2020 ANNUAL REPORT

River Valley AgCredit

RIVER VALLEY AGCREDIT, ACA

2020 ANNUAL REPORT

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Kyle Yancey....................................Chief Executive Officer
Beth Barkley....................................Chief Financial Officer
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Jessica Johnson....................................Chief Human Resources Officer

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David L. Richesin....................................Chairman
Randall Heath....................................Vice Chairman
Darren Grogan....................................Director
Tiffany Myers....................................Outside Director
Dr. Buddy Ray....................................Outside Director
Andrew Falwell....................................Director
Annette Bryant....................................Director
Don Massengale....................................Director
Aaron Wilson....................................Director

Message from the President

Much like everywhere else, COVID-19 turned 2020 upside down for River Valley AgCredit (RVA). As March began, we made drastic changes to operations to avoid having an outbreak of the virus in an office. As you know, the pandemic hit right at the beginning of planting season. Our goal, which we accomplished, was to keep the flow of funds moving for you to be able to farm. Our staff performed perfectly and we even learned a thing or two about ourselves during the pandemic.

About the time the pandemic began, rates hit lows not seen since 2008. We purchased software that would allow our note modifications to be sent via email to the member. This helped our staff complete over 1600 note modifications for the membership this year. Additionally, the PPP program added to the overall success to RVA in 2020. As I write my 2020 summary, we remain under pandemic operations. I have no doubt, despite how bad the pandemic will be in 2021, RVA will be open for you and ready to lend money when you need it.

Year over year the Association's net volume grew to $554.2 million with total assets of $581.9 million. We had a great year for volume growth, due in large part to low interest rates driving real estate purchases. Our loan officers closed over $147 million in new volume, which was their highest annual performance ever.

Net earnings were $13.3 million, which was over budget by $5.2 million. We were pleased to receive another special patronage of $5.2 million from AgFirst in December. Total patronage in 2020 was $11.6 million. Our excellent 2020 net income will once again result in another generous patronage refund in 2021. Return on assets (ROA) at year end was 2.38% which was well above our minimum standard of 1.0% set in our general financing agreement with AgFirst. Year-end permanent capital finished at 18.15%, down some from 2019.

Credit quality declined some to 93.14% fully acceptable, a decrease from 94.03% a year ago. Adversely classified volume increased to 3.66% of our portfolio compared to 2.72% a year ago. We remain well positioned to handle the adversity in our portfolio as allowance for loan losses (ALL) continues to be strong. Currently 1.25% of total loans, or $6.9 million is set aside for any difficult environment that might develop. Allowance increased in 2020 due to the downgrade of the adversely classified volume already discussed.

As is standard for all financial institutions, RVA was audited several times in 2020. Our audit season runs throughout the entire summer. All audits were remote due to COVID-19, but they were all completed as their scopes specified. I am pleased to announce RVA passed all audits in 2020 and had no material deficiencies.

We were also able to give back this year in many ways. Our Coats for Kids program and Stuff the Tractor toy drive were again successful in 2020. COVID-19 attempted to slow the momentum these programs have gained, but our community came through and gave plenty of coats, masks and toys. RVA looks forward to continuing giving back to the community for decades to come.

Thank you for allowing me to serve as your CEO once again in 2020. As always, my door is open to all stockholders. Please stop by or call anytime. May God bless you and your operations in 2021.

/s/ Kyle M. Yancey
Chief Executive Officer
River Valley AgCredit, ACA

March 11, 2021

Report of Management

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

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

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

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

/s/ David L. Richesin
Chairman of the Board
of River Valley AgCredit, ACA

/s/ Tiffany Myers
Member of Board of Directors
Chairman of the Audit Committee
of River Valley AgCredit, ACA

/s/ Kyle M. Yancey
Chief Executive Officer
of River Valley AgCredit, ACA

/s/ Beth Barkley
Chief Financial Officer
of River Valley AgCredit, ACA

March 11, 2021

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2020. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of December 31, 2020, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2020. This annual report does not include an attestation report of the Association's external accounting firm regarding internal control over financial reporting.

