# 2020 ANNUAL REPORT

## AGFIRST FARM CREDIT BANK

# IN SIGHT

**LEON T. AMERSON**
CHIEF EXECUTIVE OFFICER

**ELLIS W. TAYLOR**
CHAIRMAN OF THE BOARD

# IN SIGHT

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER & THE CHAIRMAN OF THE BOARD

AgFirst started 2020 with a clear vision of what we wanted to accomplish and a roadmap for making it happen. While plans can be derailed by even minor disruptions, 2020 brought unprecedented challenges and uncertainty. Despite those conditions, AgFirst employees remained undeterred, keeping our collective goals in sight and on track.

Our success this year speaks to the insight and vision of our organization across multiple disciplines and at all levels. Like most companies in 2020, AgFirst had to react quickly to evolving pandemic conditions in the early spring. The majority of our workforce had to abruptly adjust to working remotely, and we had to navigate rapidly changing economic impacts. Through it all, we pulled together to deliver uncompromised service and finished the year in a position of strength.

We accomplished this through incisive leadership, prescient planning, a committed workforce and consistent collaboration with our partners.

## FINANCIALS

During a tumultuous year that challenged so many, it was AgFirst's vision that helped our District meet and exceed financial goals in 2020.

The pandemic's impact on the interest rate environment and AgFirst's interest rate risk management strategies enabled the Bank to refinance $43 billion of debt during the year to improve the Bank's net interest margin by 44 basis points for 2020. The increase in net interest margin was the primary driver for the Bank's net income of $417.7 million, which was 54% higher than 2019.

Despite the turbulence of 2020, our credit quality remained stable due to commodity and geographic diversity in the loan portfolio and having a significant number of member-borrowers who entered the pandemic with strong balance sheets. Certain government support programs made available to member-borrowers, such as those authorized by the Coronavirus Aid, Relief and Economic Security (CARES) Act – including the Small Business Administration's Paycheck Protection Program (PPP) and the USDA's Coronavirus Food Assistance Program (CFAP) – also contributed to relatively stable asset quality in 2020.

As a result of the stable credit quality and improved net interest margin, the Bank returned record patronage of $394 million during 2020. Associations pay for the funding, technology and services provided by AgFirst primarily through the interest rates associated with their borrowings from AgFirst. The patronage refunds effectively reduced the Associations' average interest rate and costs of common technology and services by 193 basis points, resulting in an after-patronage cost of only 73 basis points.

## THE POWER OF PLANNING

While no one could have predicted how the year would unfold, AgFirst maintained its commitment to serving Association partners thanks to the foresight of strong business continuity planning.

A series of business-as-usual years can lead to a sense of complacency, and because of that, we regularly practice and refine our response to potential disruptive scenarios. Our switch to remote work this spring was abrupt, but because of our diligent planning, the transition was smooth. Protocol worked as planned, enabling us to maintain normal daily operations and keep our strategic initiatives in sharp focus.

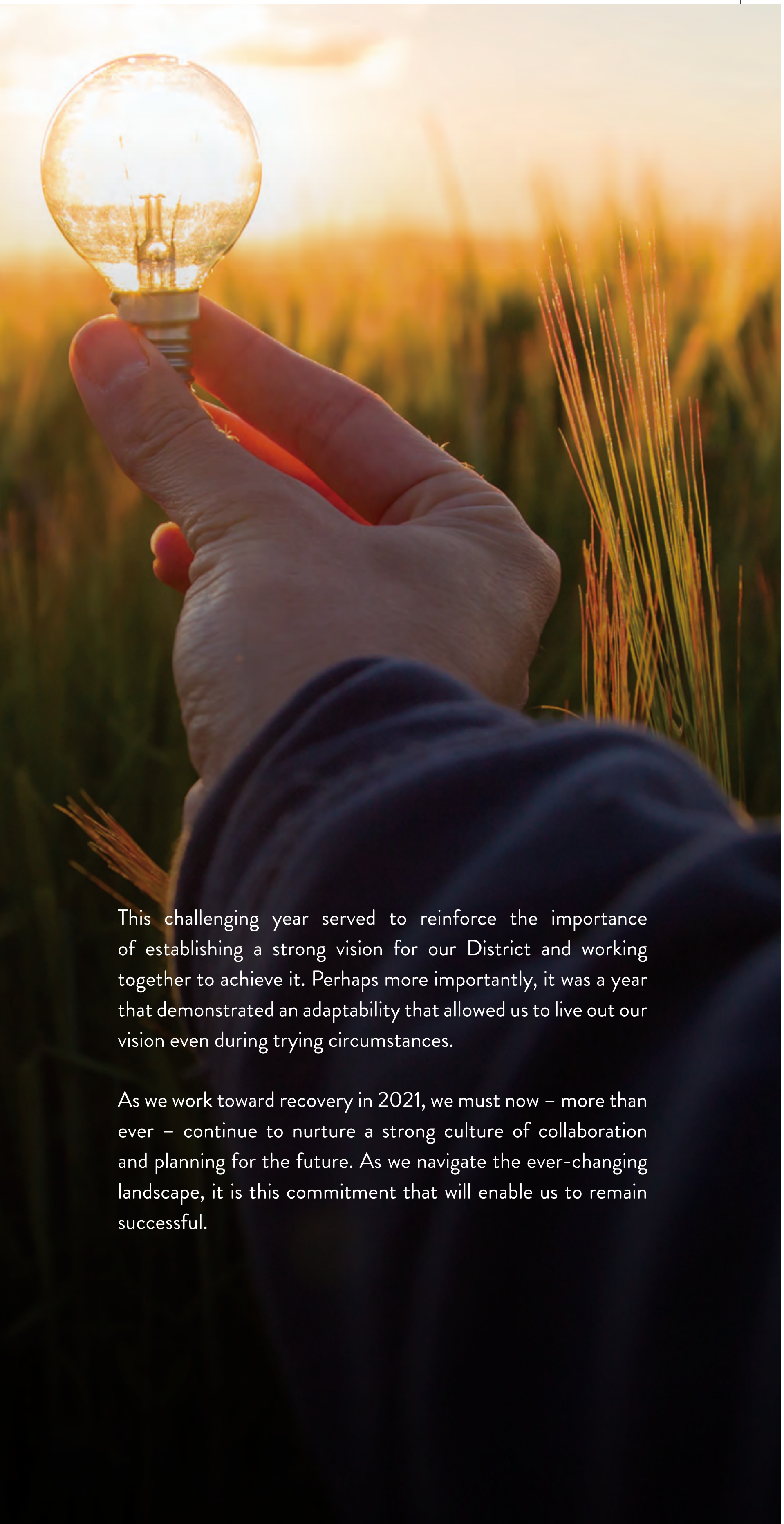
The events of 2020 underscored the importance of consistent business continuity planning. However, we would not have been as successful or effective without a dedicated and committed workforce. Even amid rapidly changing and sometimes difficult conditions, our employees ably met each challenge, ensuring we could continue to meet the needs of our Association partners.

## THROUGH THE LENS OF COLLABORATION

AgFirst views our role in accomplishing the mission of serving rural America and agriculture through a lens of collaboration. From partnering with Associations on business solutions to providing services that enable our partners to operate more effectively and efficiently as a group, we have long seen collaboration as a vital element of our success.

Never has collaboration been more important than it was in 2020. As we learned to navigate the year's challenges, our committees and workgroups continued important conversations albeit virtually – with a dedication to meeting milestones and an eye toward the future.

In a year that was disruptive enough to drive some operations apart, the AgFirst District instead came together to work as a team for the rural residents, farmers and agricultural businesses that rely on us. Time and again, our teams worked hard to see the possibilities of the future over the obstacles of the present.



This challenging year served to reinforce the importance of establishing a strong vision for our District and working together to achieve it. Perhaps more importantly, it was a year that demonstrated an adaptability that allowed us to live out our vision even during trying circumstances.

As we work toward recovery in 2021, we must now – more than ever – continue to nurture a strong culture of collaboration and planning for the future. As we navigate the ever-changing landscape, it is this commitment that will enable us to remain successful.

Ellis W. Taylor
Chairman of the Board

Leon T. Amerson
Chief Executive Officer

*March 11, 2021*

# AGFIRST FARM CREDIT BANK & ASSOCIATIONS

AgFirst is a member of the Farm Credit System, the largest agricultural lending organization in the United States. As one of the four Banks in the Farm Credit System, we provide funding to 19 affiliated Associations and provide services to 20 Associations in 18 states and Puerto Rico. Our Associations, in turn, provide financing to more than 90,000 farmers, ranchers, rural homeowners and agribusinesses.

# BOARD OF DIRECTORS

**GARY L. BALDOSSER**
AGCREDIT

**JACK W. BENTLEY JR.**
AGGEORGIA FARM CREDIT

**JENNY R. BLACK**
FARM CREDIT OF CENTRAL FLORIDA

**SHERRY E. BOWDEN**
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**WILLIAM J. FRANKLIN JR.**
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**WILLIAM K. JACKSON**
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CENTRAL KENTUCKY AGCREDIT

**S. ALAN MARSH**
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**FRED R. MOORE JR.**
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**THOMAS E. PORTER JR.**
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**WILLIAM T. ROBINSON**
AGSOUTH FARM CREDIT

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CAPE FEAR FARM CREDIT

**ELLIS W. TAYLOR**
AGCAROLINA FARM CREDIT


AGFIRST FARM CREDIT BANK

# 2020 ANNUAL REPORT

# *AgFirst Farm Credit Bank*

# *2020 ANNUAL REPORT*

## Contents



## Management

| | |
|---|---|
| Leon T. Amerson | President and Chief Executive Officer |
| Charl L. Butler | Executive Vice President and Chief Operating Officer |
| Isvara M. A. Wilson | Executive Vice President and Chief Administrative Officer |
| William E. Brown | Senior Vice President and Chief Credit Officer |
| Stephen F. Ciambrone | Senior Vice President and Chief Information Officer |
| Stephen Gilbert | Senior Vice President and Chief Financial Officer |
| Frances S. Griggs | Senior Vice President and General Counsel |
| Daniel E. LaFreniere | Senior Vice President and Chief Audit Executive |

## Board of Directors

| | |
|---|---|
| Ellis W. Taylor | Chairman |
| Michael T. Stone | Vice Chairman |
| Gary L. Baldosser | Director |
| Jack W. Bentley, Jr. | Director |
| Jenny R. Black | Director |
| Sherry E. Bowden | Director |
| William J. Franklin, Jr. | Director |
| Bonnie V. Hancock | Director |
| William K. Jackson | Director |
| J. Alvin Lyons | Director |
| S. Alan Marsh | Director |
| Fred R. Moore, Jr. | Director |
| Michael W. Patrick | Director |
| Thomas E. Porter, Jr. | Director |
| William T. Robinson | Director |

# Report of Management

The accompanying Financial Statements and related financial information appearing throughout this Annual Report have been prepared by management of AgFirst Farm Credit Bank (Bank) 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 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 Bank 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 Bank 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 Audit Committee of the Board of Directors and to the Chief Executive Officer.

AgFirst has a Code of Ethics for its Chief Executive Officer, Senior Financial Officers, and other Senior Officers who are involved with preparation and distribution of financial statements and maintenance of the records supporting the financial statements. A copy of the AgFirst Code of Ethics may be viewed on the Bank's website at www.agfirst.com.

The Financial Statements have been audited by an independent registered public accounting firm, whose report appears elsewhere in this Annual Report. The Bank is also subject to examination by the Farm Credit Administration.

The Financial Statements, in the opinion of management, fairly present the financial condition of the Bank. The undersigned certify that we have reviewed the 2020 Annual Report of AgFirst Farm Credit Bank, 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.

Ellis W. Taylor

Ellis W. Taylor
Chairman of the Board

Leon T. Amerson

Leon T. Amerson
President and Chief Executive Officer

Stephen Gilbert

Stephen Gilbert
Senior Vice President and Chief Financial Officer

March 11, 2021

# Five-Year Summary of Selected Financial Data

| *(dollars in thousands)* | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| | As of or for the Year Ended December 31, | | | | |
| **Balance Sheet Data** | | | | | |
| Cash and cash equivalents | $ 1,213,685 | $ 1,094,559 | $ 521,485 | $ 713,287 | $ 811,748 |
| Investments in debt securities | 8,515,428 | 7,932,835 | 7,981,248 | 8,122,228 | 8,032,195 |
| Loans | 26,224,989 | 25,111,659 | 24,275,881 | 23,359,160 | 22,914,682 |
| Allowance for loan losses | (18,257) | (18,032) | (18,049) | (14,381) | (14,783) |
| Net loans | 26,206,732 | 25,093,627 | 24,257,832 | 23,344,779 | 22,899,899 |
| Other property owned | — | 3,041 | 2,842 | 154 | 3,346 |
| Other assets | 402,361 | 381,027 | 315,055 | 307,009 | 310,409 |
| Total assets | $ 36,338,206 | $ 34,505,089 | $ 33,078,462 | $ 32,487,457 | $ 32,057,597 |
| Obligations with maturities of one year or less | $ 15,927,888 | $ 12,512,029 | $ 11,764,284 | $ 12,438,144 | $ 12,740,594 |
| Obligations with maturities of greater than one year | 17,932,454 | 19,662,242 | 19,090,481 | 17,806,498 | 17,091,755 |
| Total liabilities | 33,860,342 | 32,174,271 | 30,854,765 | 30,244,642 | 29,832,349 |
| Perpetual preferred stock | 49,250 | 49,250 | 49,250 | 49,250 | 49,250 |
| Capital stock and participation certificates | 311,859 | 325,278 | 317,840 | 313,752 | 301,905 |
| Additional paid-in-capital | 58,883 | 58,883 | 58,883 | 58,883 | 58,883 |
| Retained earnings | | | | | |
| Allocated | 416 | 418 | 440 | 492 | 559 |
| Unallocated | 1,871,594 | 1,848,506 | 1,848,936 | 1,845,194 | 1,817,004 |
| Accumulated other comprehensive income (loss) | 185,862 | 48,483 | (51,652) | (24,756) | (2,353) |
| Total shareholders' equity | 2,477,864 | 2,330,818 | 2,223,697 | 2,242,815 | 2,225,248 |
| Total liabilities and shareholders' equity | $ 36,338,206 | $ 34,505,089 | $ 33,078,462 | $ 32,487,457 | $ 32,057,597 |
| **Statement of Income Data** | | | | | |
| Net interest income | $ 581,347 | $ 407,662 | $ 410,167 | $ 447,067 | $ 465,004 |
| Provision for (reversal of allowance for) loan losses | (6,220) | (935) | 3,542 | (551) | (5,283) |
| Noninterest income (expense), net | (169,889) | (136,916) | (100,637) | (102,869) | (128,324) |
| Net income | $ 417,678 | $ 271,681 | $ 305,988 | $ 344,749 | $ 341,963 |
| **Key Financial Ratios** | | | | | |
| Rate of return on average: | | | | | |
| Total assets | 1.17 % | 0.81 % | 0.95 % | 1.09 % | 1.08 % |
| Total shareholders' equity | 15.90 % | 11.14 % | 13.03 % | 14.36 % | 14.45 % |
| Net interest income as a percentage of average earning assets | 1.67 % | 1.23 % | 1.29 % | 1.44 % | 1.53 % |
| Net (chargeoffs) recoveries to average loans | 0.03 % | 0.00 % | 0.00 % | 0.00 % | 0.02 % |
| Total shareholders' equity to total assets | 6.82 % | 6.75 % | 6.72 % | 6.90 % | 6.94 % |
| Debt to shareholders' equity (:1) | 13.67 | 13.80 | 13.88 | 13.49 | 13.41 |
| Allowance for loan losses to loans | 0.07 % | 0.07 % | 0.07 % | 0.06 % | 0.06 % |
| Permanent capital ratio | 19.39 % | 19.32 % | 21.67 % | 22.21 % | 21.31 % |
| Total surplus ratio | * | * | * | * | 21.21 % |
| Core surplus ratio | * | * | * | * | 19.13 % |
| Collateral ratio | * | * | * | * | 106.69 % |
| Common equity tier 1 capital ratio | 18.99 % | 18.90 % | 21.20 % | 21.73 % | * |
| Tier 1 capital ratio | 19.36 % | 19.29 % | 21.64 % | 22.18 % | * |
| Total regulatory capital ratio | 19.51 % | 19.45 % | 21.79 % | 22.31 % | * |
| Tier 1 leverage ratio** | 7.09 % | 7.10 % | 7.53 % | 7.67 % | * |
| Unallocated retained earnings (URE) and URE equivalents | 6.18 % | 6.17 % | 6.58 % | 6.72 % | * |
| **Net Income Distribution** | | | | | |
| Cash patronage declared | $ 390,382 | $ 266,942 | $ 298,223 | $ 312,456 | $ 252,659 |
| Perpetual preferred stock dividend | 963 | 1,798 | 1,622 | 1,146 | 1,548 |
| Stock dividend patronage declared | 3,468 | 3,112 | 2,635 | 2,766 | 2,633 |

** Not applicable due to changes in regulatory capital requirements effective January 1, 2017.*
***Tier 1 leverage ratio must included a minimum of 1.50% of URE and URE equivalents.*

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

AgFirst Farm Credit Bank (the Bank or AgFirst) is one of the banks of the Farm Credit System (the System), a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. Cooperatives are organizations that are owned and controlled by their members who use the cooperatives' products or services. The U.S. Congress authorized the creation of the first System institutions in 1916. The System was created to provide support for the agricultural sector because of its significance to the well-being of the U.S. economy and the U.S. consumer. The mission of the System is to support rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow. The System does this by making appropriately structured loans to qualified individuals and businesses at competitive rates and providing financial services and advice to those persons and businesses. Consistent with the mission of supporting rural America, the System also makes rural residential real estate loans, finances rural communication, power and water infrastructures and makes loans to support agricultural exports and to finance other eligible entities.

The nation is currently served by three Farm Credit Banks (FCBs) and one Agricultural Credit Bank (ACB), each of which has specific lending authorities within its chartered territory. The ACB also has certain additional specific nationwide lending authorities. AgFirst is chartered to serve the states of Pennsylvania, Delaware, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, the Commonwealth of Puerto Rico and portions of the states of Ohio, Tennessee, Kentucky and Louisiana.

Each FCB and the ACB serves one or more of either Production Credit Associations (PCAs) that originate and service short- and intermediate-term loans, Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans, and/or Agricultural Credit Associations (ACAs) that originate and service both long-term real estate mortgage loans and short- and intermediate-term loans. PCAs, FLCAs and ACAs are collectively referred to as associations. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the AgFirst District (District). The Associations are structured as cooperatives in which each Association is owned by its borrowers. AgFirst also operates as a cooperative. The District Associations, certain Other Financing Institutions (OFIs), other System institutions, and preferred stockholders jointly own AgFirst. As of December 31, 2020, the District consisted of the Bank and nineteen District Associations. All nineteen were structured as ACA holding companies, with FLCA and PCA subsidiaries. The Bank and District Associations are regulated by the Farm Credit Administration (FCA).

The following commentary reviews the Financial Statements of condition and results of operations of AgFirst as of and for the years ended December 31, 2020, 2019, and 2018. This information should be read in conjunction with the accompanying Financial Statements, the Notes to the Financial Statements and other sections of this Annual Report. The Financial Statements were prepared under the oversight of the Audit Committee of the Bank's Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" included in this Annual Report. See Note 1, *Organization and Operations*, in the Notes to the Financial Statements for a discussion of the operations of AgFirst.

**FORWARD-LOOKING INFORMATION**

Certain sections of this Annual Report contain forward-looking statements concerning financial information and statements about future economic performance and events, plans and objectives and assumptions underlying these projections and statements. These projections and statements are not based on historical facts but instead represent the Bank's current assumptions and expectations regarding the Bank's business, the economy and other future conditions. However, actual results and developments may differ materially from the Bank's expectations and predictions due to a number of risks and uncertainties, many of which are beyond the Bank's control.

These risks and uncertainties include, but are not limited to:

- the effects of the novel coronavirus (COVID-19) global pandemic and the measures implemented to contain the spread of the virus;
- political (including trade policies), legal, regulatory, financial markets, and economic conditions and developments in the United States (U.S.) and abroad;
- economic fluctuations in the agricultural, rural infrastructure, international, and farm-related business sectors, as well as in the general economy;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income of District borrowers;
- changes in U.S. government support of the agricultural industry and the System as a government-sponsored enterprise (GSE), as well as investor and rating agency reactions to events involving the U.S. government, other GSEs and other financial institutions;
- actions taken by the Federal Reserve System in implementing monetary and fiscal policy, as well as other policies and actions of the federal government that impact the financial services industry and the debt markets;
- credit, interest rate and liquidity risk inherent in lending activities;
- the replacement of LIBOR and the implementation of Secured Overnight Financing Rate (SOFR) or another benchmark interest rate; and
- changes in the Bank's assumptions for determining the allowance for loan losses, other-than-temporary impairment and fair value measurements.

Forward-looking statements can be identified by words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms that are intended to reference future periods.

## COVID-19 OVERVIEW

The COVID-19 pandemic has caused disruptions to the global economy and to the lives of individuals throughout the world. Governments, businesses, and the public have taken unprecedented actions to contain the spread of COVID-19 and to mitigate its effects, including quarantines, travel bans and restrictions, shelter in place orders, closures of businesses and schools, fiscal stimulus, and legislation designed to deliver monetary aid and other relief. 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 Bank recognizes that the COVID-19 pandemic may create significant stress for agricultural and rural borrowers because of disruptions to employees, markets, transportation, processors, off-farm income and other factors important to their operations. If the effects of the COVID-19 disruptions result in widespread and sustained repayment shortfalls on loans in the Bank's portfolio, the Bank could incur increased nonperforming assets and credit losses, particularly if conditions cause land and asset values to deteriorate and the available collateral is insufficient to cover the Bank's exposure. This could potentially have a material adverse effect on the Bank's financial condition, results of operations, liquidity, or capital levels.

The Bank's financing activities, potential future hedging activities (note the Bank currently has no hedges), net effective spread, and profitability could be negatively affected by volatility in interest rates caused by uncertainties stemming from COVID-19, as evidenced by the actions in March 2020 of the Federal Reserve to significantly lower the target range for the federal funds rate based on concerns about the disruption to economic activity. A prolonged period of extremely volatile and unstable market conditions could increase the Bank's hedging and funding costs while negatively affecting market risk mitigation strategies. Alternative funding strategies could result in greater exposure to re-funding risk and higher income volatility from changes in interest rates and movements in re-funding terms and spreads to benchmark indices such as LIBOR, which could have a material adverse effect on the Bank's net income, operating results, or financial condition.

One of the Bank's primary responsibilities is to maintain sufficient liquidity to fund the lending operations of the District Associations, in addition to its own needs. The Bank's primary source of liquidity is its ability to issue Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation (Funding Corporation). The Bank continually raises funds in the debt markets to support its mission, to repay maturing Systemwide Debt Securities and to meet other obligations. If the effects of COVID-19 were to create market disruptions that caused the Funding Corporation to be unable to continue to issue Systemwide Debt Securities at reasonable rates and desired terms, the Bank's business, operating results, or financial condition would likely be adversely affected.

The Bank relies on business processes that largely depend on people, technology, and the use of complex systems and models to manage its business, including access to information systems and models as well as information, applications, payment systems, and other services provided by third parties. In response to the challenges presented by the COVID-19 pandemic, the Bank has modified its business practices to focus on protecting its employees and the public while continuing to fulfill its critical mission and maintaining its regular business operations in support of the farmers, ranchers, and agricultural business of America. On March 12, 2020, the Bank activated its business continuity plan and has been operating uninterrupted since then with almost all of its employees working remotely from their homes. The continuation of these work-from-home measures may introduce additional operational risk and inefficiencies. These risks include, but are not limited to, greater cybersecurity, privacy and disclosure risks, strain on the local technology networks for remote operations and potential impairment of the ability to perform critical functions, all of which could adversely affect the Bank's business, results of operations, and financial condition. The Bank continues to monitor attempts by third parties to gain unauthorized access to its network and information systems through cyber-attacks. Despite the increased cybersecurity risks presented by a workforce that is operating remotely, the Bank had not experienced any known cyber-attacks or other known privacy or data security incidents through the date of this report that negatively affected the confidentiality, integrity, or availability of the Bank's information resources.

The Bank relies on many third parties, including vendors that supply essential services and local and federal government agencies, offices, and courthouses, in the performance of its business operations. In light of the measures being undertaken as a result of the COVID-19 pandemic, many of these entities may limit the access and availability of their services. For example, reductions in available staff in recording offices or the closing of courthouses to walk-in traffic in some counties could adversely impact the established process and turnaround times for title work and mortgage and UCC filings in those counties. If limitations in the availability of important services continued for a prolonged period or if additional limitations or potential disruptions in the ability to provide services materialize (which may be caused by a third party's own financial or operational difficulties), it may inhibit or otherwise negatively affect the normal operations and processes for the Bank's business, which could have a material adverse impact on its results of operations and financial condition.

The Bank's efforts to manage and mitigate the above mentioned risks may be unsuccessful, and the effectiveness of these efforts and the extent to which the COVID-19 pandemic affects the Bank's business, results of operations, and financial condition will depend on factors beyond its control, including the duration, severity, and spread of the pandemic, as well as third-party and government actions taken to contain COVID-19 and mitigate public health and economic effects, and how quickly and to what extent normal economic and operating conditions can resume. Even after the COVID-19 pandemic is over, the Bank may continue to experience material adverse effects to its business as a result of the disruption in the global economy and in the domestic agricultural economy. Because there have been no comparable recent global pandemics that resulted in a similar global macroeconomic impact, the Bank does not yet know the full extent of the effects on its business, operations, or the global economy as a whole, but they could materially and adversely affect the Bank's business, operations, operating results, financial condition, liquidity, or capital levels as discussed above.

***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 District has developed payment deferral programs for borrowers directly affected by market disruptions caused by the COVID-19 pandemic. Programs vary by loan portfolio, entity and geographic location. These actions are designed to help farmers and ranchers preserve liquidity.

On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (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 were impacted. The $16 billion included $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 sized 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 percent 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 percent 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 provided $484 billion in additional funding to replenish and supplement key programs under the CARES Act. The Act provided 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 percent to 60 percent and raises the non-payroll portion of a forgivable loan amount from 25 percent up to 40 percent.

On August 8, 2020, the PPP was closed and the SBA ceased to accept applications from participating lenders. Eighteen District Associations were approved as PPP lenders and made $148.3 million in loans and recorded approximately $5.0 million in loan-related fee income. At December 31, 2020, approximately $131.1 million of PPP loans remained outstanding across the District.

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. The CAA also authorizes the SBA to make new and additional PPP loans and modifies the CARES Act 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 animals 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 USDA direct purchases of dairy products under 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. The 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 AgFirst's business. References to USDA information in this section refer to the U.S. agricultural market data and are not limited to information/data in the AgFirst District.

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.

The 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 3.2 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 $23.9 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. A 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 District coupled with existing government safety net programs, ad hoc support programs and additional government disaster aid payment for many borrowers helped 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 District'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. Additionally, while the District benefits overall from diversification, individual District entities may have higher geographic, commodity, and borrower concentrations which may accentuate the negative impact on those entities' financial performance and credit quality. 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 Bank's financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Consideration of AgFirst's significant accounting policies is critical to the understanding of the Bank's results of operations and financial position because some accounting policies require complex or subjective judgments and estimates that may affect the reported amount of certain assets or liabilities as well as the recognition of certain income and expense items. In many instances, management has to make judgments about matters that are inherently uncertain. For a complete discussion of the Bank's significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, in the Notes to the Financial Statements. The following is a summary of the Bank's most critical accounting policies:

- *Allowance for loan losses* — The allowance for loan losses is management's best estimate of the amount of probable losses inherent in the Bank's 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.

  Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral.

The allowance for loan losses attributable to these loans is established by a process that estimates the probable loss inherent in the loans, taking into account various historical and current factors, internal risk ratings, regulatory oversight, and geographic, industry, and other factors.

In addition to the allowance for loan losses attributable to specific loans, the Bank may also establish a general allowance for loan losses based on management's assessment of risk inherent in the loans in the Bank's portfolio that were not specifically evaluated. In establishing general reserves, factors affecting certain commodity types or industries may be taken into consideration, as well as other factors previously discussed. Certain loan pools purchased from Associations are analyzed in accordance with the selling Associations' allowance methodologies for assigning general and specific allowances. Allowances are established on these pools based on that analysis after Bank management's determination that the methodologies employed are appropriate.

The Bank has established a reserve for unfunded commitments that provides for potential losses related to unfunded commitments and is maintained at a level that is considered the best estimate of the amount required to absorb probable losses related to these unfunded commitments. The reserve is determined using a similar methodology as used for the allowance for loan losses taking into account the probability of funding the commitment. The reserve for unfunded commitments is recorded as a liability in the Financial Statements.

Assessing the appropriateness of the allowance for loan losses and reserve for unfunded commitments is a dynamic process. Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the level of the allowance for loan losses and have a direct impact on the provision for loan losses and the results of operations.

The overall adequacy of the allowance for loan losses is validated further through periodic evaluations of the loan portfolio, which generally consider historical charge-off experiences adjusted for relevant factors. These factors include types of loans, credit quality, specific industry conditions, collateral value, general economic and political conditions, and changes in the character, composition, and performance of the portfolio, among other factors.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when active 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 active market exists. Management utilizes third-party valuation services to obtain fair value prices for the majority of the Bank's investment securities. Management also utilizes significant estimates and assumptions to value items for which an observable active market does not exist. Examples of these items include: impaired loans, other property owned, pension obligations, certain derivatives, certain investment securities and 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 asset or liability values, which could have material positive or negative effects on the Bank's results of operations.

## LOAN PORTFOLIO

The Bank's loan portfolio consists primarily of direct loans to District Associations (Direct Notes), loan participations/syndications purchased, Correspondent Lending loans (primarily first lien rural residential mortgages), and loans to OFIs as shown below at December 31:

**AgFirst Loan Portfolio**

| *(dollars in thousands)* | 2020 | | 2019 | | 2018 | |
|---|---|---|---|---|---|---|
| Direct Notes* | $ 17,945,905 | 68.43 % | $ 16,830,432 | 67.02 % | $ 16,414,045 | 67.61 % |
| Participations/Syndications Purchased, net* | 5,094,229 | 19.43 | 4,654,511 | 18.53 | 4,465,453 | 18.40 |
| Correspondent Lending | 3,047,757 | 11.62 | 3,484,332 | 13.88 | 3,261,996 | 13.44 |
| Loans to OFIs | 137,098 | 0.52 | 142,384 | 0.57 | 134,387 | 0.55 |
| Total | $ 26,224,989 | 100.00 % | $ 25,111,659 | 100.00 % | $ 24,275,881 | 100.00 % |

**Net of participations sold*

The diversification of the Bank's loan volume by type for each of the past three years at December 31 is shown below:

| *(dollars in thousands)* | 2020 | | 2019 | | 2018 | |
|---|---|---|---|---|---|---|
| Direct Notes | $ 17,945,905 | 68.43 % | $ 16,830,432 | 67.02 % | $ 16,414,045 | 67.61 % |
| Rural Residential Real Estate | 2,899,911 | 11.06 | 3,325,122 | 13.24 | 3,104,737 | 12.79 |
| Processing and Marketing | 1,229,744 | 4.69 | 1,091,959 | 4.35 | 977,274 | 4.03 |
| Production and Intermediate-Term | 1,163,424 | 4.44 | 1,089,174 | 4.34 | 1,137,422 | 4.69 |
| Real Estate Mortgage | 1,116,668 | 4.26 | 1,135,611 | 4.52 | 1,107,077 | 4.56 |
| Power and Water/Waste Disposal | 569,315 | 2.17 | 519,111 | 2.07 | 532,649 | 2.20 |
| Loans to Cooperatives | 561,335 | 2.14 | 473,462 | 1.88 | 441,510 | 1.82 |
| Communication | 462,287 | 1.76 | 356,584 | 1.42 | 295,833 | 1.22 |
| Loans to OFIs | 137,098 | 0.52 | 142,384 | 0.57 | 134,387 | 0.55 |
| International | 84,948 | 0.32 | 76,775 | 0.31 | 71,141 | 0.29 |
| Farm-Related Business | 46,732 | 0.18 | 62,595 | 0.25 | 51,393 | 0.21 |
| Other | 7,622 | 0.03 | 8,450 | 0.03 | 8,413 | 0.03 |
| Total loans | $ 26,224,989 | 100.00 % | $ 25,111,659 | 100.00 % | $ 24,275,881 | 100.00 % |

Total loans outstanding were $26.225 billion at December 31, 2020. Compared to the prior year, total loans outstanding increased $1.113 billion, or 4.43 percent. Loans outstanding at the end of 2019 increased $835.8 million, or 3.44 percent, compared to December 31, 2018.

As noted in the table above, a significant portion of the Bank's loan portfolio is comprised of Direct Notes to District Associations. Since Direct Notes fund District Associations' lending activities, increases and decreases in the Direct Note portfolio are closely linked to the commodities and geographic distribution of the District Associations' loan portfolios.

In 2020, loan growth for the combined District portfolio was primarily in the forestry, processing, utilities, field crops, poultry, grains, and corn segments. In 2019, loan growth was primarily in the forestry, rural home loans, field crops, swine, and processing segments.

Each loan in the Bank's portfolio is classified according to a Uniform Classification System, which is used by all System institutions. Below are the classification definitions:

- *Acceptable* – Assets are expected to be fully collectible and represent the highest quality. In addition, these assets may include loans with properly executed and structured guarantees that might otherwise be classified less favorably.
- *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 AgFirst loans including accrued interest at December 31:

| **AgFirst Total Loans Credit Quality** | **2020** | **2019** | **2018** |
|---|---|---|---|
| Acceptable | 94.00 % | 93.93 % | 93.80 % |
| OAEM | 5.85 | 5.84 % | 6.07 % |
| Substandard/doubtful/loss | 0.15 | 0.23 % | 0.13 % |
| Total | 100.00 % | 100.00 % | 100.00 % |

The table above reflects the classification of a single Direct Note as OAEM for all periods presented. See the *Direct Notes* section below for further discussion.

Bank credit quality has remained relatively stable but it could potentially deteriorate in the coming year if government support for agricultural sectors declines, unemployment benefits decline, benefits from the SBA PPP cease, and the COVID deferral and forbearance programs conclude. See the *Direct Note*s, *Participations/Syndications*, and *Correspondent Lending* sections below for further discussion of the Bank's loan portfolio and credit quality.

*Direct Notes*

AgFirst's primary business is to provide funding, operational support, and technology services to District Associations. AgFirst provides a revolving line of credit, referred to as a Direct Note, to each of the District Associations. Each of the Associations funds its lending and general corporate activities primarily by borrowing under its Direct Note. Lending terms are specified in a separate General Financing Agreement (GFA) between AgFirst and each Association. Each GFA contains minimum borrowing base margin, capital, and earnings requirements that must be maintained by the Association. Refer to Note 1, *Organization and Operations*, in the Notes to the Financial Statements for further discussion.

At December 31, 2020, total Direct Note volume outstanding was $17.946 billion, an increase of $1.115 billion, or 6.63 percent, compared to December 31, 2019. Direct Note volume of $16.830 billion at December 31, 2019, increased $416.4 million, or 2.54 percent, compared to December 31, 2018. The Bank may sell participation interests in certain of its Direct Notes to other System banks. At December 31, 2020, Direct Note volume totaling $1.141 billion had been sold to another System bank.

AgFirst provides each Association with core operating systems and support, including a loan origination system, loan accounting and servicing systems, general ledger and related financial accounting systems, and a human resources/payroll system. With AgFirst providing such systems and other services, the Associations are able to achieve operating efficiencies ordinarily afforded to much larger organizations. In addition, having common systems supported by AgFirst provides an opportunity to automate the AgFirst/Association lending process. One of the most significant advantages of this is a match-funding mechanism that automatically creates Direct Note advances that match the repricing and maturity characteristics of each underlying Association loan. The

Associations' interest rate risk and systems operational risks are primarily transferred to the Bank by employing these systems.

Ultimately, the Associations' ability to repay their Direct Note obligations is significantly dependent upon the repayment of loans made to their borrowers. Accordingly, AgFirst's direct and indirect credit exposure depends upon the creditworthiness of both the Associations that are direct borrowers and the underlying borrowers of the Associations whose loans, as well as the other assets of the Associations, secure their Direct Notes.

AgFirst continually monitors the risk-bearing capacity of each Association through a variety of mechanisms, including testing of the reliability of the Association's risk ratings assigned to each of its loans, periodic meetings with the Association's management and board of directors, regular formalized risk assessments, and prior approval of loan transactions that exceed the Association's delegated lending authority as determined by AgFirst.

