411	$ 21,302
Provision for (reversal of allowance for) loan losses	(47)	6	125	(78)	6
Noninterest income (expense), net	(1,774)	(1,634)	(1,712)	512	(4,608)
Net income	$ 3,440	$ 3,635	$ 3,612	$ 6,001	$ 16,688

	2018				
	First	Second	Third	Fourth	Total
Net interest income	$ 4,762	$ 4,942	$ 5,216	$ 6,483	$ 21,403
Provision for (reversal of allowance for) loan losses	(148)	(198)	310	(42)	(78)
Noninterest income (expense), net	(1,037)	(1,684)	(1,628)	1,227	(3,122)
Net income	$ 3,873	$ 3,456	$ 3,278	$ 7,752	$ 18,359

Note 14 — Subsequent Events

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

FARM CREDIT

Colonial Farm Credit, ACA
7104 Mechanicsville Turnpike
Mechanicsville, VA 23111

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