/s/ Kyle M. Yancey
Chief Executive Officer
of River Valley AgCredit, ACA

/s/ Beth Barkley
Chief Financial Officer
of River Valley AgCredit, ACA

March 11, 2021

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	2020	2019	December 31, 2018	2017	2016
Balance Sheet Data					
Cash	**$ 396**	$ 853	$ 1,084	$ 644	$ 675
Investments in debt securities	**—**	—	—	—	8
Loans	**559,547**	531,362	540,945	522,313	496,247
Allowance for loan losses	**(6,993)**	(6,292)	(6,734)	(6,516)	(5,956)
Net loans	**552,554**	525,070	534,211	515,797	490,291
Equity investments in other Farm Credit institutions	**5,945**	6,487	6,175	5,953	6,671
Other property owned	**31**	313	356	33	569
Other assets	**23,030**	20,189	21,537	20,473	21,577
Total assets	**$ 581,956**	$ 552,912	$ 563,363	$ 542,900	$ 519,791
Notes payable to AgFirst Farm Credit Bank*	**$ 462,996**	$ 437,014	$ 451,508	$ 428,422	$ 411,707
Accrued interest payable and other liabilities with maturities of less than one year	**15,053**	19,114	13,826	18,935	16,409
Total liabilities	**478,049**	456,128	465,334	447,357	428,116
Capital stock and participation certificates	**4,726**	4,559	4,478	4,428	4,404
Additional paid-in-capital	**15,817**	15,817	15,817	15,817	15,817
Retained earnings					
Allocated	**46,708**	41,930	43,889	42,830	39,816
Unallocated	**36,656**	34,478	33,845	32,468	31,638
Total members' equity	**103,907**	96,784	98,029	95,543	91,675
Total liabilities and members' equity	**$ 581,956**	$ 552,912	$ 563,363	$ 542,900	$ 519,791
Statement of Income Data					
Net interest income	**$ 14,812**	$ 14,897	$ 14,100	$ 13,731	$ 12,919
Provision for (reversal of allowance for) loan losses	**670**	(539)	982	502	237
Noninterest income (expense), net	**(850)**	(3,292)	(2,469)	(1,933)	(4,839)
Net income	**$ 13,292**	$ 12,144	$ 10,649	$ 11,296	$ 7,843
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.38%**	2.25%	2.02%	2.25%	1.60%
Total members' equity	**13.32%**	12.01%	11.03%	12.01%	8.62%
Net interest income as a percentage of average earning assets	**2.72%**	2.85%	2.76%	2.84%	2.73%
Net (chargeoffs) recoveries to average loans	**0.006%**	0.018%	(0.149)%	0.012%	(0.071)%
Total members' equity to total assets	**17.85%**	17.50%	17.40%	17.60%	17.64%
Debt to members' equity (:1)	**4.60**	4.71	4.75	4.68	4.67
Allowance for loan losses to loans	**1.25%**	1.18%	1.24%	1.25%	1.20%
Permanent capital ratio	**18.15%**	20.27%	18.64%	19.04%	19.38%
Total surplus ratio	**	**	**	**	18.61%
Core surplus ratio	**	**	**	**	17.37%
Common equity tier 1 capital ratio	**17.40%**	18.54%	16.32%	15.97%	**
Tier 1 capital ratio	**17.40%**	18.54%	16.32%	15.97%	**
Total regulatory capital ratio	**18.94%**	20.07%	17.86%	17.51%	**
Tier 1 leverage ratio	**16.00%**	16.47%	14.79%	14.60%	**
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**15.78%**	16.18%	14.47%	14.40%	**
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 3,977**	$ 10,379	$ 3,386	$ 4,921	$ 2,906
Nonqualified retained earnings	**6,544**	952	5,886	5,059	2,870

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

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

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

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

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

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

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, ***www.rivervalleyagcredit.com***, or by calling 1-270-247-5613, extension 2020, or writing Beth Barkley, River Valley AgCredit, ACA, PO Box 309, Mayfield, KY 42066. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

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

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

AGRICULTURAL OUTLOOK

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Global economic conditions influence demand for food and agricultural products, which affects U.S. agricultural trade.