All Associations are subject to an annual audit by an independent registered public accounting firm and periodic examination by the FCA. Each Association is required by regulatory mandate to perform continuous internal credit, appraisal, and audit reviews. Litigation in which Associations are involved is typically loan related and poses no material threat to their viability.

All Associations met all of the regulatory minimum capital requirements, and were considered well-capitalized at December 31, 2020. See *Regulatory Ratios* in the *Capital* section below for a discussion of the calculation of these ratios.

The following table presents selected statistics related to the credit quality of the Bank's Direct Note portfolio including accrued interest at December 31:

**Direct Note Credit Quality**

| | 2020 | | 2019 | | 2018 | |
|---|---|---|---|---|---|---|
| | **% Total** | **# Total** | **% Total** | **# Total** | **% Total** | **# Total** |
| Acceptable | 92.09% | 18 | 91.96% | 18 | 91.33% | 18 |
| OAEM | 7.91 | 1 | 8.04 | 1 | 8.67 | 1 |
| Substandard/doubtful/loss | — | — | — | — | — | — |
| Total | 100.00% | 19 | 100.00% | 19 | 100.00% | 19 |

At December 31, 2020, no District Associations were operating under a written agreement with the FCA. As of December 31, 2020, one Association, which had total assets of $1.925 billion, was operating under a special credit agreement pursuant to its GFA. The GFA events of default are not expected to have a significant adverse impact on the Bank's or District's financial condition or results of operations. This Direct Note was classified as OAEM for all of the periods presented.

Presently, collection of the full Direct Note amount due is expected from all Associations in accordance with the contractual terms of the debt arrangements, and no allowance has been recorded for Direct Notes. Virtually all assets of the various Associations are pledged as collateral for their respective Direct Notes. In the opinion of management, all Association Direct Notes are adequately collateralized. The risk funds of an Association, including both capital and the allowance for loan losses, also protect the interest of the Bank should a Direct Note default.

Associations employ a number of risk management techniques to limit credit exposures. Each Association has adopted underwriting standards, individual borrower exposure limits, commodity exposure limits, and other risk management techniques. AgFirst and the Associations actively purchase and sell loan participations to enhance the diversification of their portfolios. Some Associations utilize guarantees from U.S. government agencies/departments, including the Farm Service Agency, the Small Business Administration, and the Federal Agricultural Mortgage Corporation (Farmer Mac), as well as state government guarantees to further limit credit exposures. At December 31, 2020, Associations collectively had $1.837 billion (7.68 percent of the total Associations' loan portfolios) under such government or GSE guarantees, compared to $1.689 billion (7.51 percent) and $1.709 billion (7.85 percent), at December 31, 2019 and 2018, respectively.

The following table presents the credit quality classification of the combined Associations' loans, including accrued interest, at December 31 as follows:

| District Associations Credit Quality | 2020 | 2019 | 2018 |
|---|---|---|---|
| Acceptable | 94.32 % | 93.64 % | 94.03 % |
| OAEM | 3.10 | 3.75 | 3.34 |
| Substandard/doubtful/loss | 2.58 | 2.61 | 2.63 |
| Total | 100.00 % | 100.00 % | 100.00 % |

Total Association loan delinquencies (loans 90 days or more past due) were 0.43 percent of the combined Association total loan assets at year-end 2020, compared to 0.52 percent and 0.47 at December 31, 2019 and 2018, respectively.

At December 31, 2020, nonperforming assets for the combined Associations represented 1.42 percent of total loans and other property owned or $339.4 million, compared to 1.66 percent or $374.4 million for 2019, and 1.70 percent or $369.7 million for 2018. Nonperforming assets consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due and other property owned.

Associations recognized net loan charge-offs of $907 thousand for 2020, $11.6 million for 2019, and $6.8 million for 2018. As a percentage of total average loans, net charge-offs for the combined Associations were 0.00 percent for 2020 compared to 0.05 percent for 2019 and 0.03 percent for 2018. Each Association maintains an allowance for loan losses determined by its management based upon its unique circumstances.

Affiliated Associations serve primarily all or a portion of fifteen states and Puerto Rico. The District's large footprint results in geographic diversity, which is a natural credit risk-reducing factor for AgFirst. The following table illustrates the geographic distribution of the Associations' loan volume outstanding by state for the past three years at December 31:

**District Associations**

| | Percent of Portfolio | | |
|---|---|---|---|
| **State** | **2020** | **2019** | **2018** |
| North Carolina | 16 % | 16 % | 16 % |
| Georgia | 11 | 11 | 11 |
| Pennsylvania | 10 | 10 | 10 |
| Virginia | 10 | 10 | 10 |
| Ohio | 8 | 8 | 8 |
| Florida | 8 | 8 | 8 |
| Maryland | 6 | 6 | 7 |
| South Carolina | 6 | 6 | 6 |
| Alabama | 6 | 5 | 5 |
| Kentucky | 4 | 4 | 4 |
| Mississippi | 3 | 3 | 3 |
| Louisiana | 2 | 2 | 2 |
| Delaware | 2 | 2 | 2 |
| Other | 8 | 9 | 8 |
| Total | 100 % | 100 % | 100 % |

Only four states have loan volume representing 10.00 percent or greater of the total at December 31, 2020. Commodity diversification, guarantees, and borrowers with significant reliance on non-farm income further mitigate the geographic concentration risk in these states.

The Associations' credit portfolios are comprised of a number of commodity segments having varying, and in some cases complementary, characteristics which helps mitigate credit risk. Commodity and industry categories are based on the Standard Industrial Classification system published by the federal government. This system is used to assign commodity or industry categories based on the largest agricultural commodity of the customer.

The following table illustrates the aggregate credit portfolio of the Associations by major commodity segments based on borrower eligibility at December 31:

**District Associations**

| | Percent of Portfolio | | |
|---|---|---|---|
| **Commodity Group** | **2020** | **2019** | **2018** |
| Forestry | 15 % | 15 % | 14 % |
| Poultry | 14 | 14 | 14 |
| Field Crops | 12 | 12 | 12 |
| Cattle | 9 | 9 | 9 |
| Grains | 8 | 8 | 9 |
| Corn | 6 | 6 | 6 |
| Other Real Estate | 5 | 5 | 5 |
| Dairy | 5 | 5 | 5 |
| Tree Fruits and Nuts | 3 | 3 | 3 |
| Cotton | 3 | 3 | 3 |
| Swine | 3 | 3 | 3 |
| Nursery/Greenhouse | 3 | 3 | 3 |
| Rural Home | 3 | 2 | 3 |
| Processing | 2 | 2 | 2 |
| Other | 9 | 10 | 9 |
| Total | 100 % | 100 % | 100 % |

As illustrated in the above chart, Associations had concentrations of 10.00 percent or greater in only three commodities: forestry, poultry, and field crops. All three commodities have geographic dispersion over the entire AgFirst District footprint. Also, many of these borrowers have significant secondary income from other sources.

Forestry is divided principally into hardwood and softwood production and value-added processing. The timber from hardwood production is further processed into furniture, flooring, and high-grade paper and is generally located at the more northern latitudes and higher elevations of the AgFirst District. Softwood timber production is typically located in the coastal plains of the AgFirst District footprint and is used for building materials for the housing market and pulp to make paper and hygiene products. Timber producers at the Associations range in size from less than fifty acres to thousands of acres, with value-added processing being conducted at sawmills, planer mills, and paper mills.

Poultry concentrations within the Associations are dispersed among a large number of farm units producing poultry. Poultry concentration is further dispersed as production is segregated among chicken, turkey, and egg production.

The field crops commodity group represents a diverse group of commodities, including melons, vegetables, and other non-grain crops, which are grown throughout the AgFirst District.

The diversity of income sources supporting Association loan repayments, including a prevalence of non-farm income among the borrowers, further mitigates credit risk to AgFirst. The following table illustrates the aggregate credit portfolio of the Associations by major segments based upon primary source of repayment as of December 31 of each year:

**District Associations**

| | Percent of Portfolio | | |
|---|---|---|---|
| **Commodity Group** | **2020** | **2019** | **2018** |
| Non-Farm Income | 33 % | 32 % | 32 % |
| Grains | 14 | 14 | 15 |
| Poultry | 13 | 13 | 13 |
| Timber | 6 | 6 | 6 |
| Dairy | 5 | 5 | 5 |
| Fruit and Vegetables | 4 | 5 | 4 |
| Beef | 4 | 4 | 4 |
| Cotton | 3 | 3 | 3 |
| Farm-Related Business | 3 | 3 | 2 |
| Swine | 3 | 3 | 3 |
| Landlords | 2 | 2 | 2 |
| Nursery | 2 | 2 | 2 |
| Tobacco | 2 | 2 | 2 |
| Other | 6 | 6 | 7 |
| Total | 100 % | 100 % | 100 % |

As mentioned previously, loans exceeding an Association's delegated lending authority must be pre-approved by AgFirst. As a result, larger agribusiness loans are typically analyzed by AgFirst's commercial lending staff as well as the Association's own lending staff prior to an Association committing to such loans.

Exposure to losses is reduced further through collateralization and other credit enhancements, including federal government guarantees.

Typically, multiple loans to the same borrower are cross-collateralized and cross-defaulted.

By law, all long-term loans authorized by Title 1 of the Farm Credit Act of 1971, as amended (the Farm Credit Act), must be secured by a first lien on real estate with an initial loan to appraised value not exceeding 85.00 percent. As of December 31, 2020, long-term loans represent 65.75 percent of District Association loans.

*Participations/Syndications*

AgFirst has a Capital Markets Unit that purchases and sells loan participations and syndications. The Bank's credit officers work with the Associations to originate loans within the District's territory, provide commercial loan expertise to augment the Associations' staff, as needed, and provide an outlet for loans that exceed Associations' various hold limits. Additionally, the Capital Markets Unit actively pursues the purchase of participations and syndications originated outside of the District's territory by other System institutions, commercial banks, and other lenders. These loans may be held as earning assets of AgFirst or sub-participated to the Associations. The Capital Markets Unit also sells participations outside of the District to manage AgFirst's and the District Associations' loan concentrations and hold positions.

AgFirst's net participations/syndications volume outstanding increased by 9.45 percent from December 31, 2019 to December 31, 2020 and increased by 4.23 percent from December 31, 2018 to December 31, 2019. The increase in participation volume in 2020 is primarily due to increased capital markets activity, existing customers utilizing lines of credit given market uncertainty, and the Bank's purchase of PPP loans originated by Associations. At December 31, 2020, the Bank had $83.5 million of purchased PPP loans outstanding. The increase in 2019 was primarily due to a steady level of capital markets transactions coming to market.

The following table shows total participations/syndications portfolio credit exposures at December 31 of each year:

| | Participations/Syndications | | |
|---|---|---|---|
| *(dollars in thousands)* | **2020** | **2019** | **2018** |
| Participations/Syndications Purchased | $ 7,403,206 | $ 6,624,130 | $ 6,135,958 |
| Less: Participations/Syndications Sold | 2,308,977 | 1,969,619 | 1,670,505 |
| Net Outstanding | 5,094,229 | 4,654,511 | 4,465,453 |
| Available Unused Commitments | 3,137,084 | 2,861,118 | 2,787,278 |
| Letters of Credit and Guarantees | 66,340 | 53,525 | 57,628 |
| Total Exposure | $ 8,297,653 | $ 7,569,154 | $ 7,310,359 |

Like the Associations, AgFirst employs a number of management techniques to limit credit risk, including underwriting standards, limits on the amounts of loans purchased from a single originator, and maximum hold positions to a single borrower and commodity. Although the participations/syndications portfolio is comprised of a relatively small number of large loans, it is diversified both geographically and on a commodity basis. Management makes adjustments to credit policy and underwriting standards when appropriate as a part of the ongoing risk management process.

The following table illustrates AgFirst's participations/syndications portfolio by geographic distribution at December 31:

| | Participations/Syndications | | | | | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | 2020 | | 2019 | | 2018 | |
| Georgia | $ 640,173 | 13 % | $ 758,164 | 16 % | $ 620,851 | 14 % |
| North Carolina | 468,900 | 9 | 396,829 | 9 | 428,467 | 10 |
| Florida | 447,731 | 9 | 464,224 | 10 | 450,727 | 10 |
| Texas | 310,466 | 6 | 241,355 | 5 | 315,173 | 7 |
| California | 250,273 | 5 | 244,288 | 5 | 210,530 | 5 |
| New York | 215,543 | 4 | 115,083 | 2 | 190,780 | 4 |
| Ohio | 198,536 | 4 | 196,662 | 4 | 151,372 | 3 |
| Minnesota | 184,341 | 4 | 172,314 | 4 | 142,849 | 3 |
| Louisiana | 163,839 | 3 | 137,512 | 3 | 102,187 | 2 |
| South Carolina | 136,256 | 3 | 159,690 | 3 | 122,840 | 3 |
| Kansas | 127,913 | 3 | 129,501 | 3 | 128,313 | 3 |
| Missouri | 127,589 | 3 | 110,030 | 2 | 102,513 | 2 |
| Illinois | 124,708 | 2 | 89,139 | 2 | 102,158 | 2 |
| Washington | 116,122 | 2 | 115,570 | 2 | 103,435 | 2 |
| Kentucky | 113,377 | 2 | 81,688 | 2 | 98,736 | 2 |
| Virginia | 112,204 | 2 | 102,568 | 2 | 98,342 | 2 |
| Connecticut | 111,201 | 2 | 112,316 | 2 | 98,866 | 2 |
| New Jersey | 98,849 | 2 | 99,712 | 2 | 87,462 | 2 |
| Pennsylvania | 98,530 | 2 | 88,027 | 2 | 126,895 | 3 |
| Colorado | 96,662 | 2 | 102,342 | 2 | 85,111 | 2 |
| Iowa | 88,781 | 2 | 50,528 | 1 | 50,508 | 1 |
| Arkansas | 83,971 | 2 | 28,101 | 1 | 56,143 | 1 |
| North Dakota | 79,805 | 2 | 77,464 | 2 | 75,018 | 2 |
| Other | 698,459 | 12 | 581,404 | 14 | 516,177 | 13 |
| | $ 5,094,229 | 100 % | $ 4,654,511 | 100 % | $ 4,465,453 | 100 % |

The following participations/syndications table shows the various major commodity groups in the portfolio based on borrower eligibility and their percentage of the outstanding portfolio volume at December 31:

| | Percent of Portfolio | | |
|---|---|---|---|
| **Participations /Syndications Commodity Group** | **2020** | **2019** | **2018** |
| Utilities | 19 % | 17 % | 17 % |
| Processing | 19 | 16 | 16 |
| Forestry | 18 | 20 | 19 |
| Field Crops | 7 | 7 | 7 |
| Tree Fruits and Nuts | 5 | 5 | 5 |
| Swine | 4 | 4 | 4 |
| Nursery/Greenhouse | 3 | 4 | 4 |
| Dairy | 3 | 4 | 4 |
| Grains | 3 | 2 | 2 |
| Cattle | 3 | 3 | 4 |
| Tobacco | 2 | 2 | 2 |
| Other | 14 | 16 | 16 |
| Total | 100 % | 100 % | 100 % |

The following table segregates these loans based upon repayment dependency by commodity at December 31:

| | Percent of Portfolio | | |
|---|---|---|---|
| **Participations/Syndications Commodity Group** | **2020** | **2019** | **2018** |
| Rural Utilities | 19 % | 17 % | 17 % |
| Timber | 16 | 17 | 16 |
| Fruit and Vegetables | 10 | 10 | 10 |
| Grains | 8 | 8 | 8 |
| Swine | 6 | 6 | 8 |
| Processing and Marketing | 6 | 5 | 5 |
| Non-Farm Income | 6 | 6 | 8 |
| Poultry | 5 | 5 | 3 |
| Dairy | 5 | 4 | 4 |
| Beef | 3 | 3 | 3 |
| Nursery | 2 | 3 | 3 |
| Tobacco | 2 | 2 | 2 |
| Wine | 2 | 2 | 3 |
| Fisheries | 2 | 3 | 2 |
| Other | 8 | 9 | 8 |
| Total | 100 % | 100 % | 100 % |

The following table represents the participations/syndications portfolio's credit quality as of December 31:

| Participations/Syndications Credit Quality | 2020 | 2019 | 2018 |
|---|---|---|---|
| Acceptable | 97.22 % | 96.61 % | 98.37 % |
| OAEM | 2.25 | 2.40 | 1.17 |
| Substandard/doubtful/loss | 0.53 | 0.99 | 0.46 |
| Total | 100.00 % | 100.00 % | 100.00 % |

Credit quality in the participations/syndications portfolio slightly improved in 2020, but is likely to deteriorate somewhat in the coming year due to the economic impact of the COVID-19 pandemic.

*Correspondent Lending*

The Correspondent Lending portfolio consists primarily of first lien rural residential mortgages. The volume of this portfolio decreased by 12.53 percent from year-end 2019 to 2020 and increased 6.82 percent from year-end 2018 to 2019. The decrease in volume in 2020 resulted primarily from loan sales of $289.4 million to capitalize on market premiums in the portfolio and manage risk during a period of market volatility. These sales resulted in $8.2 million in gains. See *Noninterest Income* section below. A reduction in new home construction loans resulting from modifications of qualification standards established by mortgage insurers and increased early payoff activity from refinancing also contributed to the decrease.

As of December 31, 2020, $932.8 million, or 30.61 percent, of loans in the Correspondent Lending portfolio include a long-term standby commitment to purchase (LTSP) and $2.115 billion, or 69.39 percent, are not covered under a LTSP. The LTSPs from the Federal National Mortgage Association (Fannie Mae) and/or Federal Agricultural Mortgage Corporation (Farmer Mac), give AgFirst the right to deliver delinquent loans to the guarantor at par. The remaining loans are included in the Bank's allowance for loan losses methodology related to this portfolio.

Correspondent Lending loans consist of the following at December 31:

| | AgFirst Correspondent Lending | | | | | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | 2020 | | 2019 | | 2018 | |
| Rural Home Loans – LTSP | $ 788,462 | 25.87 % | $ 1,011,478 | 29.03 % | $ 1,157,742 | 35.49 % |
| Part-time Farm Loans – LTSP | 144,325 | 4.74 | 155,526 | 4.46 | 151,976 | 4.66 |
| Non-guaranteed Loans | 2,114,970 | 69.39 | 2,317,328 | 66.51 | 1,952,278 | 59.85 |
| Total | $ 3,047,757 | 100.00 % | $ 3,484,332 | 100.00 % | $ 3,261,996 | 100.00 % |

Rural home loans are underwritten to conform to Fannie Mae underwriting standards. Part-time farm loans conform to Farmer Mac underwriting standards.

Part-time farm loans represent first lien mortgages on homes with property characteristics (such as acreage or agricultural improvements) that may not conform to Fannie Mae standards. These loans are included in the Farmer Mac LTSP.

AgFirst Correspondent Lending retains servicing rights for some sold loans. The total volume serviced but not owned as of December 31, 2020 was $376.0 million. The Correspondent Lending loans are sub-serviced through agreements with third parties.

At December 31, 2020, 99.58 percent of the total Correspondent Lending loans, including accrued interest, was classified as acceptable compared to 99.66 percent and 99.68 percent at December 31, 2019 and 2018, respectively. At December 31, 2020, 2019, and 2018, 0.42 percent, 0.34 percent, and 0.32 percent, respectively, were classified substandard. There were no loans classified as OAEM for the periods presented.

As a result of the COVID-19 pandemic, the Bank utilized forbearance programs offered by Fannie Mae to eligible borrowers for an initial six-month forbearance, with a potential maximum forbearance of twelve months. During 2020, loans totaling $83.9 million, or 2.74 percent of the Correspondent Lending portfolio at December 31, 2020, were included in the forbearance program.

Credit quality is expected to decline during 2021 due to the economic impact on non-farm income arising from the pandemic, reduction of unemployment benefits, and the conclusion of forbearance programs.

## RISK MANAGEMENT

***Overview***

The Bank is in the business of making agricultural and other loans that requires accepting certain risks in exchange for compensation for the risks undertaken. Proper management of the risks inherent in AgFirst's business is essential for current and long-term financial performance. Prudent and disciplined risk management includes an enterprise risk management structure to identify emerging risks and evaluate risk implications of decisions and actions taken. The objectives of risk management are to identify and assess risks, and to properly and effectively mitigate, measure, price, monitor, and report risks in the Bank's business activities.

The Bank's Executive Committee is responsible for risk management, including:

- Providing overall leadership, vision, and direction for enterprise risk management;
- Establishing an integrated risk management framework for all aspects of risk across the organization;
- Ensuring development of risk management policies, including the quantification of management's risk appetite through specific risk limits;
- Implementing a set of risk metrics and reports, including key risk exposures and early warning indicators;
- Optimizing the Bank's risk portfolio through business activities and risk transfer strategies;
- Improving the Bank's risk management readiness through recruiting and retaining top talent, coordination of communication and training programs, risk-based performance measurement and incentives, and other change management programs;

- Assigning responsibility for development of analytical systems and data management capabilities to support the risk management program; and
- Reporting periodically to the Board of Directors on actions taken to strengthen the Bank's system of internal control.

The Executive Committee provides oversight of the Bank's risk management functions through an integrated management committee structure, including, among others, the Bank's Asset/Liability Management Committee (ALCO), Loan Committee, Special Assets Committee, Internal Control over Financial Reporting (ICFR) Steering Committee, Data Governance Committee, Fraud Risk Management Committee and Senior Management Committee.

Stress testing represents a critical component of the Bank's risk management process. Stress testing is primarily an analysis performed under a wide range of economic scenarios, including unlikely but plausible economic scenarios, and is designed to determine whether the Bank has enough capital to withstand the impact of adverse developments. The Bank is required by regulation to perform stress tests with a level of sophistication appropriate to its size and complexity.

Types of risk to which the Bank has exposure include:

- *structural risk* — risk inherent in the business and related to the System's structure, which is comprised of interdependent networks of cooperative lending institutions;
- *credit risk* — risk of loss arising from an obligor's failure to meet the terms of its contract or failure to perform as agreed;
- *interest rate risk* — risk that changes in interest rates may adversely affect the Bank's operating results and financial condition;
- *liquidity risk* — risk arising from the inability to meet obligations when they come due without incurring unacceptable losses, including the ability to access the debt market;
- *operational risk* — risk of loss resulting from inadequate or failed internal processes, systems, or controls; errors by employees; fraud; or external events;
- *reputational risk* — risk of loss resulting from events, real or perceived, that shape the image of the Bank, the System, or any of its entities, including the impact of investors' perceptions about agriculture and rural financing, the reliability of Bank or System financial information, or the actions of any System institution; and
- *political risk* — risk of loss of support for the System and agriculture by federal and state governments.

***Structural Risk Management***

Structural risk results from the fact that AgFirst, along with its related Associations, is part of the System, which is comprised of banks and associations that are cooperatively owned, directly or indirectly, by their borrowers. Each System institution is responsible for its own risk management, and there are no formal processes or procedures in place to mandate consistent Systemwide risk mitigation actions. Because System institutions are financially and operationally interdependent, this structure at times requires action by consensus or contractual agreement. The Funding Corporation provides for the issuance and marketing of Systemwide Debt Securities using a network of investment dealers and dealer banks. The System banks fund association loans with Systemwide debt. Refer to Note 6, *Debt*, in the Notes to the Financial Statements for further discussion. The banks are jointly and severally liable for the repayment of Systemwide Debt Securities, exposing each bank to the risk of default of the others. Although capital at the association level reduces the banks' credit exposures with respect to their related associations, that capital may not be available to support the payment of principal and interest on Systemwide Debt Securities.

In order to mitigate this risk, the System utilizes two integrated contractual agreements executed by and among the banks— the Amended and Restated Contractual Interbank Performance Agreement (CIPA) and the Third Amended and Restated Market Access Agreement (MAA). Under provisions of the CIPA, a score is calculated quarterly that measures the financial condition and performance of each district using various ratios that take into account each district's and bank's capital, asset quality, earnings, interest-rate risk, and liquidity. Based on these measures, the CIPA establishes an agreed-upon standard of financial condition and performance that each district must achieve and maintain. The CIPA also establishes monetary penalties if the performance standard is not met. These penalties will occur at the same point at which a bank would be required to provide additional monitoring information under the MAA.

The MAA establishes criteria and procedures that provide operational oversight and control over a bank's access to System funding if the creditworthiness of the bank declines below certain agreed-upon levels. The MAA provides for the identification and resolution of individual bank financial problems in a timely manner and discharges the Funding Corporation's statutory responsibility for determining conditions for each bank's participation in each issuance of Systemwide Debt Securities.

***Credit Risk Management***

Credit risk arises from the potential inability of an obligor to meet its repayment obligation and exists in outstanding loans, leases, letters of credit, unfunded loan commitments, investments and derivative counterparty credit exposures. The Bank manages credit risk associated with lending activities through an assessment of the credit risk profile of individual obligors. The Bank sets underwriting standards and lending policies consistent with FCA regulations, which provide direction to loan officers and are approved by the Board of Directors.

The credit risk management process begins with an analysis of a potential 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. 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 loan rating structure, incorporating a 14-point risk rating scale to identify and track a borrower's probability of default and a separate scale addressing loss given default. The loan rating structure reflects estimates of loss through two components, 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).

Through their participation in loans or interests in loans to/from other institutions within the System and outside the System, the Bank and Associations limit their exposure to both borrower and commodity concentrations. This also allows the Bank and Associations to manage growth and capital, and to improve geographic diversification. Concentration risk is reviewed and measured by industry, product, geography and customer limits.

Although neither the Bank nor any other System institution receives any direct government support, credit quality is indirectly enhanced by government support in the form of program payments to borrowers, which improve their ability to honor their commitments. However, due to the geographic location of the District and the resulting types of agriculture, generally government programs account for a relatively small percentage of net farm income in the territory served by the District Associations. Government programs were higher in 2020 due to COVID-19 as discussed in the *COVID-19 Support Programs* section.

The Bank's high-risk assets continue to be a small percentage of total loans in 2020 primarily due to the government support programs referenced in the *COVID-19 Support Programs* section and the Bank's continuous efforts to resolve problem assets. High-risk assets, including accrued interest, at December 31, are detailed in the following table:

| *(dollars in thousands)* | 2020 | 2019 | 2018 |
|---|---|---|---|
| **AgFirst High-risk Assets** | | | |
| Nonaccrual loans | $ 26,253 | $ 23,494 | $ 24,743 |
| Accruing restructured loans | 8,622 | 15,639 | 15,782 |
| Accruing loans 90 days past due | 1,130 | — | 145 |
| Total high-risk loans | 36,005 | 39,133 | 40,670 |
| Other property owned | — | 3,041 | 2,842 |
| Total high-risk assets | $ 36,005 | $ 42,174 | $ 43,512 |
| **Ratios** | | | |
| Nonaccrual loans to total loans | 0.10 % | 0.09 % | 0.10 % |
| High-risk assets to total assets | 0.10 % | 0.12 % | 0.13 % |

*Nonaccrual Loans*

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the Bank at December 31, 2020 were $26.3 million compared to $23.5 million at December 31, 2019. Nonaccrual loans increased $2.8 million during 2020 due primarily to loan balances transferred to nonaccrual status of $18.4 million and recoveries of $6.5 million, partially offset by repayments of $17.2 million and reinstatements to accrual status of $4.4 million. At December 31, 2020, total nonaccrual loans were primarily classified in the rural home loan (61.42 percent of the total) and swine (30.74 percent) segments. Nonaccrual loans were 0.10 percent of total loans outstanding at December 31, 2020 compared to 0.09 percent and 0.10 percent at December 31, 2019 and 2018, respectively.

*Troubled Debt Restructurings*

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms, rates, or amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by the Bank. TDRs decreased $12.0 million since December 31, 2019 and totaled $12.4 million at December 31, 2020. This total was comprised of $8.6 million of accruing restructured loans and $3.8 million of nonaccrual restructured loans. Restructured loans were primarily in the rural home loan (46.72 percent of the total), nursery/greenhouse (6.84 percent), and swine (5.86 percent) segments.

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 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 Bank adopted this relief for qualifying loan modifications. This TDR guidance applied to modifications made beginning March 1, 2020 and terminated on December 31, 2020.

At December 31, 2020, the outstanding balance of District loans modified under COVID-related programs was $860.5 million, or 2.66 percent of combined District loans.

*Other Property Owned*

Other property owned (OPO) consists primarily of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank (or a lender group) in satisfaction of secured loans. OPO may be comprised of real estate, equipment, and equity interests in companies or partnerships. The Bank had no OPO at December 31, 2020, a decrease of $3.0 million from December 31, 2019.

***Allowance for Loan Losses***

The Bank maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan portfolio as of each reported balance sheet date. The Bank increases the allowance by recording a provision for loan losses in the income statement. Loan losses are recorded against and serve to decrease the allowance when management determines that any portion of a loan is uncollectible. Any subsequent recoveries are added to the allowance. Impaired and certain other significant loans were reviewed individually to determine that appropriate reserves were in place at year-end. All other loans were analyzed collectively and general reserves were established based on that collective analysis including the risk rating and potential for loss given default of the underlying loans.

The following table presents the activity in the allowance for loan losses for the most recent three years at December 31:

**AgFirst Allowance for Loan Losses Activity**

| *(dollars in thousands)* | 2020 | 2019 | 2018 |
|---|---|---|---|
| Balance at beginning of year | $ 18,032 | $ 18,049 | $ 14,381 |
| Charge-offs: | | | |
| Production and Intermediate-Term | — | — | (49) |
| Rural Residential Real Estate | (104) | (39) | (160) |
| Total charge-offs | (104) | (39) | (209) |
| Recoveries: | | | |
| Production and Intermediate-Term | 6,549 | 777 | 267 |
| Agribusiness | — | — | 62 |
| Rural Residential Real Estate | — | 180 | 6 |
| Total recoveries | 6,549 | 957 | 335 |
| Net (charge-offs) recoveries | 6,445 | 918 | 126 |
| Provision for (reversal of allowance for) loan losses | (6,220) | (935) | 3,542 |
| Balance at end of year | $ 18,257 | $ 18,032 | $ 18,049 |
| Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period | 0.03 % | 0.00 % | 0.00 % |

The allowance for loan losses totaled $18.3 million at December 31, 2020, as compared with $18.0 million at both December 31, 2019 and December 31, 2018. The allowance at December 31, 2020 included specific reserves of $431 thousand (2.36 percent of the total) and $17.8 million of general reserves (97.64 percent), related primarily to participation loans. The general reserves at December 31, 2020 included $4.5 million of allowance provided by the Bank for non-LTSP loans in the Correspondent Lending portfolio. In addition, the allowance included a qualitative reserve of $1.6 million for the Correspondent Lending portfolio related to additional risks associated with loans remaining in forbearance programs at December 31, 2020. See further discussion in the *Correspondent Lending* section above. At December

31, 2020, the Bank's allowance included $466 thousand of qualitative reserve for the participations/syndications portfolio due to anticipated stress in certain segments from the COVID-19 pandemic. None of the allowance relates to the Direct Note portfolio. See further discussion in the *Direct Notes* section above. *See Provision for Loan Losses* section below for details regarding loan loss provision expense and reversals. During 2020, the rural home loan segment accounted for all of the charge-offs (100.00 percent of the total) and the nursery/greenhouse segment accounted for substantially all of recoveries (99.55 percent of the total). The total allowance at December 31, 2020 was comprised primarily of reserves for the rural home loan (35.02 percent of the total), processing (13.07 percent), forestry (9.07 percent), utilities (8.39 percent), and nursery/greenhouse (5.31 percent) segments.

The allowance for loan losses by loan type for the most recent three years, at December 31, is presented in the following table:

**AgFirst Allowance for Loan Losses by Loan Type**

| *(dollars in thousands)* | 2020 | 2019 | 2018 |
|---|---|---|---|
| Real Estate Mortgage | $ 1,551 | $ 1,667 | $ 1,518 |
| Production and Intermediate-Term | 3,289 | 3,448 | 2,614 |
| Agribusiness | 4,553 | 5,112 | 6,959 |
| Communication | 923 | 771 | 784 |
| Power and Water/Waste Disposal | 1,024 | 1,438 | 794 |
| Rural Residential Real Estate | 6,394 | 5,046 | 4,808 |
| Loans to OFIs | 294 | 308 | 299 |
| International | 130 | 137 | 134 |
| Other | 99 | 105 | 139 |
| Total | $ 18,257 | $ 18,032 | $ 18,049 |

The allowance for loan losses as a percentage of loans outstanding and certain other credit quality indicators, at December 31, is shown below:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Allowance for loan losses to loans | 0.07 % | 0.07 % | 0.07 % |
| Allowance for loan losses to nonaccrual loans | 69.55 % | 76.75 % | 72.95 % |
| Allowance for loan losses to participation/ syndication loans, Correspondent Lending loans, and loans to OFIs | 0.22 % | 0.22 % | 0.23 % |

The Bank's credit quality has remained stable; however, periods of uncertainty in the general economic environment create the potential for prospective risks in the loan portfolio. See Note 3, *Loans and Allowance for Loan Losses*, in the Notes to the Financial Statements and the *Critical Accounting Policies* section above for further information concerning the allowance for loan losses.

***Interest Rate Risk Management***

Interest rate risk is the risk of loss of future earnings or long-term market value of equity that may result from changes in interest rates. This risk can produce variability in Bank earnings (net interest spread achieved and net interest income earned) and, ultimately, the long-term capital position of the Bank. The objective of interest rate risk management is to generate a reliable level of net interest income in any interest rate environment and to preserve the long-term market value of equity. AgFirst uses a variety of analytical techniques to manage the complexities associated with offering numerous loan options. Interest rate sensitivity gap analysis is used to monitor the repricing and maturity characteristics of AgFirst's interest-earning assets and interest-bearing liabilities. Simulation analysis is used to determine the potential change in net interest income and in the market value of equity under various possible future market interest rate environments.

AgFirst and the District Associations adhere to a philosophy that loans should be priced competitively in the market and that loan rates and spreads should be contractually established at loan closing such that a borrower is not subject to rate changes at the discretion of management or boards of directors. Therefore, District Association variable rate and adjustable rate loans are generally indexed to market rates, and fixed rate loans are priced based on market rates. Loan products offered by the Associations include Prime- or other reference rate-indexed variable rate loans, one-, three-, and five-year Treasury-indexed adjustable rate loans, and fixed rate loans. Variable rate and adjustable rate loans are offered with or without caps. Terms are available for up to 30 years. A variety of repayment options are offered, with the ability to pay on a monthly, quarterly, semi-annual or annual frequency. In addition, customized repayment schedules may be negotiated to fit a borrower's unique circumstances.

The following tables represent AgFirst's market value of equity and projected change over the next twelve months in net interest income for various rate movements as of December 31, 2020. The upward and downward shocks are generally based on movements in interest rates which are considered significant enough to capture the effects of embedded options and convexity within the assets and liabilities so that underlying risk may be revealed.

**Market Value of Equity**
*(dollars in thousands)*

| Scenarios | Assets | Liabilities* | Equity* | % Change |
|---|---|---|---|---|
| Book Value | $ 36,338,206 | $ 33,909,592 | $ 2,428,614 | — % |
| +4.0% Shock | $ 33,706,200 | $ 31,674,883 | $ 2,031,317 | (31.47)% |
| +2.0% Shock | $ 35,485,884 | $ 32,818,566 | $ 2,667,318 | (10.01)% |
| Base line ** | $ 37,028,775 | $ 34,064,782 | $ 2,963,993 | – |
| -50% of 3M Tbill | $ 37,048,968 | $ 34,087,874 | $ 2,961,094 | (0.10)% |

**Net Interest Income**
*(dollars in thousands)*

| Scenarios | Net Interest Income | % Change |
|---|---|---|
| +4.0% Shock | $594,553 | (2.44)% |
| +2.0% Shock | $632,006 | 3.70% |
| Base line ** | $609,436 | —% |
| -50% of 3M Tbill *** | $608,472 | (0.16)% |

** For interest rate risk management, the $49.3 million perpetual preferred stock is included in liabilities rather than equity.*
*** Base line uses rates as of the balance sheet date before application of any interest rate shocks.*
**** When the three-month Treasury bill interest rate is less than 4 percent, both the minus 200 and minus 400 basis point shocks are replaced with a downward shock which is equal to one-half of the three-month Treasury bill rate. At December 31, 2020, this downward shock was (4) basis points.*

The following table sets forth the repricing characteristics of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2020. The amount of assets and liabilities shown in the table, which reprice or mature during a particular period, were determined in accordance with the earlier of term-to-repricing or contractual maturity, anticipated prepayments, and, in the case of liabilities, the exercise of call options. Anticipated loan prepayments are based on AgFirst's historical prepayment activity during various interest rate cycles.

**Repricing/Maturity Gap Analysis**

| *(dollars in thousands)* | 0 to 6 Months | 6 Months to 1 Year | 1 to 5 Years | Over 5 Years | Total |
|---|---|---|---|---|---|
| **Floating Rate Loans** | | | | | |
| Adjustable/Indexed Loans | $ 6,344,805 | $ 23,549 | $ 21,858 | $ — | $ 6,390,212 |
| **Fixed Rate Loans** | | | | | |
| Fixed Rate Loans | 28,304 | 26,791 | 107,218 | 50,001 | 212,314 |
| Fixed Rate Prepayable | 7,153,169 | 4,166,430 | 7,486,280 | 790,331 | 19,596,210 |
| **Nonaccrual Loans** | | | | | |
| Nonaccrual Loans | — | — | — | 26,253 | 26,253 |
| **Total Loans** | **13,526,278** | **4,216,770** | **7,615,356** | **866,585** | **26,224,989** |
| **Total Investments *** | **4,026,788** | **951,551** | **2,825,161** | **1,231,928** | **9,035,428** |
| **Other Interest-earning Assets** | **108,732** | — | — | — | **108,732** |
| **TOTAL INTEREST-EARNING ASSETS** | **$ 17,661,798** | **$ 5,168,321** | **$ 10,440,517** | **$ 2,098,513** | **$ 35,369,149** |
| **Interest-Bearing Liabilities** | | | | | |
| Systemwide Bonds and Notes | $ 13,785,213 | $ 5,641,000 | $ 13,743,000 | $ 187,000 | $ 33,356,213 |
| **TOTAL INTEREST-BEARING LIABILITIES** | **$ 13,785,213** | **$ 5,641,000** | **$ 13,743,000** | **$ 187,000** | **$ 33,356,213** |
| **Interest Rate Sensitivity Gap** | **$ 3,876,585** | **$ (472,679)** | **$ (3,302,483)** | **$ 1,911,513** | |
| Sensitivity Gap as a % of Total Earning Assets | 10.96 % | -1.34 % | -9.34% | 5.40 % | |
| Cumulative Gap | $ 3,876,585 | $ 3,403,906 | $ 101,423 | $ 2,012,936 | |
| Cumulative Gap as a % of Total Earning Assets | 10.96 % | 9.62 % | 0.29% | 5.69 % | |
| Rate Sensitive Assets/Rate Sensitive Liabilities | 1.28 | 0.92 | 0.76 | 11.22 | |

** Includes cash equivalents.*

At December 31, 2020, the twelve month Cumulative Repricing/ Maturity Gap position of the Bank was asset sensitive, meaning the volume of repricing/maturing assets exceeded the volume of liabilities that mature or reprice during that time period. Asset sensitivity implies an increase in net interest income in rising interest rate scenarios and lower net interest income in falling interest rate scenarios.

The Repricing/Maturity Gap Analysis is a "point in time" view and is representative of the interest rate environment at December 31, 2020. Optionality imbedded in assets and liabilities will alter the repricing/ maturity gap under various interest rate scenarios. Therefore, the Repricing/Maturity Gap Analysis must be used with other analysis methods to capture the repricing and maturity attributes of balance sheet accounts that react differently in changing interest rate environments. For example, during a period of rising interest rates, call options on fixed rate debt are not exercised and the debt terms extend to reflect the longer contractual maturity dates. Prepayment optionality on fixed rate assets also slows as the economic incentive for borrowers to refinance decreases and extends the asset's term.

To supplement the Repricing/ Maturity Gap Analysis, the Bank utilizes a financial simulation model for measuring interest rate sensitivity of net interest income and market value of equity. These two interest rate risk metrics are measured and reported on a monthly basis to the Bank's ALCO and quarterly to the Board of Directors. They are also calculated periodically during the month as the management of interest rate risk is an on-going function embedded in the funding operations. At December 31, 2020, the simulations reflected an increase of 3.70 percent in net interest income for a +200 basis point parallel shift in interest rates . This change was within the Bank's policy limit of -16.00 percent. The Bank's net interest income sensitivity to falling interest rates reflected a minimal decrease in net interest income as the parallel shift in interest rates was limited to -4 basis points which prevented additional debt from being called by the model.

Market value of equity reflected a negative sensitivity in rising interest rate scenarios due to the Bank's strategy of utilizing equity as a long-term funding source. When equity is used as long-term funding, its market value behaves similarly to a fixed rate bond. The simulations reflected a decrease of 10.01 percent in market value of equity for a +200 basis point parallel shift in interest rates which was within the Bank's policy limit of -20.00 percent and appropriate for this funding structure. The Bank's market value of equity sensitivity to falling interest rates was not significantly impacted due to the current low level of interest rates.

At December 31, 2020, AgFirst had no outstanding interest rate swaps. The Bank may, under certain conditions, use derivatives for asset/ liability management purposes to reduce interest rate risk. AgFirst policy prohibits the use of derivatives for speculative purposes.

*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 District has exposure to LIBOR, including in financial instruments that reference LIBOR that mature after 2021. The exposure arises from loans made to customers, investment securities purchased, Systemwide Debt Securities issued by the Funding Corporation on the Bank's behalf, and issued preferred stock. 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.

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

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

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

On December 18, 2020, the FCA issued a response and guidance noting their agreement with the statement from the U.S. prudential regulators and emphasized 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 Bank and Associations have established and are in the process of implementing LIBOR transition plans and continue 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, the Bank is unable to determine when LIBOR will cease to be available or becomes unrepresentative, or if SOFR will become the only benchmark to replace LIBOR. SOFR is a benchmark interest rate based on a broad segment of the overnight Treasury repurchase market and is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities. Because the Bank and Associations engage in transactions involving financial instruments that reference LIBOR, these developments could have a material impact on the financial results, borrowers, investors, and counterparties.

The following is a summary of District outstanding variable-rate financial instruments tied to LIBOR at December 31, 2020:

| *(dollars in millions)* | Due in 2021 | Due in 2022 and Thereafter | Total |
|---|---|---|---|
| Investments | $ 24 | $ 1,617 | $ 1,641 |
| Loans | 891 | 4,466 | 5,357 |
| Total | $ 915 | $ 6,083 | $ 6,998 |
| Systemwide debt securities | $ 1,345 | $ 310 | $ 1,655 |
| Preferred stock | — | 49 | 49 |
| Total | $ 1,345 | $ 359 | $ 1,704 |

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, 91.27 percent of investments and 75.63 percent of loans maturing after December 31, 2021 contain fallback language.

In October, 2020, the Funding Corporation finalized a voluntary debt exchange with investors holding Farm Credit Systemwide LIBOR-indexed debt securities maturing after December 31, 2021. The debt was replaced with identical debt having enhanced LIBOR fallback language. Of the total par amount ($310.0 million) of AgFirst's LIBOR-indexed debt maturing after December 31, 2021, the Bank was able to exchange debt with a par value of $237.0 million (76.45 percent of the total). As this was a par for par exchange, the repurchase and sale of which are both completed at the same price, the cash flows were unchanged and no gain or loss was realized on the transaction.

The Bank's preferred stock may be redeemed on any five-year anniversary of its issuance. The next redemption date for the preferred stock is June, 2022.

***Liquidity Risk Management***

Liquidity risk management is necessary to ensure the Bank's ability to meet its financial obligations. One of AgFirst's primary responsibilities is to maintain sufficient liquidity to fund the lending operations of the District Associations, in addition to its own needs. Along with normal cash flows associated with lending operations, AgFirst has two primary sources of liquidity: the capacity to issue Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation; and cash and investments. The Bank also has investment securities repurchase agreements in place with several commercial banks for commitments totaling approximately $6.050 billion. A standard repurchase agreement involves the acquisition of immediately available funds through the sale of securities with a simultaneous commitment to repurchase the same securities on a certain date within one year at a specified price, including interest at an agreed upon rate. In addition, the System has established a line of credit in the event contingency funding is needed to meet obligations of System banks.

The COVID-19 pandemic impacted the global economy, lowered equity market valuations, decreased liquidity in fixed-income markets, created extreme volatility and disruptions in other financial markets and significantly increased unemployment levels. These negative economic, market and social developments 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. In late April 2020, funding flexibility improved to more normal pre-COVID-19 levels.

*Cash, Cash Equivalents and Investments*

FCA regulations provide that a System bank may hold certain eligible available-for-sale investments in an amount not to exceed 35.00 percent of its total loans outstanding. Based upon FCA guidelines, at December 31, 2020, the Bank's eligible available-for-sale investments were 34.25 percent of its quarterly average daily balance of loans outstanding. These investments serve to provide liquidity to the Bank's operations, to manage short-term funds, and to manage interest rate risk. AgFirst maintains an investment portfolio for these purposes comprised primarily of short-duration, high-quality investments.

Cash, cash equivalents, and investment securities as of December 31, 2020 totaled $9.729 billion compared to $9.027 billion and $8.503 billion at December 31, 2019 and 2018, respectively.

As of December 31, 2020, AgFirst exceeded all applicable regulatory liquidity requirements. FCA regulations require that the Bank have a liquidity policy that establishes a minimum total "coverage" level of 90 days and that short-term liquidity requirements must be met by certain high quality investments or cash. "Coverage" is defined as the number of days that maturing debt could be funded with eligible cash, cash equivalents, and available-for-sale investments maintained by the Bank.

Eligible liquidity investments are classified according to three liquidity quality levels with level 1 being the most liquid. The first 15 days of minimum liquidity coverage are met using only level 1 instruments, which include cash and cash equivalents. Days 16 through 30 of minimum liquidity coverage are met using level 1 and level 2 instruments. Level 2 consists primarily of U.S. government guaranteed securities. Days 31 through 90 are met using level 1, level 2, and level 3 securities. Level 3 consists primarily of U.S. agency investments. Additionally, a supplemental liquidity buffer in excess of the 90-day minimum liquidity reserve is set to provide coverage to at least 120 days.

At December 31, 2020, AgFirst met all individual level criteria and had a total of 196 days of maturing debt coverage. The Bank's cash and cash equivalents position provided 27 days of the total liquidity coverage. Investment securities fully backed by the U.S. government or U.S. government agencies provided 162 days of liquidity. An additional seven days of coverage were provided by a supplemental liquidity buffer. Cash provided by the Bank's operating activities, primarily generated from net interest income in excess of operating expenses and maturities in the loan portfolio, is an additional source of liquidity for the Bank that is not reflected in the coverage calculation.

An agreement with a commercial bank requires AgFirst to maintain $50.0 million as a compensating balance. At December 31, 2020, the Bank held $42.8 million in U.S. Treasury securities for that purpose. The remainder of the compensating balance is held in cash in a demand deposit account. These securities are excluded when calculating the amount of eligible liquidity investments.

AgFirst's cash, cash equivalents and investment portfolio consisted of the following security types as of December 31:

| | AgFirst Cash, Cash Equivalents and Investment Securities | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *(dollars in thousands)* | 2020 | | | 2019 | | | 2018 | | |
| **Investment Securities Available-for-Sale** | | | | | | | | | |
| U.S. Govt. Treasury Securities | $ | 318,870 | 3.75 % | $ | 143,839 | 1.82 % | $ | 389,611 | 4.88 % |
| U.S. Govt. Guaranteed | | 4,361,424 | 51.22 | | 4,539,387 | 57.22 | | 4,499,597 | 56.38 |
| Rural Housing U.S. Govt. Agency Guaranteed | | 257,380 | 3.02 | | 391,922 | 4.94 | | 425,953 | 5.33 |
| Other U.S. Govt. Agency Guaranteed | | 2,898,177 | 34.03 | | 2,078,593 | 26.20 | | 1,846,796 | 23.14 |
| Non-Agency Asset-Backed Securities | | 649,499 | 7.63 | | 741,828 | 9.35 | | 777,239 | 9.74 |
| **Total Available-for-Sale** | $ | 8,485,350 | 99.65 % | $ | 7,895,569 | 99.53 % | $ | 7,939,196 | 99.47 % |
| **Investment Securities Held-to-Maturity** | | | | | | | | | |
| Farmer Mac Guaranteed | $ | 1,121 | 0.01 % | $ | 1,239 | 0.02 % | $ | 1,679 | 0.02 % |
| Other Mission Related Investments | | 28,957 | 0.34 | | 36,027 | 0.45 | | 40,373 | 0.51 |
| **Total Held-to-Maturity** | | 30,078 | 0.35 | | 37,266 | 0.47 | | 42,052 | 0.53 |
| **Total Investment Securities** | $ | 8,515,428 | 100.00 % | $ | 7,932,835 | 100.00 % | $ | 7,981,248 | 100.00 % |
| **Cash and Cash Equivalents** | | | | | | | | | |
| Cash | $ | 584,953 | 48.20 % | $ | 219,465 | 20.05 % | $ | 244,678 | 46.92 % |
| Interest-earning Cash | | 108,732 | 8.96 | | 225,094 | 20.57 | | 176,807 | 33.90 |
| Repurchase Agreements | | 520,000 | 42.84 | | 650,000 | 59.38 | | 100,000 | 19.18 |
| **Total Cash and Cash Equivalents** | $ | 1,213,685 | 100.00 % | $ | 1,094,559 | 100.00 % | $ | 521,485 | 100.00 % |
| **Total Investment Securities and Cash and Cash Equivalents** | $ | 9,729,113 | | $ | 9,027,394 | | $ | 8,502,733 | |

Cash and cash equivalents, which increased $119.1 million from December 31, 2019 to a total of $1.214 billion at December 31, 2020, consist primarily of noninterest-earning cash on deposit, interest-earning cash, and money market securities that are short-term in nature (maturities of overnight to 90 days). The net increase in cash and cash equivalents balances between reporting periods is due primarily to changes in liquidity needs in relation to upcoming debt maturities and operational funding needs.

Investment securities increased $582.6 million, or 7.34 percent, to $8.515 billion, or 23.43 percent of total assets at December 31, 2020, compared to $7.933 billion, or 22.99 percent, as of December 31, 2019. Management maintains the available-for-sale liquidity investment portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines.

Investment securities classified as being available-for-sale totaled $8.485 billion at December 31, 2020. Since the majority of the portfolio is invested in U.S. government guaranteed and agency securities, the portfolio is highly liquid and potential credit loss exposure is limited. As of December 31, 2020, all of the non-agency asset-backed securities were rated in the top category (AAA/Aaa) by Nationally Recognized Statistical Rating Organizations (NRSROs).

AgFirst also maintains a portfolio of investments that are not held for liquidity purposes and are accounted for as a held-to-maturity portfolio. These investments were authorized by FCA regulations that allow investments in Farmer Mac securities and also in investments approved by the FCA as Mission Related Investments. Investment securities classified as held-to-maturity declined to $30.1 million at December 31, 2020 due to normal paydowns on the securities.

Net unrealized gains related to investment securities were $190.5 million at December 31, 2020, compared to net unrealized gains of $52.3 million at December 31, 2019. These net unrealized gains, which stem primarily from changes in interest rates, for 2020 and 2019 are reflected in Accumulated Other Comprehensive Income (AOCI) in the Financial Statements.

The Bank performs periodic credit reviews, including other-than-temporary impairment analyses, on its entire investment securities portfolio. Based on the results of all analyses, the Bank did not recognize any other-than-temporary credit related impairment during the year ended December 31, 2020. See *Noninterest Income* section below; Note 2, *Summary of Significant Accounting Policies*; and Note 4, *Investments,* in the Notes to the Financial Statements for further information.

*Systemwide Debt Securities*

The U.S. government does not guarantee, directly or indirectly, Systemwide Debt Securities. However, the Farm Credit System, as a GSE, has benefited from broad access to the domestic and global capital markets. This access has provided the System with a dependable source of competitively priced debt which is critical for supporting the System's mission of providing credit to agriculture and rural America.

AgFirst's primary source of liquidity comes from its ability to issue Systemwide Debt Securities, which are the general unsecured joint and several obligations of the System banks. AgFirst continually raises funds in the debt markets to support its mission, to repay maturing Systemwide Debt Securities, and to meet other obligations.

The System does not have a guaranteed line of credit from the U.S. Treasury or the Federal Reserve. However, the Farm Credit System Insurance Corporation (FCSIC) has an agreement with the Federal Financing Bank (FFB), a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the FFB could advance funds to the FCSIC. Under its existing statutory authority, the FCSIC may use these funds to provide assistance to the System banks in exigent market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to $10 billion and terminates on September 30, 2021, unless otherwise renewed. The decision whether to seek funds from the FFB is at the discretion of the FCSIC. Each funding obligation of the FFB is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by AgFirst or the System.

Currently, Moody's Investors Service and Fitch Ratings have assigned long-term debt ratings for the System of Aaa and AAA, and short-term debt ratings of P-1 and F1, respectively. These are the highest ratings available from these rating agencies. S&P Global Ratings (S&P) maintains the long-term debt rating of the System at AA+, which directly corresponds to its AA+ long-term sovereign credit rating of the U.S. government. These rating agencies base their ratings on many quantitative and qualitative factors, including the System's status as a GSE. Negative changes to the System's credit ratings could reduce earnings by increasing debt funding costs, and could also have a material adverse effect on liquidity, the ability to conduct normal business operations, and the Bank's overall financial condition and results of operations. However, AgFirst anticipates continued access to funding necessary to support the District's and Bank's needs.

AgFirst's year-to-date average balance of Systemwide Debt Securities at December 31, 2020, was $32.867 billion. At December 31, 2020, AgFirst had $33.356 billion in total System debt outstanding compared to $31.724 billion at December 31, 2019 and $30.382 billion at December 31, 2018. Total interest-bearing liabilities increased primarily due to additional funding needs related to a higher level of loans and investments as discussed elsewhere in this report.

AgFirst's recorded liability for outstanding Systemwide Debt Securities as of December 31, 2020 is shown in the following table:

| | December 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Bonds | | Discount Notes | | Total | |
| Maturities | Amortized Cost | Weighted Average Interest Rate | Amortized Cost | Weighted Average Interest Rate | Amortized Cost | Weighted Average Interest Rate |
| | (dollars in thousands) | | | | | |
| 2021 | $ 7,776,956 | 0.33 % | $ 7,662,337 | 0.22 % | $ 15,439,293 | 0.28 % |
| 2022 | 6,255,801 | 0.31 | — | — | 6,255,801 | 0.31 |
| 2023 | 3,173,044 | 0.45 | — | — | 3,173,044 | 0.45 |
| 2024 | 2,366,540 | 0.45 | — | — | 2,366,540 | 0.45 |
| 2025 | 1,563,332 | 0.68 | — | — | 1,563,332 | 0.68 |
| 2026 and after | 4,558,203 | 1.07 | — | — | 4,558,203 | 1.07 |
| Total | $ 25,693,876 | 0.50 % | $ 7,662,337 | 0.22 % | $ 33,356,213 | 0.44 % |

Refer to Note 6, *Debt*, in the Notes to the Financial Statements, for additional information related to debt.

***Operational Risk Management***

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events, including the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and the risk of fraud by employees or persons outside the System. AgFirst's and the Associations' boards of directors are required, by regulation, to adopt internal control policies that provide adequate direction to their respective institutions in establishing effective controls over and accountability for operations, programs, and resources. The policies must include, at a minimum, the following items:

- recruiting and retaining skilled professional employees;
- direction to management that assigns responsibility for the internal control function to an officer of the institution;
- adoption of internal audit and control procedures;
- direction for the operation of a program to review and assess an institution's assets;
- adoption of loan, loan-related assets and appraisal review standards, including standards for scope of review selection and standards for work papers and supporting documentation;
- adoption of asset quality classification standards;
- adoption of standards for assessing credit administration, including the appraisal of collateral; and
- adoption of standards for the training required to initiate a program.

In addition, AgFirst has implemented a Risk Management Policy to ensure that business exposures to risk are identified, measured and controlled, using the most effective and efficient methods to mitigate such exposures. AgFirst's risk management structure was designed to ensure that an effective enterprise-wide risk management program is in place. Exposure to operational risk is typically identified with the assistance of senior management, and internal audit plans are developed with higher risk areas receiving more attention. AgFirst's operations rely on the secure processing, transmission and storage of confidential information in its computer systems and networks. Although AgFirst believes that it has robust information security procedures and controls, its technologies, systems, networks and customers' devices may be the target of cyber-attacks or information security breaches. Due to the COVID-19 pandemic, these risks may be heightened due to the requirement for employees to work from home. Failure in or breach of AgFirst's operational or security systems or infrastructure, or those of its third-party vendors and other service providers, including as a result of cyber-attacks, could disrupt AgFirst's businesses or the businesses of its customers, result in the unintended disclosure or misuse of confidential or proprietary information, damage the Bank's reputation, increase costs, and cause losses.

No control system, no matter how well designed and operated, can provide absolute assurance that the objectives of the control systems are met. Also, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud or errors can be detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by individual acts of some persons, collusion of two or more people, or management override of the control. The design of any system of controls also is based in part on certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may be inadequate because of changes in conditions, or compliance with policies or procedures may deteriorate.

***Reputational Risk Management***

Reputation risk is defined as the negative impact resulting from events, real or perceived, that shape the image of the Bank, System or any of its entities. Such risks include impacts related to investors' perceptions about agriculture, the reliability of the Bank, System, or other System institution financial information or actions by the Bank or any other System institution. Entities that serve the System at the national level, including the Coordinating Committee, the Presidents' Planning Committee and The Farm Credit Council, will communicate guidance to the System for reputational issues that have broader consequences for the System as a whole. These entities support those business and other practices that are consistent with the Bank's mission.

***Political Risk Management***

Political risk to the System is the risk of loss of support for the System or agriculture by the U.S. government. System institutions are instrumentalities of the federal government and are intended to further governmental policy concerning the extension of credit to or for the benefit of agriculture and rural America. The System and its borrowers may be significantly affected by federal legislation that impacts the System directly, such as changes to the Farm Credit Act, or indirectly, such as agricultural appropriations bills. However, government programs generally account for a relatively small percentage of net farm income in the territory served by the District Associations. Government programs were higher in 2020 due to COVID-19 as discussed in the *COVID-19 Support Programs* section.

The District addresses political risk by actively supporting The Farm Credit Council, which is a full-service trade association representing the System before Congress, the Executive Branch, and others. The Farm Credit Council provides the mechanism for "grassroots" involvement in the development of System positions and policies with respect to federal legislation and government actions that impact the System. Additionally, the District takes an active role in representing the individual interests of System institutions and their borrowers before Congress. Each district has its own Council, which is a member of The Farm Credit Council. The district Councils represent the interests of their members on a local and state level, as well as on a federal level.

**RESULTS OF OPERATIONS**

*Net Income*

AgFirst net income totaled $417.7 million for the year ended December 31, 2020, an increase of $146.0 million from 2019. Net income of $271.7 million for the year ended December 31, 2019 was a decrease of $34.3 million from 2018. Major components of the changes in net income for the referenced periods are outlined in the following table and discussion:

| **Change in Net Income** | **Year Ended December 31,** | |
|---|---|---|
| *(dollars in thousands)* | **2020** | **2019** |
| **Net income (for prior year)** | $ 271,681 | $ 305,988 |
| **Increase (decrease) due to:** | | |
| Total interest income | (192,970) | 108,690 |
| Total interest expense | 366,655 | (111,195) |
| Net interest income | 173,685 | (2,505) |
| Provision for loan losses | 5,285 | 4,477 |
| Noninterest income | (14,961) | (31,458) |
| Noninterest expense | (18,012) | (4,821) |
| Total increase (decrease) in net income | 145,997 | (34,307) |
| **Net income** | $ 417,678 | $ 271,681 |

*Interest Income*

Total interest income for the year ended December 31, 2020 was $926.4 million, a decrease of $193.0 million, as compared to the same period of 2019. Total interest income for 2019 was $1.119 billion, an increase of $108.7 million, as compared to the same period of 2018. The decrease in interest income in 2020 resulted primarily from lower yields on interest earning assets as loans and investment securities repriced at lower interest rates while the increase in interest income in 2019 resulted primarily from higher yields on interest earning assets as interest rates increased during the year. The average yield on interest earning assets decreased 73 basis points from 2019 to 2020 and increased 19 basis points from 2018 to 2019.

The following table illustrates the impact of volume and yield changes on interest income:

| **Net Change in Interest Income** | **Year Ended December 31,** | |
|---|---|---|
| *(dollars in thousands)* | **2020-2019** | **2019-2018** |
| Current year increase in average earning assets | $ 1,801,724 | $ 1,417,390 |
| Prior year average yield | 3.38 % | 3.19 % |
| Interest income variance attributed to change in volume | 60,936 | 45,219 |
| Current year average earning assets | 34,899,815 | 33,098,091 |
| Current year increase (decrease) in average yield | (0.73)% | 0.19 % |
| Interest income variance attributed to change in yield | (253,906) | 63,471 |
| **Net change in interest income** | $ (192,970) | $ 108,690 |

***Interest Expense***

Total interest expense for the year ended December 31, 2020 was $345.1 million, a decrease of $366.7 million, as compared to the same period of 2019. Total interest expense for the year ended December 31, 2019 was $711.7 million, an increase of $111.2 million, as compared to the same period of 2018. The decrease in 2020 was primarily due to lower rates paid on System debt obligations whereas the increase in 2019 was primarily due to higher rates paid on System debt obligations.

The following table illustrates the impact of volume and rate changes on interest expense:

| **Net Change in Interest Expense** | **Year Ended December 31,** | |
|---|---|---|
| *(dollars in thousands)* | **2020-2019** | **2019-2018** |
| Current year increase (decrease) in average interest-bearing liabilities | $ 1,946,551 | $ 1,264,205 |
| Prior year average rate | 2.30 % | 2.03 % |
| Interest expense variance attributed to change in volume | 44,806 | 25,600 |
| Current year average interest-bearing liabilities | 32,867,178 | 30,920,627 |
| Current year increase (decrease) in average rate | (1.25) % | 0.27 % |
| Interest expense variance attributed to change in rate | (411,461) | 85,595 |
| **Net change in interest expense** | $ (366,655) | $ 111,195 |

The COVID-19 impact on interest rates provided the Bank opportunities to call and replace $43.043 billion of debt for the year ended December 31, 2020. The average rate reduction (i.e., the difference between the rates on the called bonds and the rates on the replacement bonds) was 63 basis points for 2020, resulting in interest expense savings of $954.8 million, net of debt extinguishment expense of $65.5 million, over the remaining life of the bonds of 4.27 years. While the average cost of debt during 2019 was higher than 2018, lower interest rates in the latter part of 2019 resulted in the call and replacement of $18.005 billion for the year ended December 31, 2019. For 2019, the average rate reduction for called bonds was 39 basis points, resulting in interest expense savings of $303.1 million, net of debt extinguishment expense of $30.0 million, over the remaining life of the bonds of 4.91 years. No debt was called during the year ended December 31, 2018. Replacement bonds generally have terms similar to those of the bonds being replaced.

*Net Interest Income*

Net interest income increased from 2019 to 2020 and decreased from 2018 to 2019, as illustrated by the following table:

**AgFirst Analysis of Net Interest Income**

| | **Year Ended December 31,** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *(dollars in thousands)* | **2020** | | | **2019** | | | **2018** | | |
| | **Avg. Balance** | **Interest** | **Avg. Yield** | **Avg. Balance** | **Interest** | **Avg. Yield** | **Avg. Balance** | **Interest** | **Avg. Yield** |
| Loans | $ 25,688,957 | $ 765,690 | 2.98 % | $ 24,484,009 | $ 895,560 | 3.66 % | $ 23,398,668 | $ 813,109 | 3.48 % |
| Investments | 8,992,490 | 158,756 | 1.77 | 8,386,357 | 218,826 | 2.61 | 8,240,538 | 196,553 | 2.39 |
| Other | 218,368 | 1,987 | 0.91 | 227,725 | 5,017 | 2.20 | 41,495 | 1,051 | 2.53 |
| Total earning assets | 34,899,815 | 926,433 | 2.65 | 33,098,091 | 1,119,403 | 3.38 | 31,680,701 | 1,010,713 | 3.19 |
| Interest-bearing liabilities | 32,867,178 | (345,086) | 1.05 | 30,920,627 | (711,741) | 2.30 | 29,656,422 | (600,546) | 2.03 |
| Spread | | | 1.60 | | | 1.08 | | | 1.16 |
| Impact of capital | $ 2,032,637 | | 0.07 | $ 2,177,464 | | 0.15 | $ 2,024,279 | | 0.13 |
| Net Interest Income (NII) & NII to average earning assets | | $ 581,347 | 1.67 % | | $ 407,662 | 1.23 % | | $ 410,167 | 1.29 % |

Net interest income for the year ended December 31, 2020 was $581.3 million compared to $407.7 million for the same period of 2019, an increase of $173.7 million or 42.61 percent. The net interest margin, which is net interest income as a percentage of average earning assets, was 1.67 percent and 1.23 percent in the current year and previous year, respectively, an increase of 44 basis points. The increase in net interest margin resulted primarily from lower rates paid on interest-bearing liabilities, partially offset by refinancing of interest-earning assets at lower interest rates.

*Provision for Loan Losses*

AgFirst measures risks inherent in its portfolio on an ongoing basis and, as necessary, recognizes provision for loan loss expense so that appropriate reserves for loan losses are maintained. Loan loss provision was a net reversal of $6.2 million, a net reversal of $935 thousand and a net expense of $3.5 million for the years ended December 31, 2020, 2019, and 2018, respectively.

The $6.2 million in net provision reversals for the year ended December 31, 2020 consisted of $7.3 million of net provision reversals for specific reserves, partially offset by $1.1 million of net provision expense for general reserves. The net provision reversals for 2020 primarily resulted from reversals in the nursery/greenhouse segment of $6.8 million, primarily one loan relationship, and in the field crops segment of $1.0 million, partially offset by provision expenses related to borrowers in the rural home loan segment of $1.5 million.

The $935 thousand in net provision reversal for the year ended December 31, 2019 consisted of $4.4 million of net provision reversals for specific reserves, offset by $3.5 million of net provision expense for general reserves. The net provision reversals for 2019 primarily resulted from reversals in the field crops segment of $2.7 million, mainly related to one loan relationship that transferred to nonaccrual in 2018, partially offset by provision expenses related to borrowers in the processing ($583 thousand) and forestry ($526 thousand) segments.

The $3.5 million in net provision expense for the year ended December 31, 2018 consisted of $4.0 million of net provision expense for specific reserves, offset by $430 thousand of net provision reversals for general reserves. Provision for loan losses for 2018 primarily resulted from expense in the field crops segment of $3.1 million, predominantly related to one relationship transferred to nonaccrual in 2018, and $1.1 million in the rural home loan segment.

See the *Allowance for Loan Losses* section above and Note 3, *Loans and Allowance for Loan Losses*, in the Notes to the Financial Statements for further information.

*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,** | | | **Increase/(Decrease)** | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | **2020** | **2019** | **2018** | **2020/ 2019** | **2019/ 2018** |
| Loan fees | $ 11,326 | $ 8,710 | $ 8,894 | $ 2,616 | $ (184) |
| Building lease income | 3,101 | 4,079 | 3,287 | (978) | 792 |
| Gains (losses) on investments, net | 7,215 | — | 13 | 7,215 | (13) |
| Gains (losses) on debt extinguishment | (65,475) | (30,034) | 150 | (35,441) | (30,184) |
| Gains (losses) on other transactions | 11,433 | 1,281 | 1,462 | 10,152 | (181) |
| Insurance premium refund | 2,622 | 2,620 | 6,330 | 2 | (3,710) |
| Other noninterest income | 19,835 | 18,362 | 16,340 | 1,473 | 2,022 |
| Total noninterest income | $ (9,943) | $ 5,018 | $ 36,476 | $ (14,961) | $ (31,458) |

Total noninterest income decreased $15.0 million from 2019 to 2020 and $31.5 million from 2018 to 2019. Significant line item dollar variances are discussed below.

For the year ended December 31, 2020, loan fees increased $2.6 million. The increase was primarily due to increases in fee income in the Correspondent Lending portfolio of $1.6 million, primarily in modification fees, and $753 thousand in the participations portfolio, primarily for commitment fees.

For the year ended December 31, 2020, building lease income declined $978 thousand compared to the same period in 2019. During 2019, in conjunction with the application of ASC 842 - Leases, the Bank recognized an additional $958 thousand of lease income to comply with the new accounting standard.

During 2020, the Bank sold securities with a par value of approximately $55.9 million, resulting in net gains of $7.2 million. No securities were sold during 2019. In 2018, the Bank sold securities totaling $11.7 million which resulted in a net gain of $13 thousand. Amortizing securities that have relatively small remaining balances and correspondingly high administrative costs are periodically sold by the Bank as part of normal portfolio management activity.

Debt issuance expense is amortized into interest expense over the contractual life of the underlying debt security. When debt securities are called prior to maturity, any unamortized issuance cost is expensed through gains (losses) on debt extinguishment. Losses on debt extinguishment increased $35.4 million and $30.2 million for the years ended December 31, 2020 and 2019, respectively. Call options were exercised on bonds totaling $43.043 billion in 2020 and $18.005 billion in 2019. No bonds were called in 2018. Debt is called to take advantage of favorable market interest rate changes. The amount of debt issuance cost expensed is dependent upon both the volume and remaining maturity of the debt when called. Losses on called debt are more than offset by interest expense savings realized over the life of the replacement debt. See *Interest Expense* section above for further discussion.

For the year ended December 31, 2020, net gains on other transactions increased $10.2 million. The higher gains resulted primarily from $8.2 million in gains on the sale of $289.4 million of Correspondent Lending loans. In addition, an increase of $2.0 million in the fair value of mortgage servicing rights was recognized for the servicing rights retained from these loan sales. See the *Correspondent Lending* subsection of the *Loan Portfolio* section above for further discussion.

During 2020, 2019 and 2018, the Bank received $2.6 million, $2.6 million and $6.3 million, respectively, in insurance premium refunds from FCSIC which insures the System's debt obligations. The FCSIC refunds are nonrecurring and resulted from the assets of the FCSIC exceeding the secure base amount, as defined by the Farm Credit Act, at the end of the respective preceding year.

For the years ended December 31, 2020 and 2019, other noninterest income increased $1.5 million and $2.0 million, respectively. The increase in 2020 and 2019 resulted primarily from an increases of $1.2 million and $1.8 million, respectively, in patronage received from other Farm Credit institutions outside the District due to increased participations sold to them.

*Noninterest Expenses*

Noninterest expenses for each of the three years ended December 31 are shown in the following table:

| **Noninterest Expenses** *(dollars in thousands)* | **For the Year Ended December 31, 2020** | **2019** | **2018** | **Increase/(Decrease) 2020/ 2019** | **2019/ 2018** |
|---|---|---|---|---|---|
| Salaries and employee benefits | $ 73,467 | $ 65,405 | $ 63,546 | $ 8,062 | $ 1,859 |
| Occupancy and equipment | 7,494 | 24,570 | 22,597 | (17,076) | 1,973 |
| Insurance Fund premiums | 10,578 | 9,104 | 8,265 | 1,474 | 839 |
| Other operating expenses | 67,959 | 42,705 | 42,289 | 25,254 | 416 |
| Losses (gains) from other property owned | 448 | 150 | 416 | 298 | (266) |
| Total noninterest expenses | $ 159,946 | $ 141,934 | $ 137,113 | $ 18,012 | $ 4,821 |

Total noninterest expenses increased $18.0 million and $4.8 million in 2020 and 2019, respectively. The Bank's efficiency ratio (operating expense as a percentage of net interest income and noninterest income) improved to 27.91% during 2020, compared to 34.36% and 30.61% during 2019 and 2018, respectively, as a result of higher net interest income as discussed in the *Net Interest Income* section above. Significant noninterest expense line item dollar variances are discussed below.

Salaries and employee benefits expenses increased $8.1 million and $1.9 million for the years ended December 31, 2020 and 2019. The increases resulted primarily from $6.7 million and $2.6 million for 2020 and 2019, respectively, in higher salaries and incentives due to normal salary administration and an increase in headcount and in 2020 also due to higher performance-based incentives. A $1.1 million increase in postretirement benefit expenses due mainly to higher pension service costs also contributed to the increase for 2020. The increase in 2019 was partially offset by a decrease of $1.1 million in postretirement benefits expenses due mainly to lower pension service costs.