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

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

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

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

IMPACTS OF THE COVID-19 GLOBAL PANDEMIC

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

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

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

COVID-19 Support Programs

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

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

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

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

Applicants who are otherwise eligible to receive financing under the Farm Credit Act and FCA regulations are able to apply for

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

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

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

On August 8, 2020, the PPP was closed and the SBA ceased to accept applications from participating lenders. The Association was approved as a PPP lender and made $1.05 million in loans and recorded approximately $50 thousand in loan-related fee income. The Association subsequently sold the PPP loans to AgFirst Farm Credit Bank. At December 31, 2020, $1.05 million of PPP loans remained outstanding, all of which were sold to the Bank.

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

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

Future of LIBOR

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

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

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

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

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

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

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

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

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

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

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

(dollars in millions)	Due in 2021	Due in 2022 and Thereafter	Total
Loans	$ 2.7	$ 8.9	$ 11.6
Total	$ 2.7	$ 8.9	$ 11.6
Direct Note	$ 2.2	7.3	9.5
Total	$ 2.2	$ 7.3	$ 9.5

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

CRITICAL ACCOUNTING POLICIES

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

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

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

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

  The Association uses a two-dimensional loan rating model that incorporates a 14-point risk rating model to identify and track the probability of default as well as a separate scale addressing the loss given default over a period of time. The probability of default scale provides for granularity in the ratings with 1 being the best score and 14 being a loss. Loss given default is measured by the codes of B, D, E, and F with B being well secured and F being under secured. In addition to the two-dimensional scale, management applies qualitative reserves to capture changes in loan concentrations, weather, and other events that impact the loan portfolio.

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

ECONOMIC CONDITIONS

Overall unemployment conditions in the Purchase area of Kentucky have not improved from a year ago. Unemployment is approximately 6.19% as compared to 4.25% in 2019. Unemployment in the counties served in Southeast Tennessee did not improve. Unemployment is approximately 6.18% as compared to 3.42% over the same period.

The Federal Reserve continues to forecast continued economic growth, discontinued purchases of securities, and a stabilized Federal Funds rate. This indicates the Federal Reserve believes the economy is improving and the effect should result in stable or lowering long term interest rates. The economy will continue to be impacted by the COVID-19 pandemic, fiscal deficit and the uncertainty created by Congress to bring the deficit under control. Interest rates are expected to hold relatively flat in 2021.

Grain farmers were profitable as a whole in 2020 with above average yields and above average prices. At current grain prices and average yields they should meet obligations in 2021. Profitability will be impacted by the cost of inputs and whether or not input costs remain at current levels or decrease. Early indications are for stable input costs year over year which will impact profitability positively with the higher prices. Livestock producers were profitable in 2020, but will see lower profitability due to lower prices. Poultry integrators improved their financial position during 2020 due to relatively high prices for their products and lower expenses due to lower cost of inputs primarily corn and soybeans. Poultry growers could see normalized placement of birds as integrators seek to expand production due to the continued low cost of feed. Our poultry growers as a whole in 2020 were sufficiently profitable to meet their obligations. Dairy farmers were also profitable during the year, but will have less opportunities for improvement in profitability with the forecast of lower milk prices.

Land prices are expected to be stable in the Kentucky region of the association. Land prices are expected to improve in the Tennessee region of the association as the general economy improves.

Land rents are also expected to be slightly higher, due to higher grain prices.

The housing market has improved in the territory served with sales actively occurring and values improving.

Your Association continues to be profitable and it is projected to be sustainable allowing your Cooperative to continue to pay a good patronage dividend. Losses are minimal and capital is adequate for moderate growth. Efficiencies improved significantly due to the lack of spending with the COVID-19 pandemic's quarantine requirements and the Association holding a strong market position in the agricultural arena.