Occupancy and equipment expenses decreased $17.1 million and increased $2.0 million, respectively, and other operating expenses increased $25.3 million and $416 thousand, respectively, for the years ended December 31, 2020 and 2019, compared to the prior years. In conjunction with the prospective application of new accounting guidance for internal-use software which was effective January 1, 2020, certain hardware and software depreciation and maintenance expenses totaling $19.0 million were included in other operating expenses in 2020 rather than in occupancy expense as previously reported. The increase in occupancy and equipment expenses in 2019 compared to 2018 resulted primarily from higher maintenance and lease costs. In addition, the increase in other operating expenses for 2020 was impacted by an increase of $9.5 million in consultant and professional fees predominantly related to technology initiatives, partially offset by lower travel and meeting costs of $1.9 million as a result of the COVID-19 pandemic.

Insurance Fund premiums increased $1.5 million and $839 thousand for the years ended December 31, 2020 and 2019, respectively, compared to the prior years. The increase in 2020 was primarily due to an increase in the base annual premium rate for the second half of 2020. The base annual premium rate was 8 basis points for the first half of 2020 and 11 basis points for the second half of 2020, compared to 9 basis points in both 2019 and 2018. The increase in Insurance Fund premiums in 2019 resulted primarily from higher average debt balances in the 2019 period. The FCSIC Board makes premium rate adjustments, as necessary, to maintain the secure base amount which is based upon insured debt outstanding at System banks. The Insurance Fund premium rate was increased to 16 basis points for at least the first half of 2021.

## CAPITAL

Capital serves to support future asset growth and investment in new products and services, and to provide protection against credit, interest rate, and other risks, as well as operating losses. A sound capital position is critical to provide protection to investors in Systemwide Debt Securities and to ensure long-term financial success.

The AgFirst Capitalization Plan (the "Plan") approved by the Bank's Board of Directors establishes guidelines to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. The Bank's capital objectives are considered adequate to support inherent risk. Other than the changes to the stock equalization computation discussed below, there were no other significant changes to the Plan during 2020.

Total shareholders' equity at December 31, 2020 was $2.478 billion, compared to $2.331 billion and $2.224 billion at December 31, 2019, and 2018, respectively. The increase in 2020 of $147.0 million primarily resulted from an increase in retained earnings from net income of $417.7 million and from an increase in unrealized gains on investments of $138.2 million, partially offset by cash patronage declared of $390.4 million and $16.9 million of net capital stock retired. The increase in 2019 of $107.1 million primarily resulted from an increase in retained earnings from net income of $271.7 million and from a decrease in unrealized losses on investments of $101.8 million, partially offset by cash patronage declared of $266.9 million.

The Bank's patronage declared in 2020, 2019, and 2018 was based on paying Associations and OFIs a dividend equal to 75 basis points relative to their average Direct Note balance, paying Associations and OFIs a dividend equal to 75 basis points relative to their patronage-based Capital Markets participations, and paying a dividend to participants in Association capitalized participation pools in an amount equal to 100 percent of each Association's respective pool's net income. Also, favorable earnings, strong credit quality and modest balance sheet growth in recent years have resulted in stronger than historical Bank capital levels. After considering current capital levels and projected capital needs, during 2020, 2019, and 2018, the Bank's Board of Directors declared additional patronage totaling $218.0 million, $104.0 million and $142.0 million, respectively. Patronage is paid in the year following declaration, primarily in January.

The Associations are required to maintain ownership in the Bank in the form of Class B and Class C stock. At December 31, 2020, 2019, and 2018, the Associations' minimum stock requirement was 6.29 percent, 7.00 percent, and 7.00 percent, respectively, of risk-adjusted Association Direct Note balances. A stock equalization computation is made annually. Effective December 31, 2020, the Bank modified its stock equalization methodology from a required investment of 7.00 percent of the average risk-adjusted Direct Note balance to a required investment equal to the percentage of the Association with the lowest investment percentage of its average risk-adjusted Direct Note balance as of the measurement date. OFIs are required to capitalize their loans at 7.00 percent of their risk-adjusted loan balance. The Bank's capital stock and participation certificates totaled $311.9 million at December 31, 2020, compared to $325.3 million and $317.8 million at December 31, 2019 and 2018, respectively. The net decrease of $13.4 million in 2020 was due to the retirement of $16.9 million of Association owned stock due to the change in the Bank's stock equalization methodology, partially offset by the issuance of stock patronage to another System bank. The net increase of $7.4 million in 2019 was due to the issuance of stock to Associations as a result of higher Direct Note balances and the issuance of stock patronage to another System bank.

See Note 7, *Shareholders' Equity*, in the Notes to the Financial Statements and the *Additional Required Regulatory Capital Disclosures* section for further information.

*Regulatory Ratios*

The Bank's regulatory ratios (calculated using a three-month average daily balance) are shown in the following table:

| | Regulatory Minimum, Including Buffer* | AgFirst Ratio as of December 31, | | |
|---|---|---|---|---|
| | | 2020 | 2019 | 2018 |
| Permanent Capital Ratio | 7.00 % | 19.39 % | 19.32 % | 21.67 % |
| Common Equity Tier 1 (CET1) Capital Ratio | 7.00 % | 18.99 % | 18.90 % | 21.20 % |
| Tier 1 Capital Ratio | 8.50 % | 19.36 % | 19.29 % | 21.64 % |
| Total Regulatory Capital Ratio | 10.50 % | 19.51 % | 19.45 % | 21.79 % |
| Tier 1 Leverage Ratio** | 5.00 % | 7.09 % | 7.10 % | 7.53 % |
| Unallocated Retained Earnings (URE) and URE Equivalents | 1.50 % | 6.18 % | 6.17 % | 6.58 % |

* *Includes fully phased-in capital conservation buffers which were effective as of January 1, 2020.*
** *The Tier 1 Leverage Ratio must include a minimum of 1.50% of URE and URE Equivalents.*

The FCA sets minimum regulatory capital adequacy requirements for System banks and associations that ensure that the System's capital requirements are comparable with the Basel III framework and the standardized approach of federal banking regulatory agencies. The requirements are based on regulatory ratios as defined by the FCA and include common equity tier 1 (CET1) capital, tier 1 capital, total capital, and tier 1 leverage ratios. The tier 1 leverage ratio must include a minimum unallocated retained earnings (URE) and URE equivalents component. The permanent capital ratio remains in effect under the Farm Credit Act with minor modifications to risk-adjusted assets.

The permanent capital, CET1, tier 1, and total capital ratios are calculated by dividing the three-month average daily balance of the capital numerator, as defined by the FCA, by a risk-adjusted asset base. Risk-adjusted assets refer to the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. Generally, higher credit conversion factors are applied to assets with more inherent risk. The tier 1 leverage ratio and URE and URE equivalents component of the tier 1 leverage ratio do not incorporate any risk-adjusted weighting of assets. These ratios are calculated by dividing the three-month average daily balance of the capital numerator, as defined by the FCA, by the three-month average daily balance of total assets adjusted for regulatory deductions.

For all periods presented, AgFirst exceeded minimum regulatory standards for all of the ratios.

See the *Additional Required Regulatory Capital Disclosures* section for further information.

## THE DISTRICTWIDE YOUNG, BEGINNING, AND SMALL (YBS) FARMERS AND RANCHERS PROGRAM

The District is committed to providing sound and dependable credit to young, beginning, and small (YBS) farmers and ranchers. Because of the unique needs of these individuals, and their importance to the future growth of the Associations, the Associations have established annual marketing goals to increase market shares 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' access to a stable source of credit. AgFirst and the District Associations recognize that YBS farmers are vitally important to the future of agriculture and are committed to continue offering programs to help educate, assist, and provide quality financial services to YBS farmers.

The FCA regulatory definitions for YBS farmers and ranchers are as follows:

***Young Farmer*** – A farmer, rancher, or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.
***Beginning Farmer*** – A farmer, rancher, or producer or harvester of aquatic products who had 10 years or less farming or ranching experience as of the date the loan was originally made.
***Small Farmer*** – A farmer, rancher, or producer or harvester of aquatic products who normally generated less than $250 thousand in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

It is important to note that, due to the regulatory definitions, a farmer/rancher may be included in multiple categories as he/she would be included in each category in which the definition was met.

The following table summarizes information regarding the combined District's loans outstanding to Young and Beginning Farmers and Ranchers as of December 31, 2020:

**Young and Beginning Farmers and Ranchers**
**Number/Volume of Loans Outstanding**
*(dollars in thousands)*

| Category | Number of Loans | Percent of Total | Volume Outstanding | Percent of Total |
|---|---|---|---|---|
| 1. Total loans and commitments outstanding at year-end | 161,017 | | $ 34,780,355 | |
| 2. Young farmers and ranchers | 29,836 | 18.53 % | $ 3,672,228 | 10.56 % |
| 3. Beginning farmers and ranchers | 50,175 | 31.16 % | $ 6,606,400 | 18.99 % |

The following table summarizes information regarding the combined District's loans outstanding to Small Farmers and Ranchers as of December 31, 2020:

**Small Farmers and Ranchers**
**Number/Volume of Loans Outstanding by Loan Size**
*(dollars in thousands)*

| Number/Volume Outstanding | $0-<br>$50,000 | $50,001-<br>$100,000 | $100,001-<br>$250,000 | $250,001<br>and greater |
|---|---|---|---|---|
| 1. Total number of loans and commitments outstanding at year-end | 76,957 | 28,818 | 30,581 | 24,661 |
| 2. Total number of loans to small farmers and ranchers | 53,274 | 17,816 | 16,435 | 7,650 |
| 3. Number of loans to small farmers and ranchers as a % of total number of loans | 69.23 % | 61.82 % | 53.74 % | 31.02 % |
| 4. Total loan volume outstanding at year-end | $ 1,528,730 | $ 2,082,095 | $ 4,862,345 | $ 26,307,185 |
| 5. Total loan volume to small farmers and ranchers | $ 1,052,221 | $ 1,279,801 | $ 2,615,390 | $ 3,852,508 |
| 6. Loan volume to small farmers and ranchers as a % of total loan volume | 68.83 % | 61.47 % | 53.79 % | 14.64 % |

The following table summarizes information regarding the combined District's new loans made to Young and Beginning Farmers and Ranchers for the year ended December 31, 2020:

**Young and Beginning Farmers and Ranchers**
**Gross New Business During 2020, Number/Volume of Loans**
*(dollars in thousands)*

| Category | Number of Loans | Percent of Total | Volume Outstanding | Percent of Total |
|---|---|---|---|---|
| 1. Total gross new loans and commitments made during 2020 | 59,810 | | $ 17,902,615 | |
| 2. Total loans and commitments made during 2020 to young farmers and ranchers | 11,851 | 19.81 % | $ 2,119,680 | 11.84 % |
| 3. Total loans and commitments made during 2020 to beginning farmers and ranchers | 18,886 | 31.58 % | $ 3,714,073 | 20.75 % |

The following table summarizes information regarding the combined District's new loans made to Small Farmers and Ranchers for the year ended December 31, 2020:

**Small Farmers and Ranchers**
**Gross New Business by Loan Size, Number/Volume of Loans**
*(dollars in thousands)*

| Number/Volume | $0-<br>$50,000 | $50,001 -<br>$100,000 | $100,001-<br>$250,000 | $250,001<br>and greater |
|---|---|---|---|---|
| 1. Total number of new loans and commitments made during 2020 | 22,344 | 10,464 | 12,993 | 14,009 |
| 2. Total number of loans made to small farmers and ranchers during 2020 | 15,521 | 6,418 | 7,135 | 4,742 |
| 3. Number of loans to small farmers and ranchers as a % of total number of loans | 69.46 % | 61.33 % | 54.91 % | 33.85 % |
| 4. Total gross loan volume of all new loans and commitments made during 2020 | $ 543,481 | $ 778,646 | $2,155,263 | $14,425,225 |
| 5. Total gross loan volume to small farmers and ranchers | $ 365,249 | $ 474,856 | $1,157,908 | $2,543,310 |
| 6. Loan volume to small farmers and ranchers as a % of total gross new loan volume | 67.21 % | 60.98 % | 53.72 % | 17.63 % |

## COMMITMENTS AND CONTINGENCIES

On the basis of information presently available, management and legal counsel are of the opinion that the ultimate liability, if any, from legal actions pending against AgFirst would be immaterial in relation to the financial position of AgFirst. Refer to Note 11, *Commitments and Contingencies*, in the Notes to the Financial Statements for additional information.

## REGULATORY MATTERS

On October 8, 2020, the Farm Credit Administration adopted a final rule to improve shareholder access to district financial information by providing an additional method of presenting financial information on a bank's related associations to those banks preparing annual financial statements on a stand-alone basis. The final rule became effective on December 4, 2020.

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 Financial Statements for a comprehensive listing of recently issued accounting pronouncements.

The following Accounting Standards Update (ASU) was issued by the Financial Accounting Standards Board (FASB):

| 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.<br>• Changes the present incurred loss impairment guidance for loans to an expected loss model.<br>• 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.<br>• Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets.<br>• Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.<br>• 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.<br>• The new guidance is expected to result in a change in allowance for credit losses due to several factors, including:<br>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,<br>2. An allowance will be established for estimated credit losses on any debt securities,<br>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.<br>• 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.<br>• The guidance is expected to be adopted January 1, 2023. |

# Additional 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,* to the Financial Statements included in this Annual Report to shareholders.

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

*Unincorporated Business Entities*

The Bank held no equity investment at December 31, 2020 in Unincorporated Business Entities (UBEs).

**Description of Property**

The following table sets forth certain information regarding the properties owned by the Bank at December 31, 2020, all of which are located in Columbia, South Carolina:

| Location | Description |
|---|---|
| 1115 Calhoun Street | Bank operations facility |
| 1901 Main Street | Bank office building and adjacent parking facility, partially leased to tenants |

**Legal Proceedings**

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

**Description of Capital Structure**

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

**Description of Liabilities**

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

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

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

**Senior Officers**

The following represents certain information regarding the directors and senior officers of the Bank.

The chief executive officer and all other senior officers of the Bank, together with their length of service at their present position, as well as positions held currently and during the last five years, are as follows:

| Name and Title | Time in Position | Prior Experience | Other Business Interests |
|---|---|---|---|
| Leon T. Amerson, *President and Chief Executive Officer* | 8.5 years | | Member on the Finance Committee and Business Practices Committee of the Presidents Planning Committee of the Farm Credit System; Member of the Board of Directors of the Federal Farm Credit Banks Funding Corporation and Member of the Governance Committee; Member of the Executive Council of the National Council of Farmer Cooperatives; Member of the Board of Directors for Palmetto Agribusiness Council; Member of the Finance Committee for United Way of the Midlands; Member of the AgFirst Plan Sponsor Committee and the AgFirst/FCBT Plan Sponsor Committee. |
| Charl L. Butler, *Executive Vice President and Chief Operating Officer* | 3.75 years | Senior Vice President and Chief Financial Officer March 2007 to March 2017 | Board Member of the Farm Credit System Captive Insurance Company; Chairman of the AgFirst/FCBT Plan Fiduciary Committee; Member of the Midlands Business Leadership Group. |
| Isvara M. A. Wilson, *Executive Vice President and Chief Administrative Officer* | 3.75 years | Senior Vice President and General Counsel December 2012 to March 2017 | Board Member of the Farm Credit System Captive Insurance Company; Board Member of the Columbia Urban League, Inc.; Board Member of the Columbia Museum of Art; Board Member of the Boys and Girls Club of the Crescent Region; Board Member of the United Way of the Midlands. |
| William E. Brown, *Senior Vice President and Chief Credit Officer* | 3.5 years | Manager, Credit Integration/Commercial Credit Executive at First Citizens Bank and Trust of North Carolina 2014 to 2016 | |
| Stephen F. Ciambrone, *Senior Vice President and Chief Information Officer* | 1.25 years | Director of Information Technology June 2019 to September 2019, Managing Director at CitiGroup 2008 to 2018 | |
| Stephen Gilbert, *Senior Vice President and Chief Financial Officer* | 3.75 years | Vice President and Controller August 2009 to March 2017 | Member of the Farm Credit System Disclosure Committee. |
| Frances S. Griggs, *Senior Vice President and General Counsel* | 3.75 years | Vice President and Assistant General Counsel July 2013 to March 2017 | Vice Chairperson of the Girl Scouts of South Carolina – Mountains to Midlands. |
| Daniel E. LaFreniere, *Senior Vice President and Chief Audit Executive* | 7.5 years | | |

The total amount of compensation earned by the Chief Executive Officer (CEO) and the senior officers and other highly compensated employees (HCE) 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 | Incentives | Deferred Comp. | Change in Pension Value *(d)* | Perq./ Other* | Total |
|---|---|---|---|---|---|---|---|
| Leon T. Amerson | 2020 | $ 862,033 | $ 984,714 | $ 35,844 | $ 1,197,297 | $ 27,993 | $ 3,107,881 |
| Leon T. Amerson | 2019 | $ 832,032 | $ 795,281 | $ 34,992 | $ 1,573,082 | $ 26,189 | $ 3,261,576 |
| Leon T. Amerson | 2018 | $ 800,031 | $ 792,987 | $ 34,833 | $ (124,251) | $ 24,996 | $ 1,528,596 |
| 8 Officers/HCE (a), (b) | 2020 | $ 2,815,094 | $ 2,314,545 | $ 174,446 | $ — | $ 569,866 | $ 5,873,951 |
| 8 Officers (c) | 2019 | $ 2,510,788 | $ 1,542,189 | $ 176,721 | $ — | $ 824,396 | $ 5,054,094 |
| 7 Officers | 2018 | $ 2,333,198 | $ 1,670,874 | $ 146,751 | $ — | $ 237,893 | $ 4,388,716 |

* *For all years, includes company contributions to 401(k) plan (see Note 9, Employee Benefit Plans, to the Financial Statements), group life insurance premiums, spousal travel and Bank-provided automobile. For 2020, also includes payment to a highly compensated employee who joined the Bank in 2020 of $280,000 for a sign-on payment. For 2019, also includes payment to senior officers of accrued annual leave of $193,185 following adoption of a Senior Management Time-Off Policy, payment to a senior officer who left the Bank in 2019 of $331,985 for separation pay and certain other compensation/benefits, and payment to a senior officer who joined the Bank in 2019 of $50,000 for a sign-on payment.*

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

*(b) For 2020, includes seven senior officers and one highly compensated employee.*

*(c) For 2019, includes one senior officer who left the Bank during the year.*

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

**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:** | | | | | |
| Leon T. Amerson | 2020 | AgFirst Farm Credit Retirement Plan | 34.58 | $ 3,216,396 | $ — |
| Leon T. Amerson | 2020 | AgFirst Farm Credit Bank Supplemental Retirement Plan | 34.58 | 7,300,136 | — |
| | | | | $ 10,516,532 | $ — |

**Executive Incentive Compensation Plan**
In addition to a base salary, certain named senior officers may earn additional compensation under the Bank's Executive Incentive Plan, which has a short-term and a long-term component. Participation in the plan is at the sole discretion of the CEO or in the case of the CEO at the sole discretion of the Board of Directors. The objectives of this plan are to provide a market-competitive financial rewards package to executives, provide incentive for the achievement of the AgFirst short- and long-term business objectives and to provide the Bank the ability to attract and retain key executives. The plan's payments are based upon the Bank's achievement of certain performance levels, including for capital adequacy, asset quality, profitability, liquidity, sensitivity, and customer satisfaction, and the senior officers' overall performance achievement as determined by an individual performance rating. Short-term incentive awards are shown in the year earned and payments are made in the first quarter of the following year.

The long-term component of the plan is subject to forfeiture based upon AgFirst's performance during the three-year performance period immediately following the plan year. Specifically, the long-term award for a particular plan year will be reduced by an amount equal to one-third of the original award for each subsequent year during the three-year performance period in which any one of the performance thresholds for capital adequacy, earnings, or customer satisfaction is not achieved.

Long-term incentive award amounts are shown in the year accrued and are vested over a period of time composed of the plan year and the performance period subsequent to the end of the plan year. Incentive awards are forfeited if the participant fails to remain employed until the end of the performance period subsequent to the end of the plan year, unless the end of employment is due to the participant's death or disability, or the Board of Directors, in its sole discretion, determines that the participant should be paid all or a portion of the incentive awards. Effective with the 2021 plan year, the participant is eligible to receive a prorated long-term incentive award if the end of employment is due to retirement and the participant remained employed for at least one year of the performance period.

**Retirement and Deferred Compensation Plans**

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

Employees hired prior to January 1, 2003 participate in the AgFirst Farm Credit Retirement Plan. Employees are eligible to retire and begin drawing unreduced pension benefits at age 65 or when years of credited service plus age equal "85" once age 55 is reached. Upon retirement, annual payout is equal to 2 percent of the highest three years' average compensation times years of credited service, subject to the Internal Revenue Code limitations. For purposes of determining the payout, "average compensation" is defined as regular salary (i.e., does not include incentive awards compensation). At the election of the retiree, benefits are paid based upon various annuity terms or on a lump sum basis. Benefits under the plan are not subject to an offset for Social Security.

Employees participate in the Farm Credit Benefits Alliance 401(k) Plan, a qualified 401(k) defined contribution plan which has an employer matching contribution determined by the employee's date of hire. For employees hired on or prior to December 31, 2002, the Bank 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 Bank 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. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2002. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service.

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

**Chief Executive Officer**

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

Mr. Amerson participates in the AgFirst Farm Credit Bank Supplemental Retirement Plan, a nonqualified supplemental executive retirement plan. Benefits that would have accrued in the qualified defined benefit retirement plan in the absence of Internal Revenue Code limitations are made up through the nonqualified supplemental executive retirement plan. At the election of the retiree, benefits are paid based upon various annuity terms.

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

**Senior Officers**

Senior officers participate in the Farm Credit Benefits Alliance 401(k) Plan and the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, as described above.

Additionally, senior officers as well as all employees are reimbursed for all direct travel expenses incurred when traveling on Bank business. A copy of the travel policy is available to shareholders upon written request.

Bank compensation plans are reviewed annually by the Board of Directors' Compensation Committee.

**AgFirst Farm Credit Bank Board of Directors**

| Name | Position | Year Term Expires |
|---|---|---|
| Ellis W. Taylor | Chairman | December 31, 2023 |
| Michael T. Stone | Vice Chairman | December 31, 2022 |
| Gary L. Baldosser | Director | December 31, 2023 |
| Jack W. Bentley, Jr. | Director | December 31, 2022 |
| Jenny R. Black | Director | December 31, 2023 |
| Sherry E. Bowden | Director | December 31, 2023 |
| William J. Franklin, Jr. | Director | December 31, 2021 |
| Bonnie V. Hancock | Director | December 31, 2021 |
| Curtis R. Hancock, Jr. | Director | December 31, 2020 |
| Walter C. Hopkins, Sr. | Director | December 31, 2020 |
| William K. Jackson | Director | December 31, 2024* |
| J. Alvin Lyons | Director | December 31, 2021 |
| S. Alan Marsh | Director | December 31, 2021 |
| Fred R. Moore, Jr. | Director | December 31, 2021 |
| Michael W. Patrick | Director | December 31, 2023 |
| Thomas E. Porter, Jr. | Director | December 31, 2022 |
| William T. Robinson | Director | December 31, 2023 |

* *Re-elected to a 4-year term commencing January 1, 2021.*

***Ellis W. Taylor***, 51, Chairman of the Board, is from Roanoke Rapids, North Carolina, and is the owner/operator of a row crop operation, Mush Island Farms, LLC, which consists of cotton, soybeans, wheat, corn and timber. He is also part owner of Roanoke Cotton Company, LLC, which operates cotton gins and a warehouse. He is a director on the boards of AgCarolina Farm Credit, ACA, where he serves as Chair of the Audit Committee, Northampton County Farm Bureau, which promotes agriculture, and the Federal Farm Credit Banks Funding Corporation. Mr. Taylor has a Bachelor of Science in Agronomy, a Bachelor of Science in Agricultural Business Management and a Master of Economics from North Carolina State University. As Chairman of the Board, Mr. Taylor serves as Chair of the Board Coordinating Committee and as an ex-officio member of all Board Committees.

***Michael T. Stone***, 49, Vice Chairman of the Board, is from Rowland, North Carolina, and owns and operates P & S Farms, Inc. and Bo Stone Farms, LLC. The row crop units produce corn, wheat, and soybeans and the operations include a swine finishing unit under contract with Murphy Brown, a cow/calf herd, timber management and small produce for a roadside stand. Mr. Stone is a director of Cape Fear Farm Credit, ACA, a director of Southeastern Health hospital, and a member of the North Carolina Farm Bureau Energy and Transportation Committee. He also serves on the boards of The Farm Credit Council, a trade organization and Farm Credit Council Services. Mr. Stone has a Bachelor of Science in Agricultural Business Management (with a minor in Animal Science) and a Master of Science in Agriculture from North Carolina State University. Mr. Stone is the Board appointed member of both the AgFirst Plan Sponsor Committee and the AgFirst/FCBT Plan Sponsor Committee and serves as Chair of both Committees. Mr. Stone serves on the Board Coordinating, the Board Governance and the Board Compensation Committees.

***Gary L. Baldosser,*** 54, from Republic, Ohio, owns and operates Baldosser Farms, Inc., a cow/calf and row crop operation and Garbec Farms. Mr. Baldosser is a director of AgCredit, ACA, and serves on the board of Sunrise Co-Op Clyde Condominium Association, a condominium grain storage association. He also serves as a trustee for Tri-Grain, LLC, a family land holding entity; a member of Bloc-B, LLC, a family land holding entity; and a member of Garbec Farms, LLC, a family land holding entity. Mr. Baldosser received a Bachelor of Science in Ag Economics from The Ohio State University. Mr. Baldosser serves on the Board Audit Committee.

***Jack W. Bentley, Jr.,*** 63, from Tignall, Georgia, owns and operates A&J Dairy, a dairy, beef, pasture, crop and timberland operation. Mr. Bentley is the Vice Chairman for the board of directors of AgGeorgia Farm Credit, ACA. He also serves on the boards of the following agricultural and dairy trade and promotion organizations: USDA Farm Service Agency as Chairman, American Dairy Association, Lone Star Milk Producers and the Wilkes County Farm Bureau. Mr. Bentley has a Bachelor of Science in Ag Mechanics and Business from Clemson University. Mr. Bentley serves on the AgFirst Plan Sponsor Committee and the Board Audit Committee.

***Jenny R. Black,*** 46, from Lakeland, Florida, is a Certified Project Manager and owns and operates Jenny Black Consulting, LLC, an information technology consulting company and serves as the manager for the following citrus and agricultural operations: Ridge Investments, LLC, Black & Myers Properties, and BHB Holdings, LLC. She is a director of Farm Credit of Central Florida, ACA and serves on the board of The Farm Credit Council, a trade organization. She also serves as a director for the Polk County Florida 4-H Foundation Board, a youth agricultural organization, the Volunteers in Service to the Elderly Advisory Board, a non-profit whose mission is to assist the elderly with independent living, and All Saints Academy Independent School, an education organization. Ms. Black has Bachelor of Arts degrees in English and Liberal Studies and a Master of Business Administration with a concentration in Information Technology, Finance and Marketing from the University of South Florida. Ms. Black serves on the Board Risk Policy Committee.

***Sherry E. Bowden,*** 59, outside director for the Board, is from Johns Island, South Carolina. Ms. Bowden is a former [retired] CFO at State Street Corporation, specializing in the Treasury, Capital Management and Corporate Functions of the Bank. Prior to State Street she was a Managing Director in the Strategy Department at Bank of America’s Global Wealth and Investment Management business. She is a certified public accountant and a certified personal property appraiser and received her Six Sigma Green Belt in business process improvement. Ms. Bowden received her Bachelor’s degree in Economics from the College of William and Mary. She also earned a Master of International Management in Finance from the American Graduate School of International Management and an MBA from Drury University in a dual degree program. She is a member of the South Carolina Association of CPAs and has served on various nonprofit boards. Ms. Bowden is the board designated financial expert and serves on the Board Audit Committee.

***William J. Franklin, Jr.,*** 63, from Duffield, Virginia, owns and operates Franklin Farms, a cow/calf operation. Mr. Franklin is also Chief Executive Officer of Scott County Telephone Cooperative, a telecommunications company. He serves on the boards of the Scott County Cattle Association, a trade organization, and the Southwest Virginia Workforce Development Board, which offers re-employment and training programs. Mr. Franklin also serves on the following telecommunications boards: Carolina-Virginia Telephone Membership Association, National Rural Broadband PAC Board, IRIS Networks Board, and LIT Networks Board. He is a member of Farm Credit of the Virginias, ACA. Mr. Franklin has a Bachelor of Science in Ag Education from Virginia Tech. Mr. Franklin serves on the Board Risk Policy Committee.

***Bonnie V. Hancock***, 59, outside director for the Board, is from Raleigh, North Carolina. Ms. Hancock is Professor of Practice and Executive Director of the Enterprise Risk Management Initiative at North Carolina State University (NCSU) where she teaches courses in financial management, enterprise risk management, and strategy and financial statement analysis. Prior to joining NCSU, she worked with Progress Energy, as senior vice president of finance and information technology and later as president of Progress Fuels, a subsidiary that produced and marketed gas, coal and synthetic fuels, and operated fuel terminals and ash management facilities. Ms. Hancock has a Bachelor of Business Administration with an accounting major from the College of William and Mary and a Master of Science in Taxation from Georgetown University. She is a member of the boards of the North Carolina Coastal Pines Girl Scout Council, a leadership development organization for girls, where she serves as board chair; and the National Association of Corporate Directors – Research Triangle Chapter, an organization for the advancement of exemplary board leadership, where she serves as program committee chair. Ms. Hancock serves on the Board Coordinating Committee and as Chair of the Board Risk Policy Committee.

***Curtis R. Hancock, Jr***., 74, from Fulton, Kentucky is the owner and operator of Hancock Farms. His operations consist of row crops including corn, wheat and soybeans. He serves on the board of The Farm Credit Council, a trade organization, and Kentucky Small Grain Growers, a grain cooperative and is a member of River Valley, ACA. Mr. Hancock received a Bachelor of Science in Agriculture from the University of Tennessee-Martin and a Master of Science in Agricultural Economics from the University of Tennessee. Mr. Hancock served on the Board Governance and the Board Compensation Committees.

***Walter C. Hopkins, Sr.,*** 73, from Lewes, Delaware, is the owner and operator of Green Acres Farm, Inc., a dairy and grain farming operation. He also manages Lyons LLC, a land holding company. He serves on the board of directors of MidAtlantic Farm Credit, ACA. Mr. Hopkins has a Bachelor of Science in Agricultural Engineering from the University of Delaware. Mr. Hopkins served on the Board Compensation and the Board Governance Committees.

***William K. Jackson,*** 65, from New Salem, Pennsylvania, is a partner in Jackson Farms, a dairy operation with other farming interests, including corn, soybeans, and alfalfa. He is president of Jackson Farms 2, LLC, a small dairy processing facility that produces milk and makes ice cream marketed to area stores and sold via an on-site convenience store. Mr. Jackson is also president of Jackson Farms 3, LLC and Jackson Farms Limited Partnership, which are involved in the production of natural gas. He serves on the boards of AgChoice Farm Credit, ACA; The Farm Credit Council, a trade organization; the Fay Penn Economic Development Council, a local economic development committee; president of the Fayette County Agricultural Improvement Association Board, a local county fair; and the Penn State Fayette, Eberly Campus Advisory Board, which oversees campus community involvement. Mr. Jackson has a Bachelor of Science in Agricultural Business Management from Penn State University. Mr. Jackson serves on the Board Compensation, the Board Coordinating and as Chair of the Board Governance Committees.

***J. Alvin Lyons,*** 63, from Georgetown, Kentucky, is the owner and operator of Lyons Family Farms, a farming operation of row crops including corn, soybeans, wheat, and hay. His farm also includes a commercial cow/calf herd and stockers. Mr. Lyons also serves as Magistrate of Scott County Fiscal Court, the legislative body for the county government. Mr. Lyons is a director of Central Kentucky AgCredit, ACA. He represents Central Kentucky on the Independent Associations' Retirement Plan Sponsor Committee and serves as chair. He is a director on the boards of the Scott County Farm Bureau, an agricultural promotion organization, the Scott County Rural Land Management Board, which focuses on land preservation, and the Scott County Beef Improvement Association, which provides beef promotion and education. Mr. Lyons has completed the University of Kentucky Ag Leadership Development and Master Cattleman Programs. Mr. Lyons serves on the Board Audit Committee.

***S. Alan Marsh,*** 66, from Madison, Alabama, is a partner in Marsh Farms, Inc., an operation consisting of row crops including cotton, soybeans, wheat and corn. Mr. Marsh is a director of First South Farm Credit, ACA, and Limestone County Farmers Federation, an agricultural trade organization and he is president and stockholder of South Limestone Co-op Gin, a cotton ginning operation and an association borrower. He is also an advisory board member for Staplcotn, a cotton cooperative association. Mr. Marsh received a Business Management Certification from Stratford Career Institute. Mr. Marsh serves on the Board Risk Policy Committee.

***Fred R. Moore, Jr.,*** 68, from Eden, Maryland, is president of Fred R. Moore & Son, Inc. d/b/a Collins Wharf Sod, a turf and grain operation, which grows sod (turf), corn, soybeans and wheat. He is also partner of F&E Properties, LLC, a rental business and a partner in F&E Moore Properties, LLC, a land holding partnership. He currently serves on the boards of MidAtlantic Farm Credit, ACA, Wicomico Soil Conservation District, an environmental and conservation entity and Wicomico County Farm Bureau, an agricultural promotion organization. He currently serves as an active life member of the Allen Volunteer Fire Company. Mr. Moore has a Bachelor of Science in Agriculture Education from the University of Maryland Eastern Shore. Mr. Moore serves on the Board Coordinating, the Board Governance and as Chair of the Board Compensation Committees.

***Michael W. Patrick,*** 55, from Canton, Mississippi, is a partner in Patrick Farms Joint Venture, a cotton, corn, soybean, and timber operation. Mr. Patrick serves on the First South Farm Credit, ACA, board of directors. He serves as a Commissioner for the Madison County Soil and Water Commission and on the Madison County USDA FSA County Committee. Mr. Patrick holds a Bachelor's degree from Mississippi State and a Masters of Business Administration from the University of Mississippi. Mr. Patrick serves on both the Board Compensation and Board Governance Committees.

***Thomas E. Porter, Jr.,*** 67, from Concord, North Carolina, is president of Porter Farms, Inc., a farming operation consisting of a sow farrow unit and a wean swine operation, pullet houses, layer houses and a cow/calf operation. He also manages The Farm at Brush Arbor, LLC, an agritourism business on his farm. He currently serves on the Carolina Farm Credit, ACA, board of directors. Mr. Porter also holds board and leadership positions with the following agricultural trade and promotion organizations: board member on the Cabarrus County Ag advisory board, president of Cabarrus County Farm Bureau, chairman of Cabarrus County Extension Advisory Board, Cabarrus County Soil and Water Conservation District, the Water Committee for the American Farm Bureau, and the Food Innovation Committee. He also serves as a member of the Union Power Cooperative Board, a member of the Three Rivers Land Trust Board and on the Commissioners Circle for the North Carolina Commissioner of Agriculture. Mr. Porter serves on the Board Risk Policy Committee.

***William T. Robinson,*** 53, from St. Matthews, South Carolina, is the owner/operator of Robinson Family Farm, which consists of corn, cattle and timber. Mr. Robinson is currently employed as Executive Director for The SEFA Group, an engineering, construction and transportation company and he retired from the department of Treasury and Corporate Financial Planning at Santee Cooper, South Carolina's state owned electric and water utility. He serves on the Orangeburg-Calhoun Technical College Foundation Board and the Tri-County Electric Cooperative board. Mr. Robinson obtained a Bachelor of Science and a Master of Science in Civil Engineering from Clemson University and a Master of Business Administration from Charleston Southern University. He currently serves on the board of AgSouth Farm Credit, ACA. Mr. Robinson serves on the Board Coordinating and as Chair of the Board Audit Committees.

**Committees**

The Board has established an Audit Committee, Compensation Committee, Risk Policy Committee, Governance Committee and Coordinating Committee. All members of the Board, other than the Chairman, serve on a committee. The Chairman of the Board serves as an ex-officio member of all Board committees and the Vice Chairman serves as a member of the Board Compensation Committee. The Board has one designated financial expert who serves on the Audit Committee. The responsibilities for each committee are set forth in its respective Board approved charter.

**Compensation of Directors**

Directors were compensated in 2020 in cash at the rate of $77,250 per year, payable at $6,438 per month. This is compensation for attendance at Board meetings, Board committee meetings, certain other meetings pre-approved by the Board and other duties as assigned. Farm Credit Administration (FCA) regulations also allow additional compensation to be paid to a director in exceptional circumstances where extraordinary time and effort are involved. In this regard, additional compensation was paid for certain leadership positions on the Board, including the Chairman of the Board, Vice Chairman of the Board, Chair of each Board standing committee as well as to members of the Board Audit Committee in recognition of greater than normal participation in Board activities. Total cash compensation paid to all directors as a group during 2020 was $1,427,375. Directors received no non-cash compensation during 2020. Additional information for each director who served during 2020 is provided in the following table.

| | Number of Days Served | | | |
|---|---|---|---|---|
| **Name of Director** | **Board Meetings** | **Other Official Activities*** | **Farm Credit Council Bd. Activities** | **Total Comp. Paid During 2020** |
| Gary L. Baldosser | 11.75 | 6.00 | 3.50 | $ 84,750 |
| Jack W. Bentley, Jr. | 11.75 | 5.50 | 3.50 | 84,750 |
| Jenny R. Black | 11.75 | 5.00 | 3.50 | 77,250 |
| Sherry E. Bowden | 11.75 | 7.25 | 3.50 | 84,750 |
| William J. Franklin, Jr. | 11.75 | 5.00 | 3.50 | 77,250 |
| Bonnie V. Hancock | 11.75 | 7.50 | 3.50 | 89,750 |
| Curtis R. Hancock, Jr. | 11.75 | 8.75 | 3.50 | 78,917 |
| Walter C. Hopkins, Sr. | 11.75 | 8.75 | 3.50 | 77,875 |
| William K. Jackson | 11.75 | 10.75 | 3.50 | 84,750 |
| J. Alvin Lyons | 11.75 | 6.00 | 3.50 | 84,750 |
| S. Alan Marsh | 11.75 | 5.25 | 3.50 | 77,250 |
| Fred R. Moore, Jr. | 11.75 | 10.75 | 3.50 | 84,125 |
| Michael W. Patrick | 11.75 | 8.50 | 3.50 | 77,250 |
| Thomas E. Porter, Jr. | 11.75 | 5.00 | 3.50 | 77,250 |
| William T. Robinson | 11.75 | 8.75 | 3.50 | 98,250 |
| Michael T. Stone** | 11.75 | 11.00 | 3.50 | 87,042 |
| Ellis W. Taylor | 11.75 | 13.75 | 3.50 | 101,416 |
| Total | | | | $1,427,375 |

* *Other official activities include Board committee meetings and Board training.*
** *Does not include 2.0 days served as Board-appointed member of the AgFirst and AgFirst/FCBT Plan Sponsor Committees.*

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $21,809 for 2020, $161,942 for 2019, and $153,844 for 2018.

**Transactions with Senior Officers and Directors**

The Bank's disclosure on loans to and transactions with its officers and directors, to be disclosed in this section, is incorporated herein by reference to Note 10, *Related Party Transactions*, to the Financial Statements included in this Annual Report to shareholders. Such loans are subject to special approval requirements contained in the FCA regulations and were made on the same terms, including interest rate, amortization schedule and collateral, as those prevailing at the time for comparable transactions with unaffiliated persons. No loan to a director or to any organization affiliated with such person, or to any immediate family member who resides in the same household as such person or in whose loan or business operation such person has a material financial or legal interest, involved more than the normal risk of collectability.

There have been no transactions between the Bank and senior officers or directors which require reporting per FCA regulations.

**Involvement in Certain Legal Proceedings**

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

**Relationship with Independent Registered Public Accounting Firm**

There were no changes in or material disagreements with the Bank's independent registered public accounting firm on any matter of accounting principles or financial statement disclosure during this period.

Aggregate fees expensed by the Bank for services rendered by its independent registered public accounting firm for the year ended December 31, 2020 were as follows:

| | 2020 |
|---|---|
| ***Independent Registered Public Accounting Firm*** | |
| PricewaterhouseCoopers LLP (PwC) | |
| Audit services | $ 970,384 |
| Audit-related services | 1,317 |
| Non-audit services | 96,134 |
| Total | $ 1,067,835 |

Audit fees of $970,384 were for the annual audits of financial statements of the Bank and District, of which $42,184 related to the 2019 audit. Audit-related fees were for benefit plan audits. Non-audit fees of $96,134 were for Farmer Mac minimum servicing standards attestation, of which $48,034 related to 2019 and a disclosure checklist software subscription. Out-of-pocket expenses are included in the fee amounts reported above.

All non-audit services provided by PwC require pre-approval by the Audit Committee.

**Financial Statements**

The Financial Statements, together with the report thereon of PricewaterhouseCoopers LLP, dated March 11, 2021, and the Report of Management, which appear in this Annual Report to shareholders are incorporated herein by reference.

**Borrower Information Regulations**

FCA regulations require that borrower information be held in strict confidence by Farm Credit 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 Farm Credit institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the annual report to shareholders. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

**Shareholder Investment**

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

# *Additional Required Regulatory Capital Disclosures*

The following disclosures contain regulatory disclosures as required for the Bank under Regulation §628.62 and §628.63 for risk-adjusted ratios: common equity tier 1 capital, tier 1 capital and total capital ratios. As required, these disclosures are made available for at least three years and can be accessed via AgFirst's website at www.agfirst.com.

**DISCLOSURE MAP**

| Disclosure Requirement | Description | 2020 Annual Report Reference |
|---|---|---|
| Scope of Application | Corporate entity and structure | Note 1 |
| | Restrictions of capital | Note 7, section F |
| Capital Structure | Terms and conditions of capital instruments | Note 7, sections A through E |
| Credit Risk: General | Qualitative disclosures | Note 2, section B; Note 3 |
| | Distribution of risk exposure | Note 3; Note 4 |
| | Loans by loan type | Note 3 |
| | Major industry type | Note 3, Loan Portfolio section of MD&A |
| | Composition of Direct Notes | Direct Notes section of MD&A |
| | Allowance for Loan Loss Reconciliation | Note 3 |
| Interest Rate Risk for Non-Trading Activities | Quantitative & qualitative disclosure requirements | Interest Rate Risk Management section of MD&A |

## SCOPE OF APPLICATION

AgFirst Farm Credit Bank (AgFirst or the Bank) is one of the four banks of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, established by Congress and subject to the provisions of the Farm Credit Act of 1971, as amended. The Bank prepares financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the financial services industry.

As of December 31, 2020, the AgFirst District consisted of the Bank and 19 District Associations. All 19 were structured as Agricultural Credit Association (ACA) holding companies, with Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries. AgFirst is owned jointly by these 19 Associations, certain Other Financing Institutions (OFIs), other System institutions, and preferred stockholders. The Bank does not have any subsidiaries requiring consolidation; therefore, there are no consolidated entities for which the total capital requirement is deducted, there are no restrictions on transfer of funds or total capital with other consolidated entities and no subsidiary exists which is below the minimum total capital requirement individually or when aggregated at the Bank's level. In conjunction with other System entities, the Bank jointly owns certain service organizations: the Federal Farm Credit Banks Funding Corporation (Funding Corporation), the FCS Building Association (FCSBA), and the Farm Credit Association Captive Insurance Corporation (Captive). Certain of the Bank's investments in other System institutions, including the investment in the Funding Corporation and FCSBA, are deducted from capital for purposes of calculating regulatory capital ratios, as only the institution that issued the equities may count the amount as regulatory capital.

## CAPITAL STRUCTURE

Descriptions of the Bank's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are included in Note 7, *Shareholders' Equity,* of the Notes to the Financial Statements.

The table below outlines the Bank's capital structure for the capital adequacy calculations as of December 31, 2020:

| *(dollars in thousands)* | Ending Balance | 3-Month Average Daily Balance |
|---|---|---|
| **Common Equity Tier 1 Capital (CET1)** | | |
| Common cooperative equities: | | |
| Statutory minimum purchased borrower stock | $ 23 | $ 23 |
| Other required member purchased stock | 112,873 | 127,940 |
| Allocated equities: | | |
| Allocated stock subject to retirement | 198,963 | 197,169 |
| Nonqualified allocated surplus subject to retirement | 416 | 415 |
| Unallocated retained earnings | 1,871,594 | 2,191,686 |
| Paid-in capital | 58,883 | 58,883 |
| Regulatory adjustments and deductions made to CET1* | (76,894) | (73,757) |
| Total CET1 | $ 2,165,858 | $ 2,502,359 |
| **Additional Tier 1 Capital (AT1)** | | |
| Non-cumulative perpetual preferred stock | $ 49,250 | $ 49,250 |
| Regulatory adjustments and deductions made to AT1 | — | — |
| Total AT1 | $ 49,250 | $ 49,250 |
| Total Tier 1 Capital | $ 2,215,108 | $ 2,551,609 |
| **Tier 2 Capital** | | |
| Allowance for loan losses | $ 18,257 | $ 19,192 |
| Reserve for unfunded commitments | 432 | 530 |
| Regulatory adjustments and deductions made to total capital | — | — |
| Total Tier 2 Capital | $ 18,689 | $ 19,722 |
| Total Capital | $ 2,233,797 | $ 2,571,331 |
| Reconciliation to Balance Sheets: | | |
| Allowance for loan losses | $ (18,257) | |
| Reserve for unfunded commitments | (432) | |
| Intra-system investments | 76,894 | |
| Accumulated other comprehensive income | 185,862 | |
| Total Capital per Balance Sheets | $ 2,477,864 | |

* *Primarily investments in other System institutions.*

## CAPITAL ADEQUACY AND CAPITAL BUFFERS

In conjunction with the annual business and financial planning process, the Board of Directors reviews and approves a capital adequacy plan which includes target levels for capital and capital ratio baselines. When reviewing the capital adequacy plan and setting an appropriate target equity level, the Board considers the following: credit risk and allowance levels; quality and quantity of earnings; sufficiency of liquid funds; operational risk; interest rate risk; growth in determining optimal capital levels; the Bank's overall risk profile; capability of management; quality of operating policies, procedures, and internal controls; capital composition; loan volume projections; anticipated future capital needs; and the Bank's capital levels in comparison to regulatory minimum capital standards.

The Board balances the desire to distribute a level of patronage that provides appropriate returns to the Bank's customer/owners with the need to properly capitalize the Bank. The Board may increase or decrease these patronage levels based on its ongoing evaluation of the Bank's business. As a result, there is no assurance that patronage will remain at current levels.

As part of its business planning process, the Bank performs stress tests to examine the Bank's financial condition and performance, including capital levels, under a variety of market and economic environments, including unanticipated loan growth and prolonged periods of financial and loan quality stress. These stress tests illustrate the Bank's ability to continue to maintain compliance with regulatory requirements through severe market conditions while continuing to fulfill the Bank's mission. Results of these stress tests are reviewed with the Board of Directors and the FCA.

The table below outlines the Bank's risk-weighted assets by exposure (including accrued interest of that exposure) as of December 31, 2020. Risk-weighted assets are calculated on a three-month average daily balance.

| *(dollars in thousands)* | Ending Balance | Risk-Weighted Assets |
|---|---|---|
| Exposures to: | | |
| Government-sponsored entities, including Direct Notes to Associations | $ 26,695,505 | $ 4,366,183 |
| Depository institutions | 693,685 | 28,056 |
| Corporate exposures, including borrower loans and leases | 5,773,436 | 5,727,835 |
| Residential mortgage loans | 2,011,240 | 1,022,310 |
| Past due > 90 days and nonaccrual loans | 27,383 | 32,558 |
| Securitizations | 643,888 | 161,897 |
| Exposures to obligors and other assets | 243,903 | 141,265 |
| Off-balance sheet exposures | 5,759,740 | 1,699,894 |
| Total | $ 41,848,780 | $ 13,179,998 |

| | |
|---|---|
| Reconciliation to Balance Sheets: | |
| Off-balance sheet exposures | (5,759,740) |
| Allowance for loan losses not risk-weighted | (18,257) |
| Intra-system investments not risk-weighted | 76,894 |
| AFS mark to market not risk-weighted | 190,529 |
| Total Assets per Balance Sheets | $ 36,338,206 |

As of December 31, 2020, the Bank exceeded all capital requirements to which it was subject, including applicable capital buffers. The Bank's risk-adjusted capital ratios exceeded the regulatory minimum levels, including the conservation buffer by at least 9.01 percent. Additionally, the Bank's leverage ratio was 2.09 percent in excess of its required minimum leverage ratio, including the buffer. 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 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 | 2017 |
|---|---|---|---|---|---|---|---|
| Risk-adjusted ratios: | | | | | | | |
| CET1 Capital | 4.50% | 2.50% | 7.00% | 18.99% | 18.90% | 21.20% | 21.73% |
| Tier 1 Capital | 6.00% | 2.50% | 8.50% | 19.36% | 19.29% | 21.64% | 22.18% |
| Total Capital | 8.00% | 2.50% | 10.50% | 19.51% | 19.45% | 21.79% | 22.31% |
| Permanent Capital | 7.00% | —% | 7.00% | 19.39% | 19.32% | 21.67% | 22.21% |
| Non-risk-adjusted ratios: | | | | | | | |
| Tier 1 Leverage** | 4.00% | 1.00% | 5.00% | 7.09% | 7.10% | 7.53% | 7.67% |
| URE and UREE Leverage | 1.50% | —% | 1.50% | 6.18% | 6.17% | 6.58% | 6.72% |

* *The capital conservation buffers had a 3-year phase-in period and became fully effective January 1, 2020. There was no phase-in period for the Tier 1 leverage ratio.*
** *The Tier 1 Leverage Ratio must include a minimum of 1.5% of URE and URE Equivalents.*

The following sets forth regulatory capital ratios as previously reported:

| | Regulatory Minimum | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|
| Permanent Capital Ratio | 7.00% | 21.31% | 20.71% | 21.83% | 22.85% | 23.58% |
| Total Surplus Ratio | 7.00% | 21.21% | 20.64% | 21.80% | 22.81% | 23.55% |
| Core Surplus Ratio | 3.50% | 19.13% | 18.48% | 19.38% | 19.98% | 20.04% |
| Net Collateral Ratio | 103.00% | 106.69% | 106.93% | 106.79% | 106.83% | 107.03% |

## CREDIT RISK: GENERAL

System entities have specific lending authorities within their chartered territories. The Bank is subject to credit risk by lending to the District's Federal Land Credit Associations (FLCAs), Production Credit Associations (PCAs) and Agricultural Credit Associations (ACAs) as well as Other Financing Institutions (OFIs). The Bank also purchases participations and syndications and first lien residential mortgage loans. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which identifies loans that may be impaired based on characteristics such as probability of default (PD) and loss given default (LGD). Allowance needs by geographic region are only considered in rare circumstances that may not otherwise be reflected in the PD and LGD (flooding, drought, etc.). There was no allowance attributed to a geographic area as of December 31, 2020. The Bank's allowance for loan losses at December 31, 2020 included $466 thousand of qualitative reserves for the participations/syndications portfolio due to anticipated stress from the COVID-19 pandemic in certain segments. In addition, the Bank established a qualitative reserve of $1.6 million for additional risks for loans remaining in forbearance in the Correspondent Lending portfolio.

Refer to Note 2, *Summary of Significant Accounting Policies*, of the accompanying financial statements for the Bank's policy for determining past due or delinquency status, policy for placing loans on nonaccrual status, policy for returning loans to accrual status, definition of and policy for identifying impaired loans, description of the methodology used to estimate allowance for loan losses, and policy for charging-off uncollectible amounts. Refer to Note 3, *Loans and Allowance for Loan Losses*, and Note 4, *Investments*, in the Notes to the Financial Statements for quantitative disclosures related to the Bank's credit risk.

## CREDIT RISK MITIGATION

***Credit Risk Mitigation Related to Loans***

The Bank uses various strategies to mitigate credit risk in its lending portfolio. As described in Note 1, *Organization and Operations*, in the Notes to the Financial Statements, a substantial portion of the loan balance is concentrated in notes receivables from the District Associations to fund their earning assets, which collateralize the notes. In addition, the earnings, capital and loan loss reserves of the Associations provide additional layers of protection against losses in their respective retail loan portfolios.

Through the District Associations' and Bank's participation in loans or interests in loans to/from other institutions within the System and outside the System, the Bank and District Associations limit their exposure to both borrower and commodity concentrations. This also allows the Bank and District Associations to manage growth and capital, and to improve geographic diversification. Concentration risk is reviewed and measured by industry, product, geography and customer limits.

Although neither the Bank nor any other System institution receives any direct government support, credit quality is indirectly enhanced by government support in the form of program payments to borrowers, which improve their ability to honor their commitments.

The following table illustrates credit risk mitigants within AgFirst's loan portfolio which reduce capital requirements as of December 31, 2020:

| *(dollars in thousands)* | Ending Balance | 3-Month Average Balance | Risk-Weighted Exposures | % of Total Loans |
|---|---|---|---|---|
| Loans with unconditional guarantee | $ 89,543 | $ 99,784 | $ — | — % |
| Loans with conditional guarantee | 935,031 | 985,373 | 197,075 | 4 % |
| Direct Notes | 17,982,813 | 17,745,317 | 3,549,063 | 68 % |
| Total | $ 19,007,387 | $ 18,830,474 | $ 3,746,138 | 72 % |

An additional technique to reduce credit risk is AgFirst's monitoring for commodity and geographic concentrations. Commodity and industry categories are based on the Standard Industrial Classification system published by the federal government. This system is used to assign commodity or industry categories based on the largest agricultural commodity of the customer.

The Bank's credit risk associated with its Direct Note portfolio approximates that of the aggregate District Associations' portfolios as a whole. The Associations' credit portfolios are comprised of a number of segments having varying, and in some cases complementary, agricultural characteristics. Excluding accrued interest receivable, at December 31, 2020, the Bank's Direct Note portfolio totaled $17.946 billion and aggregate District Associations' loan portfolios totaled $23.930 billion. For geographic and commodity distributions for the District Associations' total loan portfolio, see the *Direct Notes* subsection of the *Loan Portfolio* section in Management's Discussion and Analysis.

The following table illustrates AgFirst's loan portfolio by geographic distribution at December 31, 2020. This table includes the Bank's Direct Notes in total and does not include accrued interest.

**AgFirst Loan Portfolio by State**

| | At Period End | | | Year-to-Date Average Balance | | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | Outstanding Loans | Unfunded Amounts | Total Exposure | Outstanding Loans | Unfunded Amounts | Total Exposure |
| North Carolina | $ 1,468,487 | $ 190,952 | $ 1,659,439 | $ 1,493,575 | $ 193,536 | $ 1,687,111 |
| Georgia | 983,272 | 413,525 | 1,396,797 | 1,036,996 | 380,256 | 1,417,252 |
| Florida | 650,346 | 278,963 | 929,309 | 656,770 | 260,652 | 917,422 |
| Minnesota | 327,180 | 304,013 | 631,193 | 348,315 | 267,504 | 615,819 |
| Virginia | 503,110 | 99,412 | 602,522 | 574,164 | 101,498 | 675,662 |
| Texas | 408,429 | 132,311 | 540,740 | 420,155 | 126,307 | 546,462 |
| South Carolina | 440,900 | 48,634 | 489,534 | 462,765 | 29,026 | 491,791 |
| California | 254,895 | 95,241 | 350,136 | 266,825 | 71,437 | 338,262 |
| New York | 221,023 | 120,186 | 341,209 | 202,854 | 107,495 | 310,349 |
| Ohio | 207,016 | 131,273 | 338,289 | 183,113 | 146,328 | 329,441 |
| Pennsylvania | 194,070 | 128,810 | 322,880 | 205,657 | 99,030 | 304,687 |
| Maryland | 278,264 | 14,101 | 292,365 | 306,055 | 17,422 | 323,477 |
| Louisiana | 167,803 | 119,003 | 286,806 | 166,782 | 92,332 | 259,114 |
| Missouri | 184,080 | 102,019 | 286,099 | 187,421 | 107,964 | 295,385 |
| Illinois | 131,696 | 129,228 | 260,924 | 108,641 | 119,210 | 227,851 |
| Kentucky | 205,398 | 5,081 | 210,479 | 193,566 | 6,781 | 200,347 |
| Washington | 117,299 | 79,790 | 197,089 | 123,254 | 67,652 | 190,906 |
| Mississippi | 49,306 | 129,114 | 178,420 | 77,534 | 112,325 | 189,859 |
| All other states | 1,486,510 | 818,831 | 2,305,341 | 1,424,283 | 777,337 | 2,201,620 |
| Direct Notes | 17,945,905 | 2,449,253 | 20,395,158 | 17,250,232 | 2,808,710 | 20,058,942 |
| Total loans | $ 26,224,989 | $ 5,789,740 | $ 32,014,729 | $ 25,688,957 | $ 5,892,802 | $ 31,581,759 |

The following table shows the various major commodity groups in the portfolio based on borrower eligibility at December 31, 2020. This table includes the Bank's Direct Notes in total and does not include accrued interest.

**AgFirst Loan Portfolio by Commodity Group Based on Eligibility**

| | At Period End | | | Year-to-Date Average Balance | | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | Outstanding Loans | Unfunded Amounts | Total Exposure | Outstanding Loans | Unfunded Amounts | Total Exposure |
| Rural Home Loan | $ 2,899,911 | $ 63,662 | $ 2,963,573 | $ 3,189,601 | $ 106,426 | $ 3,296,027 |
| Processing | 953,719 | 847,268 | 1,800,987 | 930,278 | 748,599 | 1,678,877 |
| Utilities | 965,849 | 737,789 | 1,703,638 | 896,359 | 729,101 | 1,625,460 |
| Forestry | 941,233 | 386,950 | 1,328,183 | 995,830 | 310,834 | 1,306,664 |
| Field Crops | 342,920 | 196,942 | 539,862 | 336,813 | 178,223 | 515,036 |
| Tree Fruits and Nuts | 229,201 | 145,491 | 374,692 | 232,312 | 132,935 | 365,247 |
| Swine | 208,148 | 74,464 | 282,612 | 176,758 | 68,292 | 245,050 |
| Grains | 149,605 | 96,894 | 246,499 | 128,182 | 114,139 | 242,321 |
| Nursery/Greenhouse | 171,952 | 68,070 | 240,022 | 176,164 | 43,768 | 219,932 |
| Dairy | 165,739 | 64,193 | 229,932 | 152,604 | 55,175 | 207,779 |
| Other Real Estate | 201,250 | 17,128 | 218,378 | 208,956 | 10,947 | 219,903 |
| Cattle | 128,023 | 82,072 | 210,095 | 130,542 | 79,774 | 210,316 |
| Other | 921,534 | 559,564 | 1,481,098 | 884,326 | 505,879 | 1,390,205 |
| Direct Notes | 17,945,905 | 2,449,253 | 20,395,158 | 17,250,232 | 2,808,710 | 20,058,942 |
| Total loans | $ 26,224,989 | $ 5,789,740 | $ 32,014,729 | $ 25,688,957 | $ 5,892,802 | $ 31,581,759 |

The following table segregates loans based upon repayment dependency by commodity at December 31, 2020. This table includes the Bank's Direct Notes in total and does not include accrued interest.

**AgFirst Loan Portfolio by Commodity Group Based on Repayment Dependency**

| | At Period End | | | Year-to-Date Average Balance | | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | Outstanding Loans | Unfunded Amounts | Total Exposure | Outstanding Loans | Unfunded Amounts | Total Exposure |
| Non-Farm Income | $ 3,204,610 | $ 104,773 | $ 3,309,383 | $ 3,481,629 | $ 141,444 | $ 3,623,073 |
| Rural Utilities | 955,833 | 737,790 | 1,693,623 | 896,359 | 729,101 | 1,625,460 |
| Timber | 816,982 | 360,154 | 1,177,136 | 869,307 | 280,180 | 1,149,487 |
| Processing and Marketing | 308,265 | 513,750 | 822,015 | 331,998 | 462,206 | 794,204 |
| Fruit & Vegetables | 498,175 | 314,720 | 812,895 | 470,889 | 268,861 | 739,750 |
| Grains | 426,578 | 276,149 | 702,727 | 384,655 | 282,038 | 666,693 |
| Swine | 322,398 | 170,418 | 492,816 | 300,774 | 154,526 | 455,300 |
| Poultry | 253,350 | 214,014 | 467,364 | 225,322 | 201,482 | 426,804 |
| Farm Related Business | 343,365 | 118,560 | 461,925 | 354,858 | 85,665 | 440,523 |
| Dairy | 239,024 | 127,275 | 366,299 | 228,347 | 90,831 | 319,178 |
| Beef | 146,536 | 103,247 | 249,783 | 138,760 | 105,507 | 244,267 |
| Tobacco | 121,024 | 59,974 | 180,998 | 104,551 | 50,990 | 155,541 |
| Other | 642,944 | 239,663 | 882,607 | 651,276 | 231,261 | 882,537 |
| Direct Notes | 17,945,905 | 2,449,253 | 20,395,158 | 17,250,232 | 2,808,710 | 20,058,942 |
| Total loans | $ 26,224,989 | $ 5,789,740 | $ 32,014,729 | $ 25,688,957 | $ 5,892,802 | $ 31,581,759 |

A significant source of liquidity for the Bank is the repayments of loans. The following table presents the contractual maturity distribution of loans by loan type at the latest period end. This table does not include accrued interest.

| | December 31, 2020 | | | |
|---|---|---|---|---|
| *(dollars in thousands)* | Due Less Than 1 Year | Due 1 Through 5 Years | Due After 5 Years | Total |
| Direct Notes | $ 456,648 | $ 2,697,399 | $ 14,791,858 | $ 17,945,905 |
| Real estate mortgage | 72,753 | 249,044 | 794,871 | 1,116,668 |
| Production and intermediate-term | 286,088 | 633,126 | 244,210 | 1,163,424 |
| Loans to cooperatives | 77,941 | 289,395 | 193,999 | 561,335 |
| Processing and marketing | 123,350 | 614,314 | 492,080 | 1,229,744 |
| Farm-related business | 35 | 22,688 | 24,009 | 46,732 |
| Communication | 19,378 | 229,395 | 213,514 | 462,287 |
| Power and water/waste disposal | 111,785 | 139,556 | 317,974 | 569,315 |
| Rural residential real estate | 94,196 | 19,459 | 2,786,256 | 2,899,911 |
| International | — | 39,406 | 45,542 | 84,948 |
| Lease receivables | — | 1,863 | 411 | 2,274 |
| Loans to OFIs | 2,918 | 134,180 | — | 137,098 |
| Other (including Mission Related) | — | 12 | 5,336 | 5,348 |
| Total loans | $ 1,245,092 | $ 5,069,837 | $ 19,910,060 | $ 26,224,989 |
| Percentage | 4.75 % | 19.33 % | 75.92 % | 100.00 % |

The following table illustrates AgFirst's impaired loans by geographic distribution at December 31, 2020. This table does not include accrued interest.

**Total Outstanding Impaired Loans by State**

| *(dollars in thousands)* | At Period End | Year-to-Date Average Balance |
|---|---|---|
| North Carolina | $ 16,193 | $ 11,450 |
| Arkansas | 3,784 | 3,863 |
| Georgia | 3,208 | 2,792 |
| Florida | 2,086 | 3,155 |
| Virginia | 1,805 | 1,445 |
| Maryland | 1,758 | 1,870 |
| South Carolina | 1,536 | 1,774 |
| Texas | 881 | 991 |
| Ohio | 847 | 6,500 |
| Pennsylvania | 846 | 611 |
| Missouri | 738 | 823 |
| Kentucky | 556 | 601 |
| All other states | 1,692 | 6,438 |
| Total impaired loans | $ 35,930 | $ 42,313 |

The Bank does not use credit default swaps as part of its credit risk management approach.

***Credit Risk Mitigation Related to Investments***

Credit risk in AgFirst's investment portfolio is largely mitigated by investing primarily in securities issued or guaranteed by the U.S. government or one of its agencies.

The following table shows the investment exposures covered by a guarantee as of December 31, 2020. This table does not include accrued interest.

| *(dollars in thousands)* | Amortized Cost | Fair Value | % of Total Investments | Risk-Weighted Exposures |
|---|---|---|---|---|
| **Unconditional Guarantee:** | | | | |
| U.S. Govt. Treasury Securities | $ 317,755 | $ 318,870 | 4 % | $ — |
| U.S. Govt. Guaranteed | 4,229,674 | 4,361,424 | 51 % | — |
| **Conditional Guarantee:** | | | | |
| U.S. Govt. Agency Guaranteed | 3,106,696 | 3,156,656 | 37 % | 620,958 |
| Total | $ 7,654,125 | $ 7,836,950 | 92 % | $ 620,958 |

The remaining credit risk in the Bank's investment portfolio primarily relates to the eight percent of the portfolio composed of asset-backed securities (ABS), Rural Housing Mortgage-Backed Securities (RHMS) and Rural America Bonds (RABs). The ABS securities must meet the applicable FCA regulatory guidelines, which require them to be high quality, senior class, and rated in the top category (AAA/Aaa) by Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. To achieve these ratings, the securities may have a guarantee of timely payment of principal and interest, credit enhancements achieved through over-collateralization or other means, priority of payments for senior classes over junior classes, or bond insurance.

All of the non-agency securities owned have one or more credit enhancement features. The RHMS portfolio must be fully guaranteed by a government agency or government sponsored enterprise. RABs are private placement securities, which generally have some form of credit enhancement.Credit risk in the investment portfolio also arises from the inability of guarantors and third-party providers of other credit enhancements, such as bond insurers or Farmer Mac, to meet their contractual obligations to the Bank.

**COUNTERPARTY CREDIT RISK**

Counterparty credit risk exposures may consist of derivative instruments and repurchase-style transactions. By using derivative instruments, the Bank exposes itself to credit and market risk. The amount of this exposure depends on the value of underlying market factors (e.g. interest rates and foreign exchange rates), which can be volatile and uncertain in nature. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Bank's credit risk will equal the fair value gain in the derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the Bank is exposed to an economic loss if the counterparty defaults. When the fair value of the derivative contract is negative, the counterparty is exposed to an economic loss in the event of a Bank default and the Bank has no credit risk exposure.

To minimize the risk of credit losses, the Bank transacts with counterparties that have an investment grade credit rating from a major rating agency and also monitors the credit standing of, and levels of exposure to, individual counterparties. The Bank typically enters into master agreements that contain netting provisions. These provisions allow the Bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts.

Financial instruments qualifying as eligible collateral are specifically defined under individual counterparty credit support agreements, but generally include cash, U.S. Treasury debt obligations, debt obligations of certain federal agencies and mortgage-backed securities guaranteed by certain federal agencies. Federal agencies include the Government National Mortgage Association, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and the Federal Home Loan Banks. The value of the instrument when used as collateral may be discounted from its market price up to 10 percent, depending on the security type, issuer and term. Such discounts are defined in the credit support agreement.

At December 31, 2020, the Bank had no derivative contracts outstanding.

## SECURITIZATION

Securitizations are transactions in which:

- The credit risk of the underlying exposure is transferred to third parties, and has been separated into two or more tranches;
- The performance of the securitization depends upon the performance of the underlying exposures or reference assets; and
- All or substantially all of the underlying exposures or reference assets are financial exposures.

Securitizations include on- or off-balance sheet exposures (including credit enhancements) that arise from a securitization or re-securitization transaction; or an exposure that directly or indirectly references a securitization (e.g., credit derivative). A re-securitization is a securitization transaction in which one or more of the underlying exposures that have been securitized is itself a securitization.

The Bank currently only participates in securitizations as an investor through the purchase of mortgage-backed securities (MBS) and ABS as included in its investment portfolio. As of December 31, 2020, the Bank did not retain any re-securitization exposures.

The Bank is subject to liquidity risk with respect to securitization exposures. In volatile market conditions, it could be difficult to sell such investments, if the need arises, and the discounts from face value would likely be significant. In addition, because of the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of these investments may differ significantly from the values that would have been used had a ready market existed for the investments.

The Bank has elected to utilize the simplified supervisory formula risk-based capital approach (SSFA) for securitization exposures related to investments. As such, the Bank's ABS portfolio is risk weighted on an individual security level. As of December 31, 2020, the ABS risk-weights ranged from 20.00 percent to 81.95 percent, with a weighted average risk-weight of 22.99 percent. Total risk-weighted assets for the investment securitization portfolio utilizing a 3-month average daily balance was $158.1 million at December 31, 2020.

The following table shows the risk-weight distribution as of December 31, 2020 for ABS securities which are risk weighted using the SSFA approach. This table does not include accrued interest.

| | Fair Value by SSFA Risk Weight Classification | | |
|---|---|---|---|
| *(dollars in thousands)* | **Automobile ABSs** | **Credit Card ABSs** | **Total** |
| 0% – 50% | $ 64,502 | $ 547,739 | $ 612,241 |
| Greater than 50% – 100% | 29,576 | — | 29,576 |
| Total Exposure | $ 94,078 | $ 547,739 | $ 641,817 |

As of December 31, 2020, the Bank did not hold any off-balance sheet securitization exposures nor were any securitization exposures deducted from capital. For the year ended December 31, 2019, there were no sales of ABS securities that resulted in realized gains or losses.

Refer to Note 4, *Investments*, in the Notes to the Financial Statements for additional information related to purchases and sales of securitization exposures as well as the amortized cost, unrealized gains/(losses) and fair value of MBSs and ABSs held in the Bank's investment portfolio.

## EQUITIES

At December 31, 2020, the Bank had no equity investments other than equity investments in other Farm Credit institutions.

## INTEREST RATE RISK

See the *Interest Rate Risk Management* subsection of the *Risk Management* section in Management's Discussion and Analysis for the disclosures on the Bank's interest rate risk management practices.

# *Report on Internal Control Over Financial Reporting*

The Bank'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 purposes of this report, "internal control over financial reporting" is defined as a process designed by or under the supervision of the Bank's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America (GAAP).

Internal control over financial reporting 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 Bank, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Bank, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on its Financial Statements.

The Bank'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 Bank'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 Bank's management determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2020.

The Bank's internal control over financial reporting as of December 31, 2020 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in the Report of Independent Registered Public Accounting Firm which expresses an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting as of December 31, 2020.

Leon T. Amerson
President and Chief Executive Officer

Stephen Gilbert
Senior Vice President and Chief Financial Officer

March 11, 2021

# *Report of the Audit Committee*

The Audit Committee of the Board of Directors (the Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of AgFirst Farm Credit Bank (the Bank) and in the opinion of the Board of Directors, each is free of any relationship with the Bank 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 Bank's audited financial statements with management, which has primary responsibility for the financial statements. The financial statements were prepared under the oversight of the Committee.

PricewaterhouseCoopers LLP (PwC), the Bank's independent registered public accounting firm for 2020, is responsible for expressing an opinion on the conformity of the Bank's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards AU-C 260 and 265 *(The Auditor's Communication With Those Charged With Governance)*. The Committee discussed with PwC its independence from the Bank. 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 Bank's Annual Report for 2020. The foregoing report is provided by the following independent directors, who constitute the Committee:

William T. Robinson
Chairman of the Audit Committee

**Members of Audit Committee**

Gary L. Baldosser
Jack W. Bentley, Jr.
Sherry E. Bowden
J. Alvin Lyons

March 11, 2021

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of AgFirst Farm Credit Bank

### *Opinions on the Financial Statements and Internal Control over Financial Reporting*

We have audited the accompanying balance sheets of AgFirst Farm Credit Bank (the "Company") as of December 31, 2020, 2019 and 2018, and the related statements of comprehensive income, of changes in shareholders' equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

### *Basis for Opinions*

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the Report on Internal Control Over Financial Reporting appearing on page 45 of the 2020 Annual Report to Shareholders. Our responsibility is to express opinions on the Company's financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the relevant ethical requirements relating to our audit, which include standards of the American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct and the Farm Credit Administration's independence rules set forth in 12 CFR Part 621, *Accounting and Reporting Requirements,* Subpart E, *Auditor Independence.*

We conducted our audits in accordance with the auditing standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

*PricewaterhouseCoopers LLP, 214 N Tryon Street, Suite 4200, Charlotte, NC 28202*
*T: (704) 350 7500, F: (704) 344 4100, www.pwc.com/us*

### *Definition and Limitations of Internal Control over Financial Reporting*

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### *Critical Audit Matters*

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

*Allowance for Loan Losses – Loans Collectively Evaluated for Impairment*

As described in Notes 2 and 3 to the financial statements, the allowance for loan losses was $18.3 million, of which $17.8 million is related to loans collectively evaluated for impairment as of December 31, 2020. Management estimates the allowance for loan losses related to loans collectively evaluated for impairment on a pool basis for those loans with similar characteristics. Management uses a two-dimensional model 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. The probability of default is management's estimate of the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating, and the loss given default is management's estimate as to the anticipated loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months. The level of the allowance may be adjusted for other relevant factors reflecting the current environment.