LOAN PORTFOLIO

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

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

	December 31,								
Loan Type	**2020**			**2019**			**2018**		
Production and intermediate-term	$	195,255	34.89%	$	200,729	37.78%	$	216,125	39.95%
Real estate mortgage		296,440	52.98		262,608	49.42		248,651	45.97
Processing and marketing		7,642	1.36		3,251	0.61		2,568	0.47
Other		34,467	6.16		44,410	8.36		46,311	8.56
Rural residential real estate		15,479	2.77		12,963	2.44		13,910	2.57
Cooperatives		649	0.12		430	0.08		296	0.06
Farm-related business		9,615	1.72		6,971	1.31		13,084	2.42
Total	$	559,547	100.00%	$	531,362	100.00%	$	540,945	100.00%

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

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

Branch	December 31, 2020	2019	2018
Bardwell, KY	5.04%	4.62%	4.50%
Clinton, KY	9.21	9.78	11.50
Hickman, KY	4.53	4.95	8.20
Kevil, KY	5.40	5.43	5.78
Murray, KY	13.41	13.32	13.64
Mayfield, KY	14.69	14.74	12.50
Paducah, KY	1.18	1.09	1.04
Special Assets Unit-West	0.34	0.17	0.29
Capital Markets-Joint	7.91	9.43	9.54
Cleveland, TN	9.32	9.20	4.71
Pikeville, TN	4.67	4.79	3.05
Athens, TN	11.78	10.84	13.53
Dayton, TN	6.60	5.71	3.16
Loudon, TN	4.31	4.26	4.38
Chattanooga, TN	–	–	2.76
Special Assets Unit-East	0.60	0.58	0.63
Farm Credit Express	1.01	1.09	0.79
	100.00%	100.00%	100.00%

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

The major commodities in the Association loan portfolio are shown below. The predominant commodities are poultry, corn, field crops, cattle, and grain which constitute 78 percent of the entire portfolio.

Commodity Group *	December 31, 2020		2019		2018	
Cattle	$ 78,834	14%	$ 66,348	12%	$ 63,682	12%
Corn	97,378	17	93,622	18	108,909	20
Cotton	498	–	438	–	326	–
Dairy	15,263	3	15,479	3	15,165	3
Field Crops	66,642	12	65,992	12	63,718	12
Forestry	12,250	2	14,810	3	17,758	3
Grain	44,177	8	38,946	7	59,252	11
Nursery/Greenhouse	6,644	1	6,100	1	433	–
Other	33,199	6	25,854	5	42,904	8
Other Real Estate	20,928	4	18,223	3	16,733	3
Poultry	152,443	27	160,176	30	140,983	26
Processing	1,055	–	1,047	–	1,420	–
Rural Home Loan	16,054	3	13,014	3	–	–
Swine	7,355	2	7,606	2	6,371	1
Utilities	79	–	2	–	–	–
Ethanol	51	–	54	–	–	–
Tobacco	1,312	–	81	–	79	–
Tree Fruits and Nuts	5,385	1	3,570	1	3,212	1
Total	$ 559,547	100%	$ 531,362	100%	$ 540,945	100%

**Amounts have been revised in prior years to conform with the current period presentation.*

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration of corn and grain producers. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are diversified within their enterprise and/or with crop production that reduces overall risk exposure. Demand for beef, prices of field grains, and international trade are some of the factors affecting the price of these commodities. Even though the concentration of large loans has increased over the past several years, the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

The decrease for period ending December 31, 2020 was primarily attributed to portfolio enhancement modifications made in the second and third quarters. The increase for period ending December 31, 2019 was primarily attributed to increased input costs of farm production and new loans in real estate and equipment.

For the past few years, the Association has remained stable in long-term versus short-term loan volume. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak balance in August and rapidly declines in the fall months as commodities are marketed and proceeds are applied to repay operating loans.

During 2020, the Association continued activity in the buying and selling of loan participations within and outside of the System. This provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which is intended to strengthen our capital position.

Loan Participations:	December 31, 2020	2019	2018
Participations Purchased – FCS Institutions	$ 10,037	$ 5,715	$ 5,312
Participations Purchased – Non-FCS Institutions	32,980	42,041	44,005
Participations Sold	(18,870)	(11,577)	(8,882)
Total	$ 24,147	$ 36,179	$ 40,435

The Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests for the period ended December 31, 2020.