The principal considerations for our determination that performing procedures relating to the allowance for loan losses – loans collectively evaluated for impairment is a critical audit matter are the significant judgment by management in determining the allowance for loan losses, which in turn led to a high degree of auditor judgment, subjectivity and effort in performing audit procedures and evaluating audit evidence relating to management's estimated probability of default and estimated loss given default assumptions.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the financial statements. These procedures included testing the effectiveness of controls relating to management's allowance for loan losses estimation process, which included controls over the estimated probability of default and estimated loss given default assumptions used within the allowance for loan losses related to loans collectively evaluated for impairment. These procedures also included, among others, testing management's process for determining the allowance for loan losses, which included (i) testing the completeness and accuracy of certain data used in the estimate; (ii) evaluating the appropriateness of the methodology and models; and (iii) evaluating the reasonableness of management's estimated probability of default and estimated loss given default assumptions.

PricewaterhouseCoopers LLP

Charlotte, North Carolina
March 11, 2021

We have served as the Company's auditor since 1985

# Balance Sheets

| *(dollars in thousands)* | As of December 31, 2020 | 2019 | 2018 |
|---|---|---|---|
| **Assets** | | | |
| Cash | **$ 693,685** | $ 444,559 | $ 421,485 |
| Cash equivalents | **520,000** | 650,000 | 100,000 |
| Investments in debt securities: | | | |
| Available-for-sale (amortized cost of $8,294,821, $7,843,244, and $7,988,624, respectively) | **8,485,350** | 7,895,569 | 7,939,196 |
| Held-to-maturity (fair value of $35,235, $40,842, and $44,894, respectively) | **30,078** | 37,266 | 42,052 |
| Total investments in debt securities | **8,515,428** | 7,932,835 | 7,981,248 |
| Loans | **26,224,989** | 25,111,659 | 24,275,881 |
| Allowance for loan losses | **(18,257)** | (18,032) | (18,049) |
| Net loans | **26,206,732** | 25,093,627 | 24,257,832 |
| Accrued interest receivable | **81,564** | 94,806 | 90,794 |
| Accounts receivable | **145,300** | 126,865 | 71,061 |
| Equity investments in other Farm Credit institutions | **80,647** | 76,710 | 74,798 |
| Premises and equipment, net | **61,164** | 54,219 | 55,865 |
| Other property owned | — | 3,041 | 2,842 |
| Other assets | **33,686** | 28,427 | 22,537 |
| Total assets | **$ 36,338,206** | $ 34,505,089 | $ 33,078,462 |
| **Liabilities** | | | |
| Systemwide bonds payable | **$ 25,693,876** | $ 27,291,279 | $ 25,807,367 |
| Systemwide notes payable | **7,662,337** | 4,432,488 | 4,574,334 |
| Accrued interest payable | **27,097** | 104,587 | 109,659 |
| Accounts payable | **428,425** | 300,141 | 327,610 |
| Other liabilities | **48,607** | 45,776 | 35,795 |
| Total liabilities | **33,860,342** | 32,174,271 | 30,854,765 |
| Commitments and contingencies (Note 11) | | | |
| **Shareholders' Equity** | | | |
| Perpetual preferred stock | **49,250** | 49,250 | 49,250 |
| Capital stock and participation certificates | **311,859** | 325,278 | 317,840 |
| Additional paid-in-capital | **58,883** | 58,883 | 58,883 |
| Retained earnings | | | |
| Allocated | **416** | 418 | 440 |
| Unallocated | **1,871,594** | 1,848,506 | 1,848,936 |
| Accumulated other comprehensive income (loss) | **185,862** | 48,483 | (51,652) |
| Total shareholders' equity | **2,477,864** | 2,330,818 | 2,223,697 |
| Total liabilities and equity | **$ 36,338,206** | $ 34,505,089 | $ 33,078,462 |

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

# Statements of Comprehensive Income

| *(dollars in thousands)* | For the year ended December 31, 2020 | 2019 | 2018 |
|---|---|---|---|
| **Interest Income** | | | |
| Investments | **$ 158,756** | $ 218,826 | $ 196,553 |
| Loans | **765,690** | 895,560 | 813,109 |
| Other | **1,987** | 5,017 | 1,051 |
| Total interest income | **926,433** | 1,119,403 | 1,010,713 |
| **Interest Expense** | **345,086** | 711,741 | 600,546 |
| Net interest income | **581,347** | 407,662 | 410,167 |
| Provision for (reversal of allowance for) loan losses | **(6,220)** | (935) | 3,542 |
| Net interest income after provision for loan losses | **587,567** | 408,597 | 406,625 |
| **Noninterest Income** | | | |
| Loan fees | **11,326** | 8,710 | 8,894 |
| Building lease income | **3,101** | 4,079 | 3,287 |
| Gains (losses) on investments, net | **7,215** | — | 13 |
| Gains (losses) on debt extinguishment | **(65,475)** | (30,034) | 150 |
| Gains (losses) on other transactions | **11,433** | 1,281 | 1,462 |
| Insurance premium refund | **2,622** | 2,620 | 6,330 |
| Other noninterest income | **19,835** | 18,362 | 16,340 |
| Total noninterest income | **(9,943)** | 5,018 | 36,476 |
| **Noninterest Expenses** | | | |
| Salaries and employee benefits | **73,467** | 65,405 | 63,546 |
| Occupancy and equipment | **7,494** | 24,570 | 22,597 |
| Insurance Fund premiums | **10,578** | 9,104 | 8,265 |
| Other operating expenses | **67,959** | 42,705 | 42,289 |
| Losses (gains) from other property owned | **448** | 150 | 416 |
| Total noninterest expenses | **159,946** | 141,934 | 137,113 |
| **Net income** | **$ 417,678** | $ 271,681 | $ 305,988 |
| **Other comprehensive income:** | | | |
| Unrealized gains (losses) on investments | **138,205** | 101,753 | (29,403) |
| Change in value of cash flow hedges | **(246)** | (353) | 868 |
| Employee benefit plans adjustments | **(580)** | (1,265) | 1,639 |
| Other comprehensive income (Note 7) | **137,379** | 100,135 | (26,896) |
| **Comprehensive income** | **$ 555,057** | $ 371,816 | $ 279,092 |

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

# Statements of Changes in Shareholders' Equity

| (dollars in thousands) | Perpetual Preferred Stock | Capital Stock and Participation Certificates | Additional Paid-In-Capital | Retained Earnings Allocated | Retained Earnings Unallocated | Accumulated Other Comprehensive Income | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|
| Balance at December 31, 2017 | $ 49,250 | $ 313,752 | $ 58,883 | $ 492 | $ 1,845,194 | $ (24,756) | $ 2,242,815 |
| Comprehensive income | | | | | 305,988 | (26,896) | 279,092 |
| Capital stock/participation certificates issued/(retired), net | | 1,453 | | | | | 1,453 |
| Stock dividends declared/paid | | 2,635 | | | (2,635) | | — |
| Dividends paid on perpetual preferred stock | | | | | (1,622) | | (1,622) |
| Cash patronage declared | | | | | (298,223) | | (298,223) |
| Retained earnings retired | | | | (52) | | | (52) |
| Patronage distribution adjustment | | | | | 234 | | 234 |
| Balance at December 31, 2018 | $ 49,250 | $ 317,840 | $ 58,883 | $ 440 | $ 1,848,936 | $ (51,652) | $ 2,223,697 |
| Cumulative effect of change in accounting principle | | | | | (149) | | (149) |
| Comprehensive income | | | | | 271,681 | 100,135 | 371,816 |
| Capital stock/participation certificates issued/(retired), net | | 4,170 | | | | | 4,170 |
| Stock dividends declared/paid | | 3,112 | | | (3,112) | | — |
| Dividends paid on perpetual preferred stock | | | | | (1,798) | | (1,798) |
| Patronage distribution | | | | | | | |
| Cash | | | | | (266,942) | | (266,942) |
| Nonqualified allocated retained earnings | | | | 2 | (2) | | — |
| Retained earnings retired | | | | (24) | | | (24) |
| Patronage distribution adjustment | | 156 | | | (108) | | 48 |
| Balance at December 31, 2019 | $ 49,250 | $ 325,278 | $ 58,883 | $ 418 | $ 1,848,506 | $ 48,483 | $ 2,330,818 |
| **Comprehensive income** | | | | | **417,678** | **137,379** | **555,057** |
| **Capital stock/participation certificates issued/(retired), net** | | **(16,887)** | | | | | **(16,887)** |
| **Stock dividends declared/paid** | | **3,468** | | | **(3,468)** | | **—** |
| **Dividends paid on perpetual preferred stock** | | | | | **(963)** | | **(963)** |
| **Patronage distribution** | | | | | | | |
| **Cash** | | | | | **(390,382)** | | **(390,382)** |
| **Nonqualified allocated retained earnings** | | | | **2** | **(2)** | | **—** |
| **Retained earnings retired** | | | | **(4)** | | | **(4)** |
| **Patronage distribution adjustment** | | | | | **225** | | **225** |
| **Balance at December 31, 2020** | **$ 49,250** | **$ 311,859** | **$ 58,883** | **$ 416** | **$ 1,871,594** | **$ 185,862** | **$ 2,477,864** |

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

# Statements of Cash Flows

| *(dollars in thousands)* | For the year ended December 31, 2020 | 2019 | 2018 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net income | **$ 417,678** | $ 271,681 | $ 305,988 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation on premises and equipment | **8,594** | 8,473 | 7,988 |
| Amortization of net deferred loan (fees) costs and premium amortization (discount accretion) | **9,314** | 3,320 | 1,277 |
| Premium amortization (discount accretion) on investment securities | **21,245** | 6,563 | 4,310 |
| (Premium amortization) discount accretion on bonds and notes | **68,061** | 118,515 | 97,097 |
| Provision for loan losses | **(6,220)** | (935) | 3,542 |
| (Gains) losses on other property owned, net | **452** | 74 | 122 |
| (Gains) losses on investments, net | **(7,215)** | — | (13) |
| (Gains) losses on debt extinguishment | **65,475** | 30,034 | (150) |
| (Gains) losses on other transactions | **(11,433)** | (1,281) | (1,462) |
| Net change in loans held for sale | **8,177** | 4,153 | 3,421 |
| Changes in operating assets and liabilities: | | | |
| (Increase) decrease in accrued interest receivable | **13,242** | (4,012) | (15,815) |
| (Increase) decrease in accounts receivable | **(18,435)** | (55,804) | 9,206 |
| Increase (decrease) in accrued interest payable | **(77,490)** | (5,072) | 28,188 |
| Increase (decrease) in accounts payable | **4,997** | 3,714 | (14,505) |
| Change in other, net | **420** | 3,789 | (6,619) |
| Total adjustments | **79,184** | 111,531 | 116,587 |
| Net cash provided by (used in) operating activities | **496,862** | 383,212 | 422,575 |
| **Cash flows from investing activities:** | | | |
| Investment securities purchased | **(3,339,782)** | (2,188,559) | (2,346,736) |
| Proceeds from maturities and prepayments of investment securities | **2,818,253** | 2,331,809 | 2,443,166 |
| Proceeds from sales of investment securities | **62,865** | — | 11,718 |
| Net (increase) decrease in loans | **(1,116,396)** | (842,707) | (925,315) |
| (Increase) decrease in equity investments in other Farm Credit System institutions | **(3,937)** | (1,912) | (2,205) |
| Purchase of premises and equipment, net | **(15,834)** | (6,940) | (4,484) |
| Proceeds from sale of premises and equipment | **123** | 281 | — |
| Proceeds from sale of other property owned | **2,786** | 103 | 257 |
| Net cash provided by (used in) investing activities | **(1,591,922)** | (707,925) | (823,599) |
| **Cash flows from financing activities:** | | | |
| Bonds and notes issued | **63,523,112** | 35,834,051 | 15,456,988 |
| Bonds and notes retired | **(62,024,202)** | (34,640,535) | (14,935,225) |
| Capital stock and participation certificates issued/retired, net | **(16,887)** | 4,170 | 1,453 |
| Distribution to shareholders | **(266,870)** | (298,077) | (312,320) |
| Dividends paid on perpetual preferred stock | **(963)** | (1,798) | (1,622) |
| Retained earnings retired | **(4)** | (24) | (52) |
| Net cash provided by (used in) financing activities | **1,214,186** | 897,787 | 209,222 |
| Net increase (decrease) in cash and cash equivalents | **119,126** | 573,074 | (191,802) |
| Cash and cash equivalents, beginning of period | **1,094,559** | 521,485 | 713,287 |
| Cash and cash equivalents, end of period | **$ 1,213,685** | $ 1,094,559 | $ 521,485 |
| **Supplemental schedule of non-cash activities:** | | | |
| Receipt of property in settlement of loans | **$ 197** | $ 376 | $ 3,067 |
| Change in unrealized gains (losses) on investments, net | **138,204** | 101,753 | (29,403) |
| Employee benefit plans adjustments | **580** | 1,265 | (1,639) |
| **Supplemental information:** | | | |
| Interest paid | **$ 354,515** | $ 598,297 | $ 475,261 |

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

# Notes to the Financial Statements

**Note 1 — Organization and Operations**

**Organization:** AgFirst Farm Credit Bank (the Bank or AgFirst) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers. The Bank is chartered to serve the states of Pennsylvania, Delaware, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, the Commonwealth of Puerto Rico and portions of Ohio, Tennessee, Kentucky and Louisiana.

AgFirst is a lending institution in the Farm Credit System (the System), a nationwide network of cooperatively owned banks, associations and related service organizations. The System was established by Acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (the 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. The System Banks obtain a substantial majority of the funds for their lending operations through the sale of consolidated Systemwide bonds and notes to the public, but may also obtain a portion from internally generated earnings, the issuance of common and preferred stock and, to a lesser extent, the issuance of subordinated debt.

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 and its related associations (Associations or District Associations) are collectively referred to as the AgFirst District. The District Associations, certain Other Financing Institutions (OFIs), other System institutions, and preferred stockholders jointly own AgFirst. As of year-end, the AgFirst District consisted of the Bank and nineteen District Associations. All nineteen were structured as ACA holding companies, with PCA and FLCA subsidiaries.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System Banks and associations. The FCA examines the activities of System institutions to ensure their compliance with the Farm Credit Act, FCA regulations, and safe and sound banking practices.

The Farm Credit Act also established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used: (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured Debt), (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary uses by the FCSIC to provide assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System Bank has been required to pay premiums, which may be passed on to the Associations, into the Insurance Fund until the assets in the 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 FCSIC at its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums and may return excess funds above the secure base amount to System institutions. However, it must still ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

Premiums are charged based upon each System Bank's pro rata share of outstanding Insured Debt. Premiums of up to 20 basis points on average adjusted Insured Debt obligations can be assessed along with a risk surcharge of 10 basis points on nonaccrual loans and other-than-temporarily impaired investments. The premium rate was 8 basis points for the first half of 2020 and 11 basis points for the second half of 2020. For both 2019 and 2018, the premium was 9 basis points. The premium was increased to 16 basis points for at least the first half of 2021.

AgFirst, in conjunction with other System Banks, jointly owns organizations that were created to provide a variety of services for the System:

- Federal Farm Credit Banks Funding Corporation (Funding Corporation) – provides for the issuance and marketing of Systemwide Debt Securities using a network of investment dealers and dealer banks. The Funding Corporation also provides financial management and reporting services.
- FCS Building Association – leases premises and equipment to the FCA.
- Farm Credit System Association Captive Insurance Company – being a reciprocal insurer, provides insurance services to its member organizations.

In addition, The Farm Credit Council acts as a full-service federated trade association which represents the System before Congress, the Executive Branch and others, and provides support services to System institutions on a fee basis.

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

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

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

In addition to providing loan funds, 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 interest charges to the Associations, or in some cases billed directly to certain Associations that use a specific service.

The Bank is also authorized to provide, in participation with other lenders and the secondary market, 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 Bank may also lend to OFIs qualified to engage in lending to eligible borrowers.

**Note 2 — Summary of Significant Accounting Policies**

The accounting and reporting policies of the Bank conform to 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 the management of the Bank to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results may differ from these estimates.

The accompanying Financial Statements include the accounts of the Bank, and reflect the investments in and allocated earnings of the service organizations in which the Bank has partial ownership interests.

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 the prior period net income or total capital as previously reported.

A. **Cash and Cash Equivalents:** Cash and Cash Equivalents include cash on hand and short-term investments with original maturities of three months or less. Certain highly liquid equity securities, such as money market funds, may also be included. At the most recent year-end, the Bank held $183.8 million in cash in excess of insured amounts.

B. **Loans and Allowance for Loan Losses:** The loan portfolios include originated wholesale loans (i.e. direct loans), purchased capital markets loans, and purchased rural residential mortgage loans.

Long-term real estate mortgage loans generally have original maturities up to 30 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less.

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 is deferred as part of the carrying amount of the loan and the net difference is amortized over the life of the related loan as an adjustment to interest income using the 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 or more (unless adequately secured 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) and/or charged against the allowance for loan losses (if accrued in prior years).

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 Bank 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 Bank grants a concession to the debtor that it would not otherwise consider. If the borrower’s ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

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

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

- Credit risk classifications,
- Collateral values,
- Risk concentrations,
- Weather-related, disease or other adverse conditions,
- Current production and economic conditions, and
- Prior loan loss experience.

A specific allowance may be established for impaired loans. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate, 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 to reflect estimated probable credit losses incurred in the remainder of the loan portfolio at the financial statement date, which excludes loans included 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.

Allowances for certain loan pools acquired from District Associations may incorporate the selling Association's methodologies for assigning general and/or specific allowances.

The credit risk rating methodology is a key component of the Bank's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The Bank 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.

Generally, only home loans that are to be sold on the secondary mortgage market through various lenders or into a securitization are held for sale.

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 Losses (Gains) from Other Property Owned in the 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, which range from 3 to 40 years. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense and improvements that extend the useful life of the asset 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 writedown of property held for sale is recorded as a loss in the period identified.

F. **Investments:** The Bank holds investments and investment securities as described below.

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

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

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

***Other Equity Securities***
Any equity securities with a readily determinable fair value are carried at fair value with unrealized gains and losses included in earnings. Equity securities without a readily determinable fair value are carried at cost less any impairment. Certain equity securities with high turnover rates and high volume amounts, such as money market funds, may be considered cash equivalents but are subject to the accounting and disclosure requirements for investment securities.

***Other Investments***
As discussed in Note 8, *Fair Value Measurement*, 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 Statements of Comprehensive Income and the balance of these investments is included in Other Assets on the accompanying Balance Sheets.

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

If a credit loss exists, but the Bank does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and is separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is charged to current earnings, with the remainder of the loss amount recognized in OCI.

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

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

Dividends from equity investments in other Farm Credit institutions are generally recorded as patronage income and included in Noninterest Income.

G. **Debt:** Any discount or premium resulting from cash or noncash debt transactions is not an asset or liability separable from the instrument that gives rise to it. Therefore, the discount or premium is reported in the balance sheet as a direct deduction from or addition to the face amount of the note. Direct expenses incurred in issuing debt and mandatorily redeemable preferred stock are deferred and amortized using the interest method over the contractual term of the related indebtedness or mandatorily redeemable preferred stock. Debt issuance costs are presented in the Balance Sheets as a direct deduction from the carrying amount of the respective debt liability. All amortization and accretion of reductions or additions to the face amount of debt instruments is reported in Interest Expense.

The Bank issues both callable and noncallable debt instruments. A call feature is an agreement, stated in a financial instrument's terms, detailing how an issuance may be retired fully, or in part, before its contractual maturity date. The first call option date, and whether the instrument is continuously callable, or callable only on certain dates, is also explicitly stated. When a call option is exercised, it is accounted for as an extinguishment of debt. Any difference between the reacquisition price and the net carrying amount of the extinguished debt is recognized as losses or gains in current period earnings. Gains and losses are not amortized to future periods.

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

***Defined Contribution Plans***
Substantially all employees are eligible to participate in a defined contribution 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. Employer contributions to the plan are expensed as funded.

The Bank also offers a Farm Credit Benefits Alliance (FCBA) supplemental 401(k) plan for certain key employees. This plan is nonqualified. Employer contributions to the plan are expensed as funded.

Additional information may be found in Note 9, *Employee Benefit Plans*.

***Multiemployer Defined Benefit Plans***
Certain employees may participate in one or more defined benefit plans. The Plans are noncontributory and include eligible Bank and District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes.

The Bank provides certain health care and life insurance benefits for retired employees (Other Postretirement Benefits) through a retiree healthcare plan. Substantially all employees are eligible for those benefits when they reach early retirement age while working for the Bank. 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. This Other Postretirement Benefits plan is unfunded with expenses paid as incurred.

Since the foregoing plans are multiemployer, the Bank does not apply the provisions of Financial Accounting Standards Board (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, *Employee Benefit Plans*, and in the Notes to the Annual Information Statement of the Farm Credit System.

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

The foregoing defined benefit plan is considered single employer, therefore the Bank applies the provisions of FASB guidance on employers' accounting for defined benefit pension plans in its stand-alone financial statements.

Additional information may be found in Note 9, *Employee Benefit Plans*.

I. **Income Taxes:** The Bank is exempt from federal and other income taxes as provided in the Farm Credit Act.

The Bank 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 or tax-exempt entity.

J. **Derivative Instruments and Hedging Activity:** The Bank may be party to derivative financial instruments, primarily interest rate swaps, which are principally used to reduce funding costs. The Bank may also enter into forward contracts to create a fixed purchase price. Derivatives are included in the Balance Sheets as assets and liabilities and reflected at fair value.

Changes in the fair value of a derivative are recorded in current period earnings or Accumulated Other Comprehensive Income (AOCI) depending on the risk being hedged. For fair value hedge transactions, which hedge the changes in the fair value of assets, liabilities, or firm commitments, changes in the fair value of the derivative will generally be offset by changes in the hedged item's fair value and reported in current earnings. For cash flow hedge transactions, which hedge the variability of future cash flows related to a variable-rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative will generally be deferred and reported in AOCI. The gains and losses on the derivative that are deferred and reported in AOCI will be reclassified into earnings in the periods during which earnings are impacted by the variability of the cash flows of the hedged item. For derivatives not designated as hedging instruments, if any, the related change in fair value is recorded in current period earnings.

The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to (1) specific assets or liabilities on the balance sheet or (2) firm commitments or forecasted transactions. The Bank also formally assesses at the hedge's inception whether the derivatives that are used in hedging transactions will be highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. The Bank uses regression or other statistical analyses to assess the effectiveness of its hedges. On an ongoing basis, effectiveness may be determined quantitatively using the foregoing methodology, or qualitatively if there has been no change to the hedging arrangement. The Bank discontinues hedge accounting prospectively when the Bank determines that a derivative has not been or is not expected to be effective as a hedge. For cash flow hedges, any remaining AOCI would be amortized into earnings over the remaining life of the original hedged item. For fair value hedges, changes in the fair value of the derivative would be recorded in current period earnings. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Bank will carry the derivative at its fair value on the balance sheet, recognizing changes in fair value in current period earnings.

The Bank may occasionally purchase a financial instrument in which a derivative instrument is embedded. Upon purchasing the financial instrument, the Bank assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the financial instrument and whether a separate, non-embedded instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract and (2) a separate, stand-alone instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract, carried at fair value, and may be designated as either a fair value or cash flow hedge. However, if the entire contract were to be measured at fair value, with changes in fair value reported in current earnings, or if the Bank could not reliably identify and measure the embedded derivative for purposes of separating that derivative from its host contract, the entire contract would be carried on the balance sheet at fair value and not be designated as a hedging instrument.

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 1 assets and liabilities could include investment securities and derivative contracts that are traded in an active exchange market, in addition to certain U.S. Treasury securities that are highly-liquid and are actively traded in over-the-counter 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 2 assets and liabilities could include investment securities that are traded in active, non-exchange markets and derivative contracts that are traded in active, over-the-counter markets.

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

The Bank may use 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.

Any transfers between fair value levels occur at the end of the period.

Additional information may be found in Note 8, *Fair Value Measurement*.

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.

Unfunded commitments, and other 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 Bank generates income from multiple sources.

***Financial Instruments***
The largest source of revenue for the Bank 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.

***Contracts with Customers***
The Bank maintains contracts with customers, primarily other System entities, 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 Bank maintains, there are no material incremental costs to fulfill these contracts that should be capitalized. The Bank 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 Bank 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 Bank has entered into a valid contract and transferred control of the asset. If the criteria to meet the definition of a contract have not been met, the Bank 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. In the course of normal operations, the Bank may enter into leases for various business purposes.

***Lessee***
Contracts entered into are evaluated at inception to determine if they contain a lease. Assets and liabilities are recognized on the 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.

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

***Lessor***
The Bank 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 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 Balance Sheets and Building Lease Income in the Statements of Comprehensive Income.

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

In March 2020, the FASB issued ASU 2020-04 Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. In response to concerns about structural risks of interbank offered rates (IBORs), and, particularly, the risk of cessation of the London Interbank Offered Rate (LIBOR), regulators around the world have undertaken reference rate reform initiatives to identify alternative reference rates that are more observable or transaction-based and less susceptible to manipulation. The amendments in this Update provide optional guidance for a limited time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The amendments provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The guidance applies only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. The expedients and exceptions do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022. The amendments are elective and were effective upon issuance for all entities. The expedients were applied to certain debt instrument modifications during October 2020. In addition, the optional expedient related to loans may be applied. Application 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 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 August 2018, the FASB issued ASU 2018-14 Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans. The amendments in this Update remove disclosures that are no longer considered cost beneficial, clarify the specific requirements of certain disclosures, and add new disclosure requirements identified as relevant. Although narrow in scope, the amendments are considered an important part of the FASB's efforts to improve the effectiveness of disclosures in the notes to financial statements by applying concepts in the Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements. The amendments are effective for fiscal years ending after December 15, 2020, for public business entities. 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.

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 through the life of the financial instrument. Financial institutions and other organizations will use forward-looking information to estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early adoption is permitted. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

**Recent Accounting Policy Elections:** The Bank made certain accounting policy elections related to the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and recent guidance and clarifications from the 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 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 Bank adopted this relief for qualifying loan modifications. This TDR guidance applied to modifications made beginning March 1, 2020 and terminated on December 31, 2020.

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

**Note 3 — Loans and Allowance for Loan Losses**

For a description of the Bank's accounting for loans, including impaired loans, and the allowance for loan losses, see Note 2, *Summary of Significant Accounting Policies*, subsection B, *Loans and Allowance for Loan Losses*, above.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation which exists in outstanding loans. The Bank manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Bank 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 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). See further discussion in Note 2, *Summary of Significant Accounting Policies*, subsection B, *Loans and Allowance for Loan Losses*, above.

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

- Direct Notes and loans to OFIs — revolving lines of credit provided to financing institutions to fund the lending needs of their borrowers.
- Real estate mortgage loans — loans made to full-time or part-time farmers secured by first lien real estate mortgages with maturities from five to thirty years. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.
- Production and intermediate-term loans — loans to full-time or part-time farmers that are not real estate mortgage loans. These loans fund eligible financing needs including operating inputs (such as labor, feed, fertilizer, and repairs), livestock, living expenses, income taxes, machinery or equipment, farm buildings, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically one year or less. Intermediate-term loans are made for a specific term, generally greater than one year and less than or equal to ten years.
- Loans to cooperatives — loans for any cooperative purpose other than for communication, power, and water and waste disposal.
- Processing and marketing loans — loans for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.
- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.
- Rural residential real estate loans — loans made to individuals, who are not farmers, to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans are generally secured by a first lien on the property.
- Communication loans — loans primarily to finance rural communication providers.
- Power loans — loans primarily to finance electric generation, transmission and distribution systems serving rural areas.
- Water and waste disposal loans — loans primarily to finance water and waste disposal systems serving rural areas.
- International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.
- Lease receivables — the net investment for all finance leases such as direct financing leases, leveraged leases, and sales-type leases.
- Other (including Mission Related) — additional investments in rural America approved by the FCA on a program or a case-by-case basis. Examples of such investments include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding follows:

| | December 31, | | |
|---|---|---|---|
| *(dollars in thousands)* | 2020 | 2019 | 2018 |
| Direct Notes | $ 17,945,905 | $ 16,830,432 | $ 16,414,045 |
| Real estate mortgage | 1,116,668 | 1,135,611 | 1,107,077 |
| Production and intermediate-term | 1,163,424 | 1,089,174 | 1,137,422 |
| Loans to cooperatives | 561,335 | 473,462 | 441,510 |
| Processing and marketing | 1,229,744 | 1,091,959 | 977,274 |
| Farm-related business | 46,732 | 62,595 | 51,393 |
| Communication | 462,287 | 356,584 | 295,833 |
| Power and water/waste disposal | 569,315 | 519,111 | 532,649 |
| Rural residential real estate | 2,899,911 | 3,325,122 | 3,104,737 |
| International | 84,948 | 76,775 | 71,141 |
| Lease receivables | 2,274 | 2,917 | 385 |
| Loans to OFIs | 137,098 | 142,384 | 134,387 |
| Other (including Mission Related) | 5,348 | 5,533 | 8,028 |
| Total loans | $ 26,224,989 | $ 25,111,659 | $ 24,275,881 |

A substantial portion of the Bank's loan portfolio consists of notes receivable from District Associations. As described in Note 1, *Organization and Operations*, these notes are used by the Associations to fund their loan portfolios, which collateralize the notes. Therefore, the Bank's concentration of credit risk in various agricultural commodities associated with these notes approximates that of the District as a whole. Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities, which would cause them to be similarly impacted by economic or other conditions. A substantial portion of the Associations' lending activities is collateralized, and their exposure to credit loss associated with lending activities is reduced accordingly, which further mitigates credit risk to the Bank.

The Bank may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. During 2020, the Bank purchased $758.3 million of residential mortgage loans from various System associations and sold $300.1 million from the portfolio. These amounts are not included in the table below. 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 | |
| *(dollars in thousands)* | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold |
| Direct Notes | $ — | $ — | $ — | $ 1,140,679 | $ — | $ — | $ — | $ 1,140,679 |
| Real estate mortgage | 925,168 | 268,995 | 461,829 | 139,113 | — | — | 1,386,997 | 408,108 |
| Production and intermediate-term | 1,006,855 | 289,335 | 566,819 | 414,651 | 293,111 | — | 1,866,785 | 703,986 |
| Loans to cooperatives | — | 100,108 | 662,244 | — | — | — | 662,244 | 100,108 |
| Processing and marketing | 427,406 | 492,099 | 585,801 | 374,018 | 1,105,058 | 16,095 | 2,118,265 | 882,212 |
| Farm-related business | 34,777 | 3,127 | 15,197 | — | — | — | 49,974 | 3,127 |
| Communication | — | 147,445 | 610,556 | — | — | — | 610,556 | 147,445 |
| Power and water/waste disposal | — | 23,332 | 593,855 | — | — | — | 593,855 | 23,332 |
| International | — | 40,659 | 125,704 | — | — | — | 125,704 | 40,659 |
| Lease receivables | 1,829 | — | 445 | — | — | — | 2,274 | — |
| Other (including Mission Related) | 5,392 | — | — | — | — | — | 5,392 | — |
| Total | $ 2,401,427 | $ 1,365,100 | $ 3,622,450 | $ 2,068,461 | $ 1,398,169 | $ 16,095 | $ 7,422,046 | $ 3,449,656 |

| | December 31, 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Within AgFirst District | | Within Farm Credit System | | Outside Farm Credit System | | Total | |
| *(dollars in thousands)* | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold |
| Direct Notes | $ — | $ — | $ — | $ 1,092,698 | $ — | $ — | $ — | $ 1,092,698 |
| Real estate mortgage | 928,422 | 245,058 | 456,642 | 157,797 | — | — | 1,385,064 | 402,855 |
| Production and intermediate-term | 751,733 | 282,692 | 589,825 | 265,239 | 298,008 | — | 1,639,566 | 547,931 |
| Loans to cooperatives | — | 77,971 | 553,178 | — | — | — | 553,178 | 77,971 |
| Processing and marketing | 481,562 | 383,051 | 453,766 | 343,047 | 886,066 | 1,000 | 1,821,394 | 727,098 |
| Farm-related business | 45,819 | 3,127 | 15,000 | — | 5,000 | — | 65,819 | 3,127 |
| Communication | — | 117,239 | 474,208 | — | — | — | 474,208 | 117,239 |
| Power and water/waste disposal | — | 55,933 | 576,547 | — | — | — | 576,547 | 55,933 |
| International | — | 37,465 | 114,375 | — | — | — | 114,375 | 37,465 |
| Lease receivables | 2,572 | — | 345 | — | — | — | 2,917 | — |
| Other (including Mission Related) | 5,580 | — | — | — | — | — | 5,580 | — |
| Total | $ 2,215,688 | $ 1,202,536 | $ 3,233,886 | $ 1,858,781 | $ 1,189,074 | $ 1,000 | $ 6,638,648 | $ 3,062,317 |

| | December 31, 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Within AgFirst District | | Within Farm Credit System | | Outside Farm Credit System | | Total | |
| *(dollars in thousands)* | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold |
| Direct Notes | $ — | $ — | $ — | $ 1,044,500 | $ — | $ — | $ — | $ 1,044,500 |
| Real estate mortgage | 749,214 | 173,032 | 422,769 | 45,352 | — | — | 1,171,983 | 218,384 |
| Production and intermediate-term | 837,130 | 269,025 | 598,501 | 297,424 | 270,739 | — | 1,706,370 | 566,449 |
| Loans to cooperatives | — | 66,879 | 499,682 | — | — | — | 499,682 | 66,879 |
| Processing and marketing | 374,181 | 312,768 | 350,108 | 299,783 | 867,310 | — | 1,591,599 | 612,551 |
| Farm-related business | 46,458 | — | — | — | 5,000 | — | 51,458 | — |
| Communication | — | 119,032 | 415,116 | — | — | — | 415,116 | 119,032 |
| Power and water/waste disposal | — | 53,082 | 587,092 | — | — | — | 587,092 | 53,082 |
| Rural residential real estate | 145 | — | — | — | — | — | 145 | — |
| International | — | 34,127 | 105,375 | — | — | — | 105,375 | 34,127 |
| Lease receivables | — | — | 385 | — | — | — | 385 | — |
| Other (including Mission Related) | 8,076 | — | — | — | — | — | 8,076 | — |
| Total | $ 2,015,204 | $ 1,027,945 | $ 2,979,028 | $ 1,687,059 | $ 1,143,049 | $ — | $ 6,137,281 | $ 2,715,004 |

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 writedown 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 |
|---|---|---|---|
| **Direct Notes:** | | | |
| Acceptable | 92.09 % | 91.96 % | 91.33 % |
| OAEM | 7.91 | 8.04 | 8.67 |
| Substandard/doubtful/loss | — | — | — |
| | 100.00 % | 100.00 % | 100.00 % |
| **Real estate mortgage:** | | | |
| Acceptable | 97.58 % | 95.57 % | 97.34 % |
| OAEM | 1.20 | 3.59 | 2.04 |
| Substandard/doubtful/loss | 1.22 | 0.84 | 0.62 |
| | 100.00 % | 100.00 % | 100.00 % |
| **Production and intermediate-term:** | | | |
| Acceptable | 94.17 % | 96.37 % | 97.81 % |
| OAEM | 4.67 | 2.33 | 1.61 |
| Substandard/doubtful/loss | 1.16 | 1.30 | 0.58 |
| | 100.00 % | 100.00 % | 100.00 % |
| **Loans to cooperatives:** | | | |
| Acceptable | 96.15 % | 98.66 % | 98.31 % |
| OAEM | 3.85 | — | — |
| Substandard/doubtful/loss | — | 1.34 | 1.69 |
| | 100.00 % | 100.00 % | 100.00 % |
| **Processing and marketing:** | | | |
| Acceptable | 97.96 % | 98.56 % | 100.00 % |
| OAEM | 2.04 | 1.44 | — |
| Substandard/doubtful/loss | — | — | — |
| | 100.00 % | 100.00 % | 100.00 % |
| **Farm-related business:** | | | |
| Acceptable | 100.00 % | 100.00 % | 100.00 % |
| OAEM | — | — | — |
| Substandard/doubtful/loss | — | — | — |
| | 100.00 % | 100.00 % | 100.00 % |
| **Communication:** | | | |
| Acceptable | 100.00 % | 100.00 % | 96.18 % |
| OAEM | — | — | 3.82 |
| Substandard/doubtful/loss | — | — | — |
| | 100.00 % | 100.00 % | 100.00 % |

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| **Power and water/waste disposal:** | | | |
| Acceptable | 100.00 % | 91.17 % | 100.00 % |
| OAEM | — | 5.72 | — |
| Substandard/doubtful/loss | — | 3.11 | — |
| | 100.00 % | 100.00 % | 100.00 % |
| **Rural residential real estate:** | | | |
| Acceptable | 99.56 % | 99.66 % | 99.68 % |
| OAEM | — | — | — |
| Substandard/doubtful/loss | 0.44 | 0.34 | 0.32 |
| | 100.00 % | 100.00 % | 100.00 % |
| **International:** | | | |
| Acceptable | 100.00 % | 100.00 % | 100.00 % |
| OAEM | — | — | — |
| Substandard/doubtful/loss | — | — | — |
| | 100.00 % | 100.00 % | 100.00 % |
| **Lease receivables:** | | | |
| Acceptable | 100.00 % | 100.00 % | 100.00 % |
| OAEM | — | — | — |
| Substandard/doubtful/loss | — | — | — |
| | 100.00 % | 100.00 % | 100.00 % |
| **Loans to OFIs:** | | | |
| Acceptable | 100.00 % | 100.00 % | 100.00 % |
| OAEM | — | — | — |
| Substandard/doubtful/loss | — | — | — |
| | 100.00 % | 100.00 % | 100.00 % |
| **Other (including Mission Related):** | | | |
| Acceptable | 100.00 % | 100.00 % | 100.00 % |
| OAEM | — | — | — |
| Substandard/doubtful/loss | — | — | — |
| | 100.00 % | 100.00 % | 100.00 % |
| **Total Loans:** | | | |
| Acceptable | 94.00 % | 93.93 % | 93.80 % |
| OAEM | 5.85 | 5.84 | 6.07 |
| Substandard/doubtful/loss | 0.15 | 0.23 | 0.13 |
| | 100.00 % | 100.00 % | 100.00 % |

The following tables provide an aging analysis of the recorded investment in past due loans as of:

| | December 31, 2020 | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | **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** |
| Direct Notes | $ — | $ — | $ — | $ 17,982,813 | $ 17,982,813 |
| Real estate mortgage | 205 | 1,939 | 2,144 | 1,120,679 | 1,122,823 |
| Production and intermediate-term | 5,459 | — | 5,459 | 1,161,619 | 1,167,078 |
| Loans to cooperatives | — | — | — | 562,094 | 562,094 |
| Processing and marketing | 208 | — | 208 | 1,232,500 | 1,232,708 |
| Farm-related business | 112 | — | 112 | 46,705 | 46,817 |
| Communication | — | — | — | 462,394 | 462,394 |
| Power and water/waste disposal | — | — | — | 570,922 | 570,922 |
| Rural residential real estate | 48,459 | 10,606 | 59,065 | 2,848,659 | 2,907,724 |
| International | — | — | — | 85,328 | 85,328 |
| Lease receivables | — | — | — | 2,281 | 2,281 |
| Loans to OFIs | — | — | — | 137,379 | 137,379 |
| Other (including Mission Related) | — | — | — | 5,428 | 5,428 |
| Total | $ 54,443 | $ 12,545 | $ 66,988 | $ 26,218,801 | $ 26,285,789 |

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | **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** |
| Direct Notes | $ — | $ — | $ — | $ 16,876,144 | $ 16,876,144 |
| Real estate mortgage | 1,752 | 480 | 2,232 | 1,141,420 | 1,143,652 |
| Production and intermediate-term | 8,511 | — | 8,511 | 1,085,457 | 1,093,968 |
| Loans to cooperatives | — | — | — | 474,352 | 474,352 |
| Processing and marketing | — | — | — | 1,095,537 | 1,095,537 |
| Farm-related business | — | — | — | 62,810 | 62,810 |
| Communication | — | — | — | 356,779 | 356,779 |
| Power and water/waste disposal | — | — | — | 521,278 | 521,278 |
| Rural residential real estate | 44,981 | 6,072 | 51,053 | 3,281,945 | 3,332,998 |
| International | — | — | — | 77,274 | 77,274 |
| Lease receivables | — | — | — | 2,925 | 2,925 |
| Loans to OFIs | — | — | — | 142,754 | 142,754 |
| Other (including Mission Related) | 293 | — | 293 | 5,323 | 5,616 |
| Total | $ 55,537 | $ 6,552 | $ 62,089 | $ 25,123,998 | $ 25,186,087 |

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | **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** |
| Direct Notes | $ — | $ — | $ — | $ 16,459,760 | $ 16,459,760 |
| Real estate mortgage | 1,419 | 790 | 2,209 | 1,112,905 | 1,115,114 |
| Production and intermediate-term | 3 | 363 | 366 | 1,142,038 | 1,142,404 |
| Loans to cooperatives | — | — | — | 442,294 | 442,294 |
| Processing and marketing | — | — | — | 980,507 | 980,507 |
| Farm-related business | — | — | — | 51,538 | 51,538 |
| Communication | — | — | — | 295,908 | 295,908 |
| Power and water/waste disposal | — | — | — | 534,774 | 534,774 |
| Rural residential real estate | 39,508 | 7,136 | 46,644 | 3,065,415 | 3,112,059 |
| International | — | — | — | 71,650 | 71,650 |
| Lease receivables | — | — | — | 387 | 387 |
| Loans to OFIs | — | — | — | 134,721 | 134,721 |
| Other (including Mission Related) | — | — | — | 8,127 | 8,127 |
| Total | $ 40,930 | $ 8,289 | $ 49,219 | $ 24,300,024 | $ 24,349,243 |

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

| | December 31, | | |
|---|---|---|---|
| *(dollars in thousands)* | **2020** | **2019** | **2018** |
| **Nonaccrual loans:** | | | |
| Real estate mortgage | $ 3,169 | $ 1,123 | $ 1,460 |
| Production and intermediate-term | 6,960 | — | 453 |
| Loans to cooperatives | — | 6,352 | 7,492 |
| Rural residential real estate | 16,124 | 16,019 | 15,338 |
| Total | $ 26,253 | $ 23,494 | $ 24,743 |
| **Accruing restructured loans:** | | | |
| Real estate mortgage | $ 418 | $ 440 | $ 750 |
| Production and intermediate-term | 1,385 | 8,391 | 8,011 |
| Rural residential real estate | 2,990 | 2,852 | 2,929 |
| Other (including Mission Related) | 3,829 | 3,956 | 4,092 |
| Total | $ 8,622 | $ 15,639 | $ 15,782 |
| **Accruing loans 90 days or more past due:** | | | |
| Real estate mortgage | $ 596 | $ — | $ — |
| Rural residential real estate | 534 | — | 145 |
| Total | $ 1,130 | $ — | $ 145 |
| Total nonperforming loans | $ 36,005 | $ 39,133 | $ 40,670 |
| Other property owned | — | 3,041 | 2,842 |
| Total nonperforming assets | $ 36,005 | $ 42,174 | $ 43,512 |
| Nonaccrual loans as a percentage of total loans | 0.10 % | 0.09 % | 0.10 % |
| Nonperforming assets as a percentage of total loans and other property owned | 0.14 % | 0.17 % | 0.18 % |
| Nonperforming assets as a percentage of capital | 1.45 % | 1.81 % | 1.96 % |

The following table presents information relating to impaired loans (including accrued interest) as defined in Note 2, *Summary of Significant Accounting Policies*. 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.

| | December 31, | | |
|---|---|---|---|
| *(dollars in thousands)* | **2020** | **2019** | **2018** |
| **Impaired nonaccrual loans:** | | | |
| Current as to principal and interest | $ 11,971 | $ 12,090 | $ 11,727 |
| Past due | 14,282 | 11,404 | 13,016 |
| Total impaired nonaccrual loans | $ 26,253 | $ 23,494 | $ 24,743 |
| **Impaired accrual loans:** | | | |
| Restructured | $ 8,622 | $ 15,639 | $ 15,782 |
| 90 days or more past due | 1,130 | — | 145 |
| Total impaired accrual loans | $ 9,752 | $ 15,639 | $ 15,927 |
| Total impaired loans | $ 36,005 | $ 39,133 | $ 40,670 |
| Additional commitments to lend | $ 1,889 | $ 2,109 | $ 1,687 |

Additional impaired loan information at period end is summarized as follows:

| *(dollars in thousands)* | December 31, 2020 | | | Year Ended December 31, 2020 | |
|---|---|---|---|---|---|
| **Impaired Loans** | **Recorded Investment** | **Unpaid Principal Balance** | **Related Allowance** | **Average Impaired Loans** | **Interest Income Recognized on Impaired Loans** |
| **With a related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 103 | 103 | $ 1 | $ 105 | $ — |
| Production and intermediate-term | — | — | — | — | — |
| Loans to cooperatives | — | — | — | 4,654 | 1,247 |
| Rural residential real estate | 9,420 | 9,268 | 338 | 5,680 | — |
| Other (including Mission Related) | 3,829 | 3,824 | 92 | 3,887 | 241 |
| Total | $ 13,352 | $ 13,195 | $ 431 | $ 14,326 | $ 1,488 |
| **With no related allowance for credit losses:** | | | | | |
| Real estate mortgage | 4,080 | 4,084 | $ — | $ 3,094 | $ 80 |
| Production and intermediate-term | 8,345 | 8,988 | — | 9,418 | 1,814 |
| Loans to cooperatives | — | — | — | — | — |
| Rural residential real estate | 10,228 | 9,659 | — | 15,475 | 764 |
| Other (including Mission Related) | — | — | — | — | — |
| Total | $ 22,653 | $ 22,731 | $ — | $ 27,987 | $ 2,658 |
| **Total:** | | | | | |
| Real estate mortgage | $ 4,183 | $ 4,187 | $ 1 | $ 3,199 | $ 80 |
| Production and intermediate-term | 8,345 | 8,988 | — | 9,418 | 1,814 |
| Loans to cooperatives | — | — | — | 4,654 | 1,247 |
| Rural residential real estate | 19,648 | 18,927 | 338 | 21,155 | 764 |
| Other (including Mission Related) | 3,829 | 3,824 | 92 | 3,887 | 241 |
| Total | $ 36,005 | $ 35,926 | $ 431 | $ 42,313 | $ 4,146 |

| *(dollars in thousands)* | December 31, 2019 | | | Year Ended December 31, 2019 | |
|---|---|---|---|---|---|
| **Impaired Loans** | **Recorded Investment** | **Unpaid Principal Balance** | **Related Allowance** | **Average Impaired Loans** | **Interest Income Recognized on Impaired Loans** |
| **With a related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 106 | $ 105 | $ 14 | $ 105 | $ — |
| Production and intermediate-term | — | — | — | — | — |
| Loans to cooperatives | 6,352 | 7,433 | 1,053 | 6,984 | 5 |
| Processing and marketing | — | — | — | — | — |
| Rural residential real estate | 3,879 | 3,819 | 176 | 3,499 | — |
| Other (including Mission Related) | 3,956 | 3,958 | 92 | 4,028 | 249 |
| Total | $ 14,293 | $ 15,315 | $ 1,335 | $ 14,616 | $ 254 |
| **With no related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 1,457 | $ 1,452 | $ — | $ 1,731 | $ 216 |
| Production and intermediate-term | 8,391 | 16,204 | — | 8,628 | 980 |
| Loans to cooperatives | — | — | — | — | — |
| Processing and marketing | — | — | — | 48 | — |
| Rural residential real estate | 14,992 | 14,820 | — | 14,552 | 784 |
| Other (including Mission Related) | — | — | — | — | — |
| Total | $ 24,840 | $ 32,476 | $ — | $ 24,959 | $ 1,980 |
| **Total:** | | | | | |
| Real estate mortgage | $ 1,563 | $ 1,557 | $ 14 | $ 1,836 | $ 216 |
| Production and intermediate-term | 8,391 | 16,204 | — | 8,628 | 980 |
| Loans to cooperatives | 6,352 | 7,433 | 1,053 | 6,984 | 5 |
| Processing and marketing | — | — | — | 48 | — |
| Rural residential real estate | 18,871 | 18,639 | 176 | 18,051 | 784 |
| Other (including Mission Related) | 3,956 | 3,958 | 92 | 4,028 | 249 |
| Total | $ 39,133 | $ 47,791 | $ 1,335 | $ 39,575 | $ 2,234 |

| *(dollars in thousands)* | December 31, 2018 | | | Year Ended December 31, 2018 | |
|---|---|---|---|---|---|
| **Impaired Loans** | **Recorded Investment** | **Unpaid Principal Balance** | **Related Allowance** | **Average Impaired Loans** | **Interest Income Recognized on Impaired Loans** |
| **With a related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ — | $ — | $ — | $ 8 | $ — |
| Production and intermediate-term | — | — | — | 42 | — |
| Loans to cooperatives | 7,492 | 7,995 | 3,951 | 7,684 | 46 |
| Rural residential real estate | 3,923 | 3,864 | 718 | 1,991 | — |
| Other (including Mission Related) | 4,092 | 4,083 | 135 | 4,192 | 259 |
| Total | $ 15,507 | $ 15,942 | $ 4,804 | $ 13,917 | $ 305 |
| **With no related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 2,210 | $ 2,424 | $ — | $ 6,259 | $ 2,627 |
| Production and intermediate-term | 8,464 | 16,988 | — | 8,175 | 781 |
| Loans to cooperatives | — | — | — | — | — |
| Rural residential real estate | 14,489 | 13,835 | — | 13,250 | 677 |
| Other (including Mission Related) | — | — | — | — | — |
| Total | $ 25,163 | $ 33,247 | $ — | $ 27,684 | $ 4,085 |
| **Total:** | | | | | |
| Real estate mortgage | $ 2,210 | $ 2,424 | $ — | $ 6,267 | $ 2,627 |
| Production and intermediate-term | 8,464 | 16,988 | — | 8,217 | 781 |
| Loans to cooperatives | 7,492 | 7,995 | 3,951 | 7,684 | 46 |
| Rural residential real estate | 18,412 | 17,699 | 718 | 15,241 | 677 |
| Other (including Mission Related) | 4,092 | 4,083 | 135 | 4,192 | 259 |
| Total | $ 40,670 | $ 49,189 | $ 4,804 | $ 41,601 | $ 4,390 |

Unpaid principal balance represents the contractual principal balance of the loan.

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

| *(dollars in thousands)* | Direct Notes | Real Estate Mortgage | Production and Intermediate-term | Agribusiness* | Communication | Power and Water/ Waste Disposal | Rural Residential Real Estate | International | Other** | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Activity related to the allowance from credit losses:** | | | | | | | | | | |
| Balance at December 31, 2019 | $ — | $ 1,667 | $ 3,448 | $ 5,112 | $ 771 | $ 1,438 | $ 5,046 | $ 137 | $ 413 | $ 18,032 |
| Charge-offs | — | — | — | — | — | — | (104) | — | — | (104) |
| Recoveries | — | — | 6,549 | — | — | — | — | — | — | 6,549 |
| Provision for loan losses | — | (116) | (6,708) | (559) | 152 | (414) | 1,452 | (7) | (20) | (6,220) |
| Balance at December 31, 2020 | $ — | $ 1,551 | $ 3,289 | $ 4,553 | $ 923 | $ 1,024 | $ 6,394 | $ 130 | $ 393 | $ 18,257 |
| Balance at December 31, 2018 | $ — | $ 1,518 | $ 2,614 | $ 6,959 | $ 784 | $ 794 | $ 4,808 | $ 134 | $ 438 | $ 18,049 |
| Charge-offs | — | — | — | — | — | — | (39) | — | — | (39) |
| Recoveries | — | — | 777 | — | — | — | 180 | — | — | 957 |
| Provision for loan losses | — | 149 | 57 | (1,847) | (13) | 644 | 97 | 3 | (25) | (935) |
| Balance at December 31, 2019 | $ — | $ 1,667 | $ 3,448 | $ 5,112 | $ 771 | $ 1,438 | $ 5,046 | $ 137 | $ 413 | $ 18,032 |
| Balance at December 31, 2017 | $ — | $ 1,635 | $ 3,040 | $ 3,633 | $ 744 | $ 1,128 | $ 3,908 | $ 28 | $ 265 | $ 14,381 |
| Charge-offs | — | — | (49) | — | — | — | (160) | — | — | (209) |
| Recoveries | — | — | 267 | 62 | — | — | 6 | — | — | 335 |
| Provision for loan losses | — | (117) | (644) | 3,264 | 40 | (334) | 1,054 | 106 | 173 | 3,542 |
| Balance at December 31, 2018 | $ — | $ 1,518 | $ 2,614 | $ 6,959 | $ 784 | $ 794 | $ 4,808 | $ 134 | $ 438 | $ 18,049 |
| **Allowance on loans evaluated for impairment:** | | | | | | | | | | |
| Individually | $ — | $ 1 | $ — | $ — | $ — | $ — | $ 338 | $ — | $ 92 | $ 431 |
| Collectively | — | 1,550 | 3,289 | 4,553 | 923 | 1,024 | 6,056 | 130 | 301 | 17,826 |
| Balance at December 31, 2020 | $ — | $ 1,551 | $ 3,289 | $ 4,553 | $ 923 | $ 1,024 | $ 6,394 | $ 130 | $ 393 | $ 18,257 |
| Individually | $ — | $ 14 | $ — | $ 1,053 | $ — | $ — | $ 176 | $ — | $ 92 | $ 1,335 |
| Collectively | — | 1,653 | 3,448 | 4,059 | 771 | 1,438 | 4,870 | 137 | 321 | 16,697 |
| Balance at December 31, 2019 | $ — | $ 1,667 | $ 3,448 | $ 5,112 | $ 771 | $ 1,438 | $ 5,046 | $ 137 | $ 413 | $ 18,032 |
| Individually | $ — | $ — | $ — | $ 3,951 | $ — | $ — | $ 718 | $ — | $ 135 | $ 4,804 |
| Collectively | — | 1,518 | 2,614 | 3,008 | 784 | 794 | 4,090 | 134 | 303 | 13,245 |
| Balance at December 31, 2018 | $ — | $ 1,518 | $ 2,614 | $ 6,959 | $ 784 | $ 794 | $ 4,808 | $ 134 | $ 438 | $ 18,049 |
| **Recorded investment in loans evaluated for impairment:** | | | | | | | | | | |
| Individually | $ 17,982,813 | $ 148,634 | $ 8,345 | $ — | $ — | $ — | $ 814,606 | $ — | $ 3,829 | $ 18,958,227 |
| Collectively | — | 974,189 | 1,158,733 | 1,841,619 | 462,394 | 570,922 | 2,093,118 | 85,328 | 141,259 | 7,327,562 |
| Balance at December 31, 2020 | $ 17,982,813 | $ 1,122,823 | $ 1,167,078 | $ 1,841,619 | $ 462,394 | $ 570,922 | $ 2,907,724 | $ 85,328 | $ 145,088 | $ 26,285,789 |
| Individually | $ 16,876,144 | $ 158,497 | $ 8,371 | $ 6,352 | $ — | $ — | $ 1,039,294 | $ — | $ 3,956 | $ 18,092,614 |
| Collectively | — | 985,155 | 1,085,597 | 1,626,347 | 356,779 | 521,278 | 2,293,704 | 77,274 | 147,339 | 7,093,473 |
| Balance at December 31, 2019 | $ 16,876,144 | $ 1,143,652 | $ 1,093,968 | $ 1,632,699 | $ 356,779 | $ 521,278 | $ 3,332,998 | $ 77,274 | $ 151,295 | $ 25,186,087 |
| Individually | $ 16,459,760 | $ 156,824 | $ 8,464 | $ 7,494 | $ — | $ — | $ 1,287,215 | $ — | $ 4,092 | $ 17,923,849 |
| Collectively | — | 958,290 | 1,133,940 | 1,466,845 | 295,908 | 534,774 | 1,824,844 | 71,650 | 139,143 | 6,425,394 |
| Balance at December 31, 2018 | $ 16,459,760 | $ 1,115,114 | $ 1,142,404 | $ 1,474,339 | $ 295,908 | $ 534,774 | $ 3,112,059 | $ 71,650 | $ 143,235 | $ 24,349,243 |

**Includes the loan types: Loans to cooperatives, Processing and marketing, and Farm-related business.*
***Includes Loans to OFIs, Lease receivables, and Other loans (including Mission Related).*

To mitigate risk of loan losses, the Bank and Associations may enter into guarantee arrangements with certain government-sponsored enterprises (GSEs), including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Bank or the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was $2.869 billion, $2.877 billion, and $3.042 billion at December 31, 2020, 2019, and 2018, respectively. Fees paid for such guarantee commitments totaled $4.1 million, $4.5 million, and $5.0 million for 2020, 2019, and 2018, respectively. These amounts are classified as noninterest expense.

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

| *(dollars in thousands)* | Year Ended December 31, 2020 | | | | |
|---|---|---|---|---|---|
| **Outstanding Recorded Investment** | **Interest Concessions** | **Principal Concessions** | **Other Concessions** | **Total** | **Charge-offs** |
| **Pre-modification:** | | | | | |
| Real estate mortgage | $ 685 | $ 59 | $ — | $ 744 | |
| Production and intermediate term | — | 13 | — | 13 | |
| Rural residential real estate | 744 | 85 | — | 829 | |
| Total | $ 1,429 | $ 157 | $ — | $ 1,586 | |
| **Post-modification:** | | | | | |
| Real estate mortgage | $ 685 | $ 59 | $ — | $ 744 | $ — |
| Production and intermediate term | — | 13 | — | 13 | — |
| Rural residential real estate | 766 | 87 | — | 853 | — |
| Total | $ 1,451 | $ 159 | $ — | $ 1,610 | $ — |

| *(dollars in thousands)* | Year Ended December 31, 2019 | | | | |
|---|---|---|---|---|---|
| **Outstanding Recorded Investment** | **Interest Concessions** | **Principal Concessions** | **Other Concessions** | **Total** | **Charge-offs** |
| **Pre-modification:** | | | | | |
| Production and intermediate-term | $ — | $ 781 | $ — | $ 781 | |
| Loans to cooperatives | — | 9,364 | — | 9,364 | |
| Rural residential real estate | 1,273 | 186 | — | 1,459 | |
| Total | $ 1,273 | $ 10,331 | $ — | $ 11,604 | |
| **Post-modification:** | | | | | |
| Production and intermediate-term | $ — | $ 781 | $ — | $ 781 | $ — |
| Loans to cooperatives | — | 9,240 | — | 9,240 | — |
| Rural residential real estate | 1,347 | 189 | — | 1,536 | — |
| Total | $ 1,347 | $ 10,210 | $ — | $ 11,557 | $ — |

| *(dollars in thousands)* | Year Ended December 31, 2018 | | | | |
|---|---|---|---|---|---|
| **Outstanding Recorded Investment** | **Interest Concessions** | **Principal Concessions** | **Other Concessions** | **Total** | **Charge-offs** |
| **Pre-modification:** | | | | | |
| Real estate mortgage | $ 69 | $ 5,953 | $ — | $ 6,022 | |
| Production and intermediate-term | — | 169 | — | 169 | |
| Loans to cooperatives | — | 12,663 | — | 12,663 | |
| Rural residential real estate | 232 | 1,086 | — | 1,318 | |
| Other (including Mission Related) | — | 34 | — | 34 | |
| Total | $ 301 | $ 19,905 | $ — | $ 20,206 | |
| **Post-modification:** | | | | | |
| Real estate mortgage | $ 69 | $ 5,836 | $ — | $ 5,905 | $ — |
| Production and intermediate-term | — | 95 | — | 95 | (49) |
| Loans to cooperatives | — | 12,593 | — | 12,593 | — |
| Rural residential real estate | 240 | 1,115 | — | 1,355 | — |
| Other (including Mission Related) | — | 34 | — | 34 | — |
| Total | $ 309 | $ 19,673 | $ — | $ 19,982 | $ (49) |

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

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

| | December 31, | | |
|---|---|---|---|
| *(dollars in thousands)* | 2020 | 2019 | 2018 |
| **Defaulted troubled debt restructurings:** | | | |
| Real estate mortgage | $ — | $ — | $ 66 |
| Rural residential real estate | 174 | 1,405 | 764 |
| Total | $ 174 | $ 1,405 | $ 830 |

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

| | Total TDRs | | | Nonaccrual TDRs | | |
|---|---|---|---|---|---|---|
| | December 31, | | | December 31, | | |
| *(dollars in thousands)* | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 |
| Real estate mortgage | $ 1,344 | $ 643 | $ 914 | $ 926 | $ 203 | $ 164 |
| Production and intermediate-term | 1,444 | 8,437 | 8,601 | 59 | 46 | 590 |
| Loans to cooperatives | — | 5,817 | 6,951 | — | 5,817 | 6,951 |
| Rural residential real estate | 5,801 | 5,526 | 4,795 | 2,811 | 2,674 | 1,866 |
| Other (including Mission Related) | 3,829 | 3,956 | 4,092 | — | — | — |
| Total | $ 12,418 | $ 24,379 | $ 25,353 | $ 3,796 | $ 8,740 | $ 9,571 |
| Additional commitments to lend | $ — | $ 2,109 | $ 1,687 | | | |

## Note 4 — Investments

***Equity Investments in Other Farm Credit System 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.

***Investments in Debt Securities***
The Bank's investments in debt securities consist primarily of mortgage-backed securities (MBSs) collateralized by U.S. government or U.S. agency guaranteed residential and commercial mortgages. Also included are asset-backed securities (ABSs) which are issued through the Small Business Administration and are guaranteed by the full faith and credit of the U.S. government. They are held to maintain a liquidity reserve, manage short-term surplus funds, and manage interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

Non-agency ABSs are included in AFS investments. These securities must meet the applicable FCA regulatory guidelines, which require them to be high quality, senior class, and rated in the top category (AAA/Aaa) by Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. To achieve these ratings, the securities may have a guarantee of timely payment of principal and interest, credit enhancements achieved through over-collateralization or other means, priority of payments for senior classes over junior classes, or bond insurance. All of the non-agency securities owned have one or more credit enhancement features.

HTM investments in debt securities consist primarily of Mission Related Investments acquired primarily under the Rural America Bond (RAB) pilot programs. RABs are private placement securities which generally have some form of credit enhancement.

An agreement with a commercial bank requires AgFirst to maintain $50.0 million as a compensating balance. At December 31, 2020, the Bank held $42.8 million in U.S. Treasury securities for that purpose. The remainder of the compensating balance is held in cash in a demand deposit account. These securities are excluded when calculating the amount of eligible liquidity investments.

**Available-for-sale**

A summary of the amortized cost and fair value of debt securities held as available-for-sale investments at each period end follows:

| | December 31, 2020 | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Yield |
| U.S. Govt. Treasury Securities | $ 317,755 | $ 1,121 | $ (6) | $ 318,870 | 0.50 % |
| U.S. Govt. Guaranteed | 4,229,674 | 134,591 | (2,841) | 4,361,424 | 2.19 |
| U.S. Govt. Agency Guaranteed | 3,105,575 | 50,946 | (964) | 3,155,557 | 1.25 |
| Non-Agency ABSs | 641,817 | 7,699 | (17) | 649,499 | 1.30 |
| Total | $ 8,294,821 | $ 194,357 | $ (3,828) | $ 8,485,350 | 1.70 % |

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Yield |
| U.S. Govt. Treasury Securities | $ 143,260 | $ 581 | $ (2) | $ 143,839 | 2.04 % |
| U.S. Govt. Guaranteed | 4,495,273 | 60,110 | (15,996) | 4,539,387 | 2.60 |
| U.S. Govt. Agency Guaranteed | 2,465,080 | 16,581 | (11,146) | 2,470,515 | 2.32 |
| Non-Agency ABSs | 739,631 | 2,343 | (146) | 741,828 | 2.16 |
| Total | $ 7,843,244 | $ 79,615 | $ (27,290) | $ 7,895,569 | 2.46 % |

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Yield |
| U.S. Govt. Treasury Securities | $ 389,948 | $ 212 | $ (549) | $ 389,611 | 2.34 % |
| U.S. Govt. Guaranteed | 4,518,703 | 34,712 | (53,818) | 4,499,597 | 2.76 |
| U.S. Govt. Agency Guaranteed | 2,297,134 | 11,373 | (35,758) | 2,272,749 | 2.74 |
| Non-Agency ABSs | 782,839 | 136 | (5,736) | 777,239 | 2.15 |
| Total | $ 7,988,624 | $ 46,433 | $ (95,861) | $ 7,939,196 | 2.67 % |

**Held-to-maturity**

A summary of the amortized cost and fair value of debt securities held as held-to-maturity investments at each period end follows:

| | December 31, 2020 | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Yield |
| U.S. Govt. Agency Guaranteed | $ 1,121 | $ — | $ (22) | $ 1,099 | 5.67 % |
| RABs and Other | 28,957 | 5,179 | — | 34,136 | 5.99 |
| Total | $ 30,078 | $ 5,179 | $ (22) | $ 35,235 | 5.98 % |

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Yield |
| U.S. Govt. Agency Guaranteed | $ 1,239 | $ — | $ (26) | $ 1,213 | 3.41 % |
| RABs and Other | 36,027 | 3,620 | (18) | 39,629 | 6.07 |
| Total | $ 37,266 | $ 3,620 | $ (44) | $ 40,842 | 5.99 % |

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Yield |
| U.S. Govt. Agency Guaranteed | $ 1,679 | $ — | $ (36) | $ 1,643 | 1.99 % |
| RABs and Other | 40,373 | 2,999 | (121) | 43,251 | 6.06 |
| Total | $ 42,052 | $ 2,999 | $ (157) | $ 44,894 | 5.89 % |

A summary of the contractual maturity, estimated fair value, and amortized cost of investment securities at December 31, 2020, follows:

**Available-for-sale**

| | Due in 1 Year or Less | | Due After 1 Year Through 5 Years | | Due After 5 Years Through 10 Years | | Due After 10 Years | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| *(dollars in thousands)* | Amount | Weighted Average Yield | Amount | Weighted Average Yield | Amount | Weighted Average Yield | Amount | Weighted Average Yield | Amount | Weighted Average Yield |
| U.S. Govt. Treasury Securities | $ 303,869 | 0.52 % | $ 15,001 | 0.14 % | $ — | — % | $ — | — % | $ 318,870 | 0.50 % |
| U.S. Govt. Guaranteed | — | — | 39,389 | 0.50 | 331,670 | 2.30 | 3,990,365 | 2.19 | 4,361,424 | 2.19 |
| U.S. Govt. Agency Guaranteed | 24,241 | 0.62 | 241,247 | 1.18 | 659,869 | 0.86 | 2,230,200 | 1.39 | 3,155,557 | 1.25 |
| Non-Agency ABSs | — | — | 649,499 | 1.30 | — | — | — | — | 649,499 | 1.30 |
| Total fair value | $ 328,110 | 0.53 % | $ 945,136 | 1.21 % | $ 991,539 | 1.33 % | $ 6,220,565 | 1.90 % | $ 8,485,350 | 1.70 % |
| Total amortized cost | $ 327,048 | | $ 936,131 | | $ 968,529 | | $ 6,063,113 | | $ 8,294,821 | |

**Held-to-maturity**

| | Due in 1 Year or Less | | Due After 1 Year Through 5 Years | | Due After 5 Years Through 10 Years | | Due After 10 Years | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| *(dollars in thousands)* | Amount | Weighted Average Yield | Amount | Weighted Average Yield | Amount | Weighted Average Yield | Amount | Weighted Average Yield | Amount | Weighted Average Yield |
| U.S. Govt. Agency Guaranteed | $ — | — % | $ — | — % | $ — | — % | $ 1,121 | 5.67 % | $ 1,121 | 5.67 % |
| RABs and Other | 564 | 5.74 | 7,659 | 6.12 | — | — | 20,734 | 5.95 | 28,957 | 5.99 |
| Total amortized cost | $ 564 | 5.74 % | $ 7,659 | 6.12 % | $ — | — % | $ 21,855 | 5.94 % | $ 30,078 | 5.98 % |
| Total fair value | $ 570 | | $ 8,080 | | $ — | | $ 26,585 | | $ 35,235 | |

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

An investment is considered impaired if its fair value is less than its cost. This also applies to those securities other-than-temporarily impaired for which a credit loss has been recognized but noncredit-related losses continue to remain unrealized. The following tables show the fair value and gross unrealized losses for investments that have been in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

| | December 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months Or Greater | | Total | |
| *(dollars in thousands)* | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Govt. Treasury Securities | $ 49,955 | $ (6) | $ — | $ — | $ 49,955 | $ (6) |
| U.S. Govt. Guaranteed | 443,230 | (1,371) | 442,431 | (1,470) | 885,661 | (2,841) |
| U.S. Govt. Agency Guaranteed | 225,320 | (378) | 161,265 | (608) | 386,585 | (986) |
| Non-Agency ABSs | 17,589 | (17) | — | — | 17,589 | (17) |
| Total | $ 736,094 | $ (1,772) | $ 603,696 | $ (2,078) | $ 1,339,790 | $ (3,850) |

| | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months Or Greater | | Total | |
| *(dollars in thousands)* | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Govt. Treasury Securities | $ 14,972 | $ (2) | $ — | $ — | $ 14,972 | $ (2) |
| U.S. Govt. Guaranteed | 947,579 | (6,832) | 1,103,003 | (9,164) | 2,050,582 | (15,996) |
| U.S. Govt. Agency Guaranteed | 824,382 | (4,078) | 879,926 | (7,094) | 1,704,308 | (11,172) |
| Non-Agency ABSs | 78,037 | (108) | 99,098 | (38) | 177,135 | (146) |
| RABs and Other | — | — | 272 | (18) | 272 | (18) |
| Total | $ 1,864,970 | $ (11,020) | $ 2,082,299 | $ (16,314) | $ 3,947,269 | $ (27,334) |

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months Or Greater | | Total | |
| (dollars in thousands) | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Govt. Treasury Securities | $ 198,819 | $ (174) | $ 27,062 | $ (375) | $ 225,881 | $ (549) |
| U.S. Govt. Guaranteed | 550,215 | (3,386) | 2,092,608 | (50,432) | 2,642,823 | (53,818) |
| U.S. Govt. Agency Guaranteed | 421,629 | (2,095) | 1,230,414 | (33,699) | 1,652,043 | (35,794) |
| Non-Agency ABSs | 224,573 | (295) | 454,524 | (5,441) | 679,097 | (5,736) |
| RABs and Other | 171 | (52) | 2,638 | (69) | 2,809 | (121) |
| Total | $ 1,395,407 | $ (6,002) | $ 3,807,246 | $ (90,016) | $ 5,202,653 | $ (96,018) |

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

The Bank performs periodic credit reviews, including OTTI analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio.

The Bank has not recognized any credit losses for the periods presented as the impairments were deemed temporary and result from non-credit related factors. The Bank has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities. Substantially all of these investments were in U.S. government agency securities and the Bank expects these securities would not be settled at a price less than their amortized cost.

## Note 5 — Premises and Equipment

Premises and equipment consisted of the following:

| | December 31, | | |
|---|---|---|---|
| (dollars in thousands) | 2020 | 2019 | 2018 |
| Land | $ 12,217 | $ 12,217 | $ 12,169 |
| Buildings and improvements | 45,997 | 44,950 | 43,430 |
| Furniture and equipment | 52,769 | 48,089 | 50,107 |
| Work in progress | 6,995 | 787 | 207 |
| | 117,978 | 106,043 | 105,913 |
| Less: accumulated depreciation | 56,814 | 51,824 | 50,048 |
| Total | $ 61,164 | $ 54,219 | $ 55,865 |

## Note 6 — Debt

***Bonds and Notes***

AgFirst, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide Debt Securities issued jointly by the System Banks through the Funding Corporation. Certain conditions must be met before AgFirst can participate in the issuance of Systemwide Debt Securities. As one condition of participation, AgFirst is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets, at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable. This requirement does not provide holders of Systemwide Debt Securities with a security interest in any assets of the banks. The System Banks and the Funding Corporation have entered into the Third Amended and Restated Market Access Agreement (MAA), which establishes criteria and procedures for the banks to provide certain information and, under certain circumstances, for restricting or prohibiting an individual bank's participation in Systemwide debt issuances, thereby reducing other System Banks' exposure to statutory joint and several liabilities. At December 31, 2020, AgFirst was in compliance with the conditions of participation for the issuances of Systemwide Debt Securities.

In accordance with FCA regulations, each issuance of Systemwide Debt Securities ranks equally with other unsecured Systemwide Debt Securities. Systemwide Debt Securities are not issued under an indenture and no trustee is provided with respect to these securities. Systemwide Debt Securities are not subject to acceleration prior to maturity upon the occurrence of any default or similar event.