The Association sells qualified long-term mortgage loans into the secondary market. For the year ended December 31, 2020, the Association originated loans for resale totaling $21,393 which were sold into the secondary market as compared to $17,400 for December 31, 2019 and $20,539 for December 31, 2018.

The Association purchased portions of loans that are guaranteed by the United States Department of Agriculture, Farm Service Agency, and the Small Business Administration. These loans are held for the purposes of reducing interest rate risk and managing surplus short-term funds as allowable under FCA regulations. At December 31, 2020, the balance of these loans, including the unamortized premium, was $34,467, compared to $44,410 at December 31, 2019 and $46,311 at December 31, 2018. These loans are included as participations purchased stated above.

INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for the purposes of reducing interest rate risk and managing surplus short-term funds. The Bank is responsible for approving the investment policies of the Association. The Bank annually reviews the investment portfolio of every Association that it funds. The

Association has not held investment securities for the past three years.

CREDIT RISK MANAGEMENT

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

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

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

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

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

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

Credit Quality	2020	2019	2018
Acceptable & OAEM	96.35%	97.59%	94.28%
Substandard	3.65%	2.41%	5.72%
Doubtful	–%	–%	–%
Loss	–%	–%	–%
Total	100.00%	100.00%	100.00%

Nonperforming Assets

The Association's loan portfolio is divided into performing and high-risk categories. The Credit Department is responsible for servicing loans classified as high-risk. The high-risk assets, including accrued interest, are detailed below:

	December 31,		
High-risk Assets	**2020**	**2019**	**2018**
Nonaccrual loans	$ 5,254	$ 3,977	$ 4,993
Restructured loans	5,274	5,931	5,544
Accruing loans 90 days past due	–	–	13
Total high-risk loans	10,528	9,908	10,550
Other property owned	31	313	356
Total high-risk assets	$ 10,559	$ 10,221	$ 10,906
Ratios			
Nonaccrual loans to total loans	0.94%	0.75%	0.92%
High-risk assets to total assets	1.81%	1.85%	1.94%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans increased $1,277 or 32.11% in 2020. This increase primarily resulted from a greater amount transferring into nonaccrual than amounts collected or returned to accrual status. Of the $5,254 in nonaccrual volume at December 31, 2020, $881 or 16.77%, compared to 3.29% and 2.40% at December 31, 2019 and 2018, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

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

Allowance for Loan Losses

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

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

	Year Ended December 31,		
Allowance for Loan Losses Activity:	**2020**	**2019**	**2018**
Balance at beginning of year	$ 6,292	$ 6,734	$ 6,516
Charge-offs:			
Agribusiness	–	–	(806)
Production and intermediate-term	(87)	(8)	(52)
Rural Residential Real Estate	–	(24)	(9)
Real estate mortgage	(18)	–	(277)
Total charge-offs	(105)	(32)	(1,144)
Recoveries:			
Agribusiness	23	59	–
Production and intermediate-term	46	66	67
Rural Residential Real Estate	3	2	40
Real Estate Mortgage	64	2	273
Total recoveries	136	129	380
Net (charge-offs) recoveries	31	97	(764)
Provision for (recovery of) loan losses	670	(539)	982
Balance at end of year	$ 6,993	$ 6,292	$ 6,734
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	0.006%	0.018%	(0.149)%

Loans are charged-off, wholly or partially, as appropriate, at the time they are determined to be uncollectible.

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

	December 31,		
Allowance for Loan Losses by Type	**2020**	**2019**	**2018**
Real estate mortgage	$ 3,036	$ 2,522	$ 927
Production and intermediate-term	3,531	3,549	3,894
Agribusiness	297	133	1,825
Rural residential real estate	129	88	88
Other	–	–	–
Total Allowance	$ 6,993	$ 6,292	$ 6,734

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

Allowance for Loan Losses	December 31,		
as a Percentage of:	**2020**	**2019**	**2018**
Total loans	1.25%	1.18%	1.24%
Nonperforming loans	163.20%	169.87%	153.92%
Nonaccrual loans	133.10%	158.21%	134.87%

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

RESULTS OF OPERATIONS

Net Interest Income

Net interest income was $14,812, $14,897 and $14,100 in 2020, 2019 and 2018, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

Change in Net Interest Income:	**Volume***	**Rate**	**Nonaccrual Income**	**Total**
12/31/20 - 12/31/19				
Interest income	$ 1,122	$ (4,127)	$ (332)	$ (3,005)
Interest expense	(574)	3,494	–	2,920
Change in net interest income	$ 548	$ (633)	$ (332)	$ (85)
12/31/19 - 12/31/18				
Interest income	$ 611	$ 1,350	$ 398	$ 1,961
Interest expense	(307)	(857)	–	(1,164)
Change in net interest income	$ 304	$ 493	$ 398	$ 797

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

Noninterest Income

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

	For the Year Ended December 31,			Percentage Increase/(Decrease)	
Noninterest Income	**2020**	**2019**	**2018**	**2020/ 2019**	**2019/ 2018**
Loan fees	$ 846	$ 693	$ 562	22.08%	23.31%
Fees for financially related services	267	294	243	(9.18)%	20.99%
Patronage refund from other Farm Credit Institutions	8,651	5,784	6,634	49.57%	(12.81)%
Gains (losses) on sales of rural home loans	300	394	320	(23.86)%	23.13%
Gains (losses) on sales of premises and equipment, net	5	30	12	(83.33)%	150.00%
Gains (losses) on other transactions	–	10	(12)	(100.00)%	183.33%
Insurance Fund Refunds	89	97	786	(8.25)%	(87.66)%
Other noninterest income	3	4	2	(25.00)%	100.00%
Total noninterest income	$ 10,161	$ 7,306	$ 8,547	39.08%	(14.52)%

AgFirst Board of Directors made a decision to declare a special cash distribution to the association based on the Bank's income and capital levels in 2020, 2019, and 2018. The amount of special distribution received was $5,239, $2,523, and $3,468 respectively.

Noninterest Expense

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

	For the Year Ended December 31,			Percentage Increase/(Decrease)	
Noninterest Expense	**2020**	**2019**	**2018**	**2020/ 2019**	**2019/ 2018**
Salaries and employee benefits	$ 7,546	$ 7,146	$ 7,914	5.60%	(9.70)%
Occupancy and equipment	520	600	562	(13.33)%	6.76%
Insurance Fund premiums	344	313	310	9.90%	0.97%
(Gains) losses on other property owned	201	4	(17)	4,925.00%	76.47%
Other operating expenses	2,339	2,478	2,191	(5.61)%	13.10%
Total noninterest expense	$ 10,950	$ 10,541	$ 10,960	3.88%	(3.82)%

Salaries and employee benefits increased in 2020 due to a normal merit increases and the accrual of a corporate incentive for all employees based on association performance. Salaries and employee benefits decreased in 2019 due to a decrease in the pension fund contribution required.

Insurance Fund premiums increased 9.90 percent for the twelve months ended December 31, 2020, compared to the same period of 2019. The FCSIC set premiums at 8 basis points for the first half of 2020 and increased to 11 basis points in the second half of the year. This premium was applied to adjusted insured debt outstanding reduced by guaranteed investments. Premiums were 9 basis points in 2019 and 2018. In addition, for 2020, 2019, and 2018, there was a 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments.

Noninterest expense increased $409 or 3.88 percent for December 31, 2020, as compared to the same period of 2019 which decreased $419 or 3.82 percent compared to December 31, 2018. The primary reason for the increase in total noninterest expense in 2020 is attributable to an increase in salaries and employee benefits and losses on other property owned. The primary reason for the decrease in total noninterest expense for the period ended December 31, 2019 was attributable to a decrease in salaries and employee benefits.

Income Taxes

The Association recorded a provision for income taxes of $61 for the year ended December 31, 2020, as compared to a provision of $57 for 2019 and $56 for 2018. Refer to Note 2, *Summary of Significant Accounting Policies,* and Note 12, *Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

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

	For the 12 Months Ended		
Key Results of Operations Comparisons	**12/31/20**	**12/31/19**	**12/31/18**
Return on