The following table provides a summary of AgFirst's recorded liability for outstanding Systemwide Debt Securities by maturity.

| | December 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Bonds | | Discount Notes | | Total | |
| Maturities | Cost | Weighted Average Interest Rate | Cost | Weighted Average Interest Rate | Cost | Weighted Average Interest Rate |
| | | | (dollars in thousands) | | | |
| 2021 | $ 7,776,956 | 0.33% | $ 7,662,337 | 0.22% | $ 15,439,293 | 0.28% |
| 2022 | 6,255,801 | 0.31% | — | — | 6,255,801 | 0.31% |
| 2023 | 3,173,044 | 0.45% | — | — | 3,173,044 | 0.45% |
| 2024 | 2,366,540 | 0.45% | — | — | 2,366,540 | 0.45% |
| 2025 | 1,563,332 | 0.68% | — | — | 1,563,332 | 0.68% |
| 2026 and after | 4,558,203 | 1.07% | — | — | 4,558,203 | 1.07% |
| Total | $ 25,693,876 | 0.50% | $ 7,662,337 | 0.22% | $ 33,356,213 | 0.44% |

Discount notes are issued with maturities of one year or less. The weighted average maturity of discount notes at period end was 118 days.

Systemwide debt includes callable bonds consisting of the following as of the most recent year-end:

| Amortized Cost | First Call Date | Year of Maturity |
|---|---|---|
| | (dollars in thousands) | |
| $ 14,426,924 | 2021 | 2021 – 2035 |
| 4,991 | 2022 | 2027 |
| $ 14,431,915 | Total | |

Most callable debt may be called on the first call date and any time thereafter.

As described in Note 1, *Organization and Operations*, the Insurance Fund is available to ensure the timely payment of principal and interest on Systemwide Debt Securities (Insured Debt) of System Banks to the extent net assets are available in the Insurance Fund and not designated for specific use.

**Note 7 — Shareholders' Equity**

Descriptions of the Bank's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below:

A. **Description of Equities:** In accordance with the Farm Credit Act and the Bank's capitalization bylaws (Bylaws), the Bank is authorized to issue and have outstanding Classes B, C, D, and E Common Stock, Participation Certificates, Preferred Stock, and other classes of equity as may be provided for in the Bylaws. All Common Stock and Participation Certificates have a par or face value of five dollars per share.

The Bank had the following shares of common equities outstanding at December 31, 2020:

| | | Shares Outstanding | |
|---|---|---|---|
| | | (dollars in thousands) | |
| Class | Protected Status | Number | Aggregate Par Value |
| B Common/Non-OFI | No | 1,197,066 | $ 5,985 |
| C Common/Voting | No | 54,214,907 | 271,074 |
| D Common/Nonvoting | No | 6,002,930 | 30,015 |
| E Common/Nonvoting | No | — | — |
| Participation Certificates/Nonvoting | No | 956,961 | 4,785 |
| Total Capital Stock and Participation Certificates | | 62,371,864 | $ 311,859 |

B. **Perpetual Preferred Stock:** On June 8, 2007, AgFirst issued $250.0 million of Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock, Series 1. Dividends on the stock are non-cumulative and are payable quarterly in arrears on the 15th day of March, June, September, and December in each year, at an annual rate equal to 3-Month U.S. dollar (USD) LIBOR plus 1.13 percent. In the event dividends are not declared on the Class B, Series 1 Preferred Stock for payment on any dividend payment date, then such dividends shall not accumulate and shall cease to accrue and be payable. The stock may be redeemed on June 15th on any five-year anniversary of its year of issuance at a price of $1 thousand per share plus accrued and unpaid dividends for the then current dividend period to the date of redemption. At December 31, 2020, $49.3 million in perpetual preferred stock remained outstanding.

Payment of dividends or redemption price on the Preferred Stock may be restricted if the Bank fails to satisfy applicable minimum capital adequacy, surplus, and collateral requirements.

C. **Capital Stock:** District Associations are required to maintain ownership in the Bank in the form of Class B or Class C Common Stock as determined by the Bank. Associations fund stock purchases through Direct Note advances. A stock equalization computation is made annually. The Bank may require additional capital contributions to maintain its capital levels. At December 31, 2020, 2019, and 2018, the Associations' minimum stock requirement was 1.26 percent, 1.40 percent, and 1.40 percent, respectively, of Association Direct Note balances based on a risk-adjusted asset formula. Effective December 31, 2020, the Bank modified its stock equalization methodology from a required investment of 7.00 percent of the average risk-adjusted Direct Note balance to a required investment equal to the percentage of the Association with the lowest investment percentage of its average risk-adjusted Direct Note balance as of the measurement date. OFIs continue to be required to capitalize their loans at 7.00 percent of their risk-adjusted loan balance through the purchase of participation certificates.

Additionally, the Bank has issued Class D Common Stock through patronage distributions in connection with participations purchased by the Bank from certain other System institutions selling loans to the Bank in accordance with the provisions of the Bank's capitalization plan. Class D Common Stock issued in connection with participations has no voting rights except to the extent that voting rights are granted to the Class D Common Stock pursuant to the Act, the FCA Regulations, or the Bylaws. Such stock may be retired at the discretion of the Board, and if retired, shall be retired at book value not to exceed its par value.

Effective April 2019, Class E Common Stock may be issued for any lawful purpose subject to a plan adopted by the Board. Class E Common Stock has no voting rights except to the extent voting rights are granted to the Class E Common Stock pursuant to the Act, the FCA regulations, or the Bylaws. Such stock may be retired at the discretion of the Board, and if retired, shall be retired at book value, not to exceed its par value.

D. **Other Equity:** OFIs make cash purchases of participation certificates and are required to capitalize their loans. At December 31, 2020, 2019, and 2018, the OFIs' minimum stock requirement was 3.50 percent of Direct Note balances.

E. **Order of Priority Upon Impairment or Liquidation:**

*Impairment*

Net losses, to the extent they exceed unallocated surplus, shall, except as otherwise provided in the Act, be treated as impairing stock in the following order:

First, Class B Common Stock, Class C Common Stock, Class D Common Stock, Class E Common Stock, and Participation Certificates, pro rata, in proportion to the number of shares or units of each such class of stock then issued and outstanding, until such stock is fully impaired; and

Second, Preferred Stock in proportion to the number of shares of each class and series thereof then issued and outstanding (applied, as among series that rank differently upon liquidation or dissolution of AgFirst, in reverse order of priority first to the most junior ranking series and then successively to each next most junior ranking series) and consistent with the terms of each such class or series until such stock is fully impaired; and

Third, subject to the Act, as amended, and the regulations thereunder, in such manner as shall be determined by the Board.

*Liquidation*

In the event of liquidation or dissolution of AgFirst, any assets of AgFirst remaining after payment or retirement of all liabilities shall be distributed in the following order or priority:

First, to the holders of Preferred Stock, in proportion to the number of shares of each class and series thereof then issued and outstanding and consistent with the terms of each such series until an amount equal to the liquidation preference provided for in the terms of such series of Preferred Stock has been distributed to such holders (applied, as among series that rank differently upon liquidation or dissolution of AgFirst, in order of priority first to the most senior ranking series and then successively to each next most senior ranking series); and

Second, to the holders of Class B Common Stock, Class C Common Stock, Class D Common Stock, Class E Common Stock, and Participation Certificates, pro rata, in proportion to the number of shares or units of each such class of stock then issued and outstanding, until an amount equal to the aggregate par or face value of all such shares or units has been distributed to such holders; and

Third, in accordance with the memorandum of accounting established in the Agreement and Plan of Consolidation between The Farm Credit Bank of Columbia and The Farm Credit Bank of Baltimore, dated as of October 31, 1994; and

Fourth, all remaining assets of AgFirst after such distributions shall be to the extent practicable distributed to all stockholders and holders of Participation Certificates on a patronage basis.

F. **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 Bank has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

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 regulatory capital risk-based ratios. The regulations also include a tier 1 leverage ratio which includes an unallocated retained earnings (URE) and URE equivalents (UREE) component. 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 regulatory 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 PCR is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The tier 1 leverage ratio is tier 1 capital, divided by average total assets less regulatory deductions to tier 1 capital.
- The URE and UREE component of the tier 1 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 | 4.50% | 2.50% | 7.00% | 18.99% | 18.90% | 21.20% |
| Tier 1 Capital | 6.00% | 2.50% | 8.50% | 19.36% | 19.29% | 21.64% |
| Total Regulatory Capital | 8.00% | 2.50% | 10.50% | 19.51% | 19.45% | 21.79% |
| Permanent Capital | 7.00% | 0.00% | 7.00% | 19.39% | 19.32% | 21.67% |
| Non-risk-adjusted ratios: | | | | | | |
| Tier 1 Leverage** | 4.00% | 1.00% | 5.00% | 7.09% | 7.10% | 7.53% |
| URE and UREE Leverage | 1.50% | 0.00% | 1.50% | 6.18% | 6.17% | 6.58% |

**Includes fully phased-in capital conservation buffers which became effective January 1, 2020. There was no phase-in period for the Tier 1 Leverage ratio.*
***The Tier 1 Leverage Ratio must include a minimum of 1.50% of URE and URE Equivalents.*

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.

G. **Accumulated Other Comprehensive Income:** The following presents activity related to AOCI for the periods presented.

| | Changes in Accumulated Other Comprehensive Income by Component *(a)* | | |
|---|---|---|---|
| | For the Year Ended December 31, | | |
| *(dollars in thousands)* | 2020 | 2019 | 2018 |
| **Investment Securities:** | | | |
| Balance at beginning of period | $ 52,324 | $ (49,429) | $ (20,026) |
| OCI before reclassifications | 145,420 | 101,753 | (29,390) |
| Amounts reclassified from AOCI | (7,215) | — | (13) |
| Net current period OCI | 138,205 | 101,753 | (29,403) |
| Balance at end of period | $ 190,529 | $ 52,324 | $ (49,429) |
| **Cash Flow Hedges:** | | | |
| Balance at beginning of period | $ 533 | $ 886 | $ 18 |
| OCI before reclassifications | — | — | 19 |
| Amounts reclassified from AOCI | (246) | (353) | 849 |
| Net current period OCI | (246) | (353) | 868 |
| Balance at end of period | $ 287 | $ 533 | $ 886 |
| **Employee Benefit Plans:** | | | |
| Balance at beginning of period | $ (4,374) | $ (3,109) | $ (4,748) |
| OCI before reclassifications | (1,170) | (1,593) | 1,138 |
| Amounts reclassified from AOCI | 590 | 328 | 501 |
| Net current period OCI | (580) | (1,265) | 1,639 |
| Balance at end of period | $ (4,954) | $ (4,374) | $ (3,109) |
| **Total AOCI:** | | | |
| Balance at beginning of period | $ 48,483 | $ (51,652) | $ (24,756) |
| OCI before reclassifications | 144,250 | 100,160 | (28,233) |
| Amounts reclassified from AOCI | (6,871) | (25) | 1,337 |
| Net current period OCI | 137,379 | 100,135 | (26,896) |
| Balance at end of period | $ 185,862 | $ 48,483 | $ (51,652) |

| | Reclassifications Out of Accumulated Other Comprehensive Income *(b)* | | | |
|---|---|---|---|---|
| | For the Year Ended December 31, | | | |
| *(dollars in thousands)* | 2020 | 2019 | 2018 | Income Statement Line Item |
| **Investment Securities:** | | | | |
| Sales gains & losses | $ 7,215 | $ — | $ 13 | Gains (losses) on investments, net |
| Holding gains & losses | — | — | — | Net other-than-temporary impairment |
| Net amounts reclassified | 7,215 | — | 13 | |
| **Cash Flow Hedges:** | | | | |
| Interest income | 246 | 353 | (868) | Interest income on investment securities |
| Gains (losses) on other transactions | — | — | 19 | Gains (losses) on other transactions |
| Net amounts reclassified | 246 | 353 | (849) | |
| **Employee Benefit Plans:** | | | | |
| Periodic pension costs | $ (590) | (328) | (501) | See Note 9, *Employee Benefit Plans* |
| Net amounts reclassified | (590) | (328) | (501) | |
| Reclassifications for the period | $ 6,871 | $ 25 | $ (1,337) | |

*(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. See Note 2, *Summary of Significant Accounting Policies*, Subsection K, *Valuation Methodologies*, for further information.

Estimating the fair value of equity investments in other Farm Credit institutions is not practicable because the stock is not traded. The net investment is carried at cost.

The classifications within the fair value hierarchy are as follows:

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

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

***Level 2***
The fair value of substantially all investment securities is determined from third-party valuation services that estimate current market prices. Inputs and assumptions related to third-party market valuation services are typically observable in the marketplace. Such services incorporate prepayment assumptions and underlying mortgage- or asset-backed collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. Third-party valuations also incorporate information regarding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. Such valuations represent an estimated exit price, or price to be received by a seller in active markets to sell the investment securities to a willing participant.

Level 2 assets include investments in U.S. government and agency mortgage-backed securities and U.S. agency debt securities, all of which use unadjusted values from third parties or internal pricing models. The underlying loans for these investment securities are residential mortgages or commercial loans.

Also included are non-agency ABSs, federal funds sold, securities purchased under resale agreements, and other highly-liquid funds, all of which are non-exchange-traded instruments. The market value of these federal funds sold and other instruments that are highly-liquid, readily convertible to cash, and short-term in nature is generally their face value, plus accrued interest.

The fair value of derivative financial instruments is the estimated amount to be received to sell a derivative asset or paid to transfer a derivative liability in active markets among willing participants at the reporting date. Estimated fair values are determined through internal valuation models which use an income approach. Interest rate derivative models incorporate benchmark interest rate curves, primarily the LIBOR swap and Overnight Index Swap (OIS) curves, potential volatilities of future interest rate movements, and other inputs which are observable directly or indirectly in the marketplace. The models used for other types of derivatives may take inputs such as market price changes, exchange rates, benchmark interest rates, and other inputs observable directly or indirectly in the marketplace. The Bank compares internally calculated derivative valuations to broker/dealer quotes to substantiate the results.

Collateral liabilities may also be considered Level 2. The majority of derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of credit exposure are reached. Face value approximates the fair value of collateral liabilities.

***Level 3***
Because no active market exists for the Bank's loans, fair value is estimated by discounting the expected future cash flows using interest rates at which similar loans would currently be made to borrowers with similar credit risk. For purposes of determining fair value of accruing loans, the 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.

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

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 primarily 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 Bank'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.

Systemwide Debt Securities are not all traded in the secondary market and those that are traded may not have readily available quoted market prices. Therefore, the fair value of the instruments is estimated by calculating the discounted value of the expected future cash flows. The discount rates used are based on the sum of quoted market yields for the Treasury yield curve and an estimated yield-spread relationship between Systemwide Debt Securities and Treasury securities. An appropriate yield-spread is estimated, taking into consideration selling group member (banks and securities dealers) yield indications, observed new GSE debt security pricing, and pricing levels in the related USD interest rate swap market.

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 | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | **Total Carrying Amount** | **Level 1** | **Level 2** | **Level 3** | **Total Fair Value** |
| **Recurring Measurements** | | | | | |
| **Assets:** | | | | | |
| Investments in debt securities available-for-sale: | | | | | |
| U.S. Govt. Treasury securities | $ 318,870 | $ — | $ 318,870 | $ — | $ 318,870 |
| U.S. Govt. guaranteed | 4,361,424 | — | 4,361,424 | — | 4,361,424 |
| U.S. Govt. agency guaranteed | 3,155,557 | — | 3,155,557 | — | 3,155,557 |
| Non-agency ABSs | 649,499 | — | 649,499 | — | 649,499 |
| Total investments in debt securities available-for-sale | 8,485,350 | — | 8,485,350 | — | 8,485,350 |
| Federal funds sold, securities purchased under resale agreements, and other | 520,000 | — | 520,000 | — | 520,000 |
| Mortgage servicing rights | 2,356 | — | — | 2,356 | 2,356 |
| Assets held in trust funds | 18,463 | 18,463 | — | — | 18,463 |
| Recurring Assets | $ 9,026,169 | $ 18,463 | $ 9,005,350 | $ 2,356 | $ 9,026,169 |
| **Liabilities:** | | | | | |
| Mortgage servicing rights | $ 64 | $ — | $ — | $ 64 | $ 64 |
| Recurring Liabilities | $ 64 | $ — | $ — | $ 64 | $ 64 |
| **Nonrecurring Measurements** | | | | | |
| **Assets:** | | | | | |
| Impaired loans | $ 12,921 | $ — | $ — | $ 12,921 | $ 12,921 |
| Other property owned | — | — | — | — | — |
| Nonrecurring Assets | $ 12,921 | $ — | $ — | $ 12,921 | $ 12,921 |
| **Other Financial Instruments** | | | | | |
| **Assets:** | | | | | |
| Cash | $ 693,685 | $ 693,685 | $ — | $ — | $ 693,685 |
| Investments in debt securities held to maturity | 30,078 | — | 1,099 | 34,136 | 35,235 |
| Loans | 26,193,811 | — | — | 26,505,373 | 26,505,373 |
| Other Financial Assets | $ 26,917,574 | $ 693,685 | $ 1,099 | $ 26,539,509 | $ 27,234,293 |
| **Liabilities:** | | | | | |
| Systemwide debt securities | $ 33,356,213 | $ — | $ — | $ 33,459,724 | $ 33,459,724 |
| Other Financial Liabilities | $ 33,356,213 | $ — | $ — | $ 33,459,724 | $ 33,459,724 |

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | Total Carrying Amount | Level 1 | Level 2 | Level 3 | Total Fair Value |
| **Recurring Measurements** | | | | | |
| **Assets:** | | | | | |
| Investments in debt securities available-for-sale: | | | | | |
| U.S. Govt. Treasury securities | $ 143,839 | $ — | $ 143,839 | $ — | $ 143,839 |
| U.S. Govt. guaranteed | 4,539,387 | — | 4,539,387 | — | 4,539,387 |
| U.S. Govt. agency guaranteed | 2,470,515 | — | 2,470,515 | — | 2,470,515 |
| Non-agency ABSs | 741,828 | — | 741,828 | — | 741,828 |
| Total investments in debt securities available-for-sale | 7,895,569 | — | 7,895,569 | — | 7,895,569 |
| Federal funds sold, securities purchased under resale agreements, and other | 650,000 | — | 650,000 | — | 650,000 |
| Mortgage servicing rights | 756 | — | — | 756 | 756 |
| Assets held in trust funds | 16,065 | 16,065 | — | — | 16,065 |
| Recurring Assets | $ 8,562,390 | $ 16,065 | $ 8,545,569 | $ 756 | $ 8,562,390 |
| **Liabilities:** | | | | | |
| Mortgage servicing rights | $ 70 | $ — | $ — | $ 70 | $ 70 |
| Recurring Liabilities | $ 70 | $ — | $ — | $ 70 | $ 70 |
| **Nonrecurring Measurements** | | | | | |
| **Assets:** | | | | | |
| Impaired loans | $ 12,958 | $ — | $ — | $ 12,958 | $ 12,958 |
| Other property owned | 3,041 | — | — | 3,671 | 3,671 |
| Nonrecurring Assets | $ 15,999 | $ — | $ — | $ 16,629 | $ 16,629 |
| **Other Financial Instruments** | | | | | |
| **Assets:** | | | | | |
| Cash | $ 444,559 | $ 444,559 | $ — | $ — | $ 444,559 |
| Investments in debt securities held to maturity | 37,266 | — | 1,213 | 39,629 | 40,842 |
| Loans | 25,080,669 | — | — | 25,130,187 | 25,130,187 |
| Other Financial Assets | $ 25,562,494 | $ 444,559 | $ 1,213 | $ 25,169,816 | $ 25,615,588 |
| **Liabilities:** | | | | | |
| Systemwide debt securities | $ 31,723,767 | $ — | $ — | $ 31,795,514 | $ 31,795,514 |
| Other Financial Liabilities | $ 31,723,767 | $ — | $ — | $ 31,795,514 | $ 31,795,514 |

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | Total Carrying Amount | Level 1 | Level 2 | Level 3 | Total Fair Value |
| **Recurring Measurements** | | | | | |
| **Assets:** | | | | | |
| Investments in debt securities available-for-sale: | | | | | |
| U.S. Govt. Treasury securities | $ 389,611 | $ — | $ 389,611 | $ — | $ 389,611 |
| U.S. Govt. guaranteed | 4,499,597 | — | 4,499,597 | — | 4,499,597 |
| U.S. Govt. agency guaranteed | 2,272,749 | — | 2,272,749 | — | 2,272,749 |
| Non-agency ABSs | 777,239 | — | 777,239 | — | 777,239 |
| Total investments in debt securities available-for-sale | 7,939,196 | — | 7,939,196 | — | 7,939,196 |
| Federal funds sold, securities purchased under resale agreements, and other | 100,000 | — | 100,000 | — | 100,000 |
| Mortgage servicing rights | 1,102 | — | — | 1,102 | 1,102 |
| Assets held in trust funds | 13,834 | 13,834 | — | — | 13,834 |
| Recurring Assets | $ 8,054,132 | $ 13,834 | $ 8,039,196 | $ 1,102 | $ 8,054,132 |
| **Liabilities:** | | | | | |
| Mortgage servicing rights | $ 69 | $ — | $ — | $ 69 | $ 69 |
| Recurring Liabilities | $ 69 | $ — | $ — | $ 69 | $ 69 |
| **Nonrecurring Measurements** | | | | | |
| **Assets:** | | | | | |
| Impaired loans | $ 10,703 | $ — | $ — | $ 10,703 | $ 10,703 |
| Other property owned | 2,842 | — | — | 3,555 | 3,555 |
| Nonrecurring Assets | $ 13,545 | $ — | $ — | $ 14,258 | $ 14,258 |
| **Other Financial Instruments** | | | | | |
| **Assets:** | | | | | |
| Cash | $ 421,485 | $ 421,485 | $ — | $ — | $ 421,485 |
| Investments in debt securities held to maturity | 42,052 | — | 1,643 | 43,251 | 44,894 |
| Loans | 24,247,129 | — | — | 23,931,485 | 23,931,485 |
| Other Financial Assets | $ 24,710,666 | $ 421,485 | $ 1,643 | $ 23,974,736 | $ 24,397,864 |
| **Liabilities:** | | | | | |
| Systemwide debt securities | $ 30,381,701 | $ — | $ — | $ 30,104,941 | $ 30,104,941 |
| Other Financial Liabilities | $ 30,381,701 | $ — | $ — | $ 30,104,941 | $ — |

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

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

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

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

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

***Inputs to Valuation Techniques***
Management determines the Bank's valuation policies and procedures. Internal valuation processes are calibrated annually by an independent consultant. Fair value measurements are analyzed on a periodic basis. Documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing.

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

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

| *(dollars in thousands)* | Fair Value | Valuation Technique(s) | Unobservable Input | Range |
|---|---|---|---|---|
| Impaired loans and other property owned | $ 12,921 | Appraisal | Income and expense | * |
| | | | Comparable sales | * |
| | | | Replacement cost | * |
| | | | Comparability adjustments | * |
| Mortgage servicing rights, net | $ 2,292 | Discounted cash flow | Constant prepayment rate | |
| | | | Fees and costs | |

**Information about Recurring and Nonrecurring Level 2 Fair Value Measurements**

| | Valuation Technique(s) | Input |
|---|---|---|
| Debt securities available-for-sale | Discounted cash flow | Constant prepayment rate |
| | | Probability of default |
| | | Loss severity |
| | Quoted prices | Price for similar security |
| | Vendor priced | ** |
| Federal funds sold, securities purchased under resale agreements and other | Carrying value | Par/principal and appropriate interest yield |

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

| | Valuation Technique(s) | Input |
|---|---|---|
| Loans | Discounted cash flow | Prepayment forecasts |
| | | Probability of default |
| | | Loss severity |
| Cash and cash equivalents | Carrying value | Par/principal and appropriate interest yield |
| Debt securities held-to-maturity | Discounted cash flow | Constant prepayment rate |
| | | Prepayment rates |
| | | Probability of default |
| | | Risk-adjusted spread |
| | | Loss severity |
| | Quoted prices | Price for similar security |
| | Vendor priced | ** |
| Systemwide debt securities | Discounted cash flow | Benchmark yield curve |
| | | Derived yield spread |
| | | Own credit risk |
| Cash collateral | Carrying value | Par/principal and appropriate interest yield |

**Ranges for this type of input are not useful because each collateral property is unique.*
***The inputs used to estimate fair value for assets and liabilities that are obtained from third-party vendors are not included in the table as the specific inputs applied are not provided by the vendor.*

**Note 9 — Employee Benefit Plans**

The Bank participates in three District-sponsored qualified benefit plans. First is a multiemployer defined benefit pension plan, the AgFirst Farm Credit Retirement Plan, which is a final average pay plan (FAP Plan). Second, the Bank participates in a multiemployer defined benefit other postretirement benefits plan (OPEB Plan), the FCBA Retiree and Disabled Medical and Dental Plan. Third is 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 Bank chooses to stop participating in some of its multiemployer plans, the Bank may be required to contribute to eliminate the underfunded status of the plan.

The District's multiemployer plans are not subject to ERISA and no Form 5500 is required to be filed. As such, the following information is neither available for nor applicable to the plans:

1. The Employer Identification Number (EIN) and three-digit Pension Plan Number.
2. The most recent Pension Protection Act (PPA) zone status. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80

percent funded, and plans in the green zone are at least 80 percent funded.
3. The "FIP/RP Status" indicating whether a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.
4. The expiration date(s) of collective-bargaining agreement(s).

The FAP Plan covers employees hired prior to January 1, 2003 and includes other District employees that are not employees of the Bank. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Bank'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 Bank's Statements of Comprehensive Income were $5.2 million for 2020, $4.3 million for 2019, and $5.8 million for 2018. At December 31, 2020, 2019, and 2018 the total liability balance for the FAP Plan was $114.4 million, $129.7 million, and $94.5 million, 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 Bank provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Bank employees may become eligible for the benefits if they reach early retirement age while working for the Bank. 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. In addition, substantially all District employees who retired on or before December 1, 2007, after reaching early retirement age are provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Bank or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Bank'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 Bank's Statements of Comprehensive Income were $944 thousand for 2020, $991 thousand for 2019, and $988 thousand for 2018. The total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition was $220.0 million, $209.5 million, and $181.8 million at December 31, 2020, 2019, and 2018, respectively.

The Bank 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 Bank 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 Bank 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. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2002. 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 employee benefit costs were $3.7 million, $3.3 million, and $3.0 million, for the years ended December 31, 2020, 2019, and 2018, respectively.

In addition to the multiemployer plans above, the Bank sponsors a single employer defined benefit supplemental retirement plan and offers a FCBA supplemental 401(k) plan for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the Bank's Balance Sheets in Other Liabilities. The supplemental retirement plan is unfunded and had a projected benefit obligation of $15.5 million and a net under-funded status of $15.5 million at December 31, 2020. Assumptions used to determine the projected benefit obligation as of that date included a discount rate of 2.60 percent and a rate of compensation increase of 4.00 percent. Expenses of these nonqualified plans included in noninterest expenses were $1.6 million, $1.4 million, and $1.4 million for 2020, 2019, and 2018, respectively.

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, $(580) thousand, $(1.3) million, and $1.6 million, 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 multiemployer plans may be found in the Notes to the Annual Information Statement of the Farm Credit System.

**Note 10 — Related Party Transactions**

In the ordinary course of business, the Bank enters into loan transactions with related parties which may include loans to officers and directors, their immediate families and other organizations with which such persons may be affiliated. There were no material loans outstanding with related parties for any of the periods presented.

As discussed in Note 1, *Organization and Operations*, the Bank lends funds to the District Associations primarily to fund their loan portfolios. Further disclosure regarding these related party transactions is found in Note 3, *Loans and Allowance for Loan Losses*; Note 7, *Shareholders' Equity*; and Note 11, *Commitments and Contingencies*.

Interest income recognized, net of participations sold, on Direct Notes receivable from District Associations and OFIs was $478.5 million, $555.8 million, and $503.3 million for 2020, 2019, and 2018, respectively.

**Note 11 — Commitments and Contingencies**

From time to time, legal actions are pending against the Bank in which claims for money damages are asserted. On at least a quarterly basis, the Bank 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 and legal counsel are of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Bank. Because it is remote that the Bank 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 Bank may participate in credit related financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers or the borrowers of the District Associations. These financial instruments may include commitments to extend credit, letters of credit, or various guarantees. 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 financial instruments have off-balance-sheet credit risk because their amounts could be drawn upon at the option of the borrower. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and the same credit policies are applied by management. 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 loan collateral 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 period end, $5.724 billion of commitments to extend credit were outstanding with a related reserve for unfunded commitments of $432 thousand included in Other Liabilities in the Balance Sheets. No reserve for unfunded commitments is established for commitments related to the Bank's Direct Note portfolio.

The Bank 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 period end, standby letters of credit outstanding totaled $64.2 million, with expiration dates ranging from January 2021 to November 2024. The maximum potential amount of future payments the Bank may be required to make under these existing guarantees is $64.2 million.

Under the Farm Credit Act, each System Bank is primarily liable for its portion of Systemwide bond and discount note obligations. Additionally, the four banks are jointly and severally liable for the bonds and notes of the other System Banks under the terms of the Joint and Several Liability Allocation Agreement. Published in the Federal Register, the agreement prescribes the payment mechanisms to be employed in the event one of the banks is unable to meet its debt obligations.

In the event a bank is unable to timely pay principal or interest on an insured debt obligation for which it is primarily liable, the FCSIC must expend amounts available in the Insurance Fund to ensure the timely payment of principal and interest on the insured debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the banks on the obligation cannot be invoked until the amounts in the Insurance Fund have been exhausted. At December 31, 2020, the assets of the Insurance Fund totaled $5.455 billion. However, because of other mandatory and discretionary uses of the Insurance Fund, there is no assurance that there will be sufficient funds to pay the principal or interest on the insured debt obligation.

Once the joint and several liability provisions are initiated, the FCA is required to make calls to satisfy the liability first on all non-defaulting banks in the proportion that each non-defaulting bank's available collateral (collateral in excess of the aggregate of the bank's collateralized obligations) bears to the aggregate available collateral of all non-defaulting banks. If these calls do not satisfy the liability, then a further call would be made in proportion to each non-defaulting bank's remaining assets. Upon making a call on non-defaulting banks with respect to a Systemwide Debt Security issued on behalf of a defaulting bank, the FCA is required to appoint the FCSIC as the receiver for the defaulting bank. The receiver would be required to expeditiously liquidate the bank.

AgFirst did not anticipate making any payments on behalf of its co-obligors under the Joint and Several Liability Allocation Agreement for any of the periods presented. The total amount outstanding and the carrying amount of the Bank's liability under the agreement are as follows:

| | December 31, | | |
|---|---|---|---|
| *(dollars in billions)* | **2020** | **2019** | **2018** |
| Total System bonds and notes | $ 322.655 | $ 293.538 | $281.459 |
| AgFirst bonds and notes | 33.356 | 31.724 | 30.382 |

**Note 12 — Income Taxes**

The Bank is exempt from federal and other income taxes as provided in the Farm Credit Act. There was no change in this status during the periods presented.

**Note 13 — Additional Financial Information**

***Quarterly Financial Information (Unaudited)***

| | 2020 | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | **First** | **Second** | **Third** | **Fourth** | **Total** |
| Net interest income | $ 113,649 | $ 139,723 | $ 161,372 | $ 166,603 | $ 581,347 |
| Provision for (reversal of allowance for) loan losses | 38 | 875 | (399) | (6,734) | (6,220) |
| Noninterest income (expense), net | (41,622) | (54,945) | (42,356) | (30,966) | (169,889) |
| Net income | $ 71,989 | $ 83,903 | $ 119,415 | $ 142,371 | $ 417,678 |

| | 2019 | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | **First** | **Second** | **Third** | **Fourth** | **Total** |
| Net interest income | $ 96,695 | $ 99,071 | $ 104,161 | $ 107,735 | $ 407,662 |
| Provision for (reversal of allowance for) loan losses | (91) | 444 | 1,130 | (2,418) | (935) |
| Noninterest income (expense), net | (29,397) | (35,454) | (41,737) | (30,328) | (136,916) |
| Net income | $ 67,389 | $ 63,173 | $ 61,294 | $ 79,825 | $ 271,681 |

| (dollars in thousands) | 2018 First | Second | Third | Fourth | Total |
|---|---|---|---|---|---|
| Net interest income | $ 102,605 | $ 100,716 | $ 104,742 | $ 102,104 | $ 410,167 |
| Provision for (reversal of allowance for) loan losses | 1,423 | (161) | 1,544 | 736 | 3,542 |
| Noninterest income (expense), net | (22,024) | (27,629) | (28,970) | (22,014) | (100,637) |
| Net income | $ 79,158 | $ 73,248 | $ 74,228 | $ 79,354 | $ 305,988 |

***Offsetting of Financial and Derivative Assets***

| (dollars in thousands) | December 31, 2020 | 2019 | 2018 |
|---|---|---|---|
| Reverse repurchase and similar arrangements | $ 520,000 | $ 650,000 | $ 100,000 |
| Gross Amount of Recognized Assets | 520,000 | 650,000 | 100,000 |
| Reverse repurchase and similar arrangements | — | — | — |
| Gross Amounts Offset in the Balance Sheets | — | — | — |
| **Net Amounts of Assets Presented in the Balance Sheets** | $ 520,000 | $ 650,000 | $ 100,000 |
| Financial Instruments | (520,000) | (650,000) | (100,000) |
| Cash Collateral Received | – | – | – |
| Gross Amounts Not Offset in the Balance Sheets | (520,000) | (650,000) | (100,000) |
| **Net Amount** | $ — | $ — | $ — |

There were no liabilities subject to master netting arrangements or similar agreements during the reporting periods.

The reverse repurchase agreements are accounted for as collateralized lending.

***Combined Districtwide Financial Statements***
The accompanying financial statements exclude financial information of the Bank's affiliated Associations. The Bank and its affiliated Associations are collectively referred to as the AgFirst District. The Bank separately publishes in a report certain unaudited combined financial information of the AgFirst District, including a statement of condition and statement of comprehensive income, which can be found on the Bank's website at ***www.agfirst.com***.

**Note 14 — Subsequent Events**

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

# Glossary of Certain Acronyms

| | |
|---|---|
| ABS | Asset backed security |
| ACA | Agricultural Credit Association |
| ACB | Agricultural Credit Bank |
| AFS | Available-for-sale |
| ALCO | Asset/Liability Management Committee |
| AOCI | Accumulated Other Comprehensive Income |
| ASU | Accounting Standards Update |
| CARES Act | Coronavirus Aid Relief and Economic Security Act |
| CECL | Current expected credit losses |
| CET1 | Common equity tier 1 |
| CFAP | Coronavirus Food Assistance Program |
| CIPA | Contractual Interbank Performance Agreement |
| CMO | Collateralized Mortgage Obligation |
| FAP | Final average pay |
| FASB | Financial Accounting Standards Board |
| FCA | Farm Credit Administration |
| FCB | Farm Credit Bank |
| FCBA | Farm Credit Benefits Alliance |
| FCBT | Farm Credit Bank of Texas |
| FCSIC | Farm Credit System Insurance Corporation |
| FFB | Federal Financing Bank |
| FLCA | Federal Land Credit Association |
| FSA | Farm Service Agency |
| GAAP | Generally Accepted Accounting Principles |
| GFA | General Financing Agreement |
| GNMA | Government National Mortgage Association (Ginnie Mae) |
| GSE | Government-sponsored enterprise |
| HTM | Held-to-maturity |
| LGD | Loss given default |
| LIBOR | London Inter-Bank Offered Rate |
| LLC | Limited liability company |
| LTSP | Long-term standby commitment to purchase |
| MAA | Market Access Agreement |
| MBS | Mortgage-backed security |
| NII | Net interest income |
| NRSRO | Nationally Recognized Statistical Rating Organization |
| OAEM | Other Assets Especially Mentioned |
| OCI | Other Comprehensive Income |
| OFI | Other financing institution |
| OPEB | Other postretirement benefits plan |
| OPO | Other property owned |
| OTTI | Other-than-temporary impairment |
| PCA | Production Credit Association |
| PD | Probability of default |
| PPP | Paycheck Protection Program |
| RAB | Rural America Bond |
| RHMS | Rural Housing Mortgage-Backed Securities |
| SBA | Small Business Administration |
| SEC | Securities and Exchange Commission |
| SOFR | Secured Overnight Financing Rate |
| SSFA | Simplified supervisory formula risk-based capital approach |
| TDR | Troubled debt restructuring |
| UBE | Unincorporated business entity |
| URE | Unallocated retained earnings |
| UREE | Unallocated retained earnings equivalents |
| USD | U.S. dollar |
| USDA | United States Department of Agriculture |
| YBS | Young, beginning, and small |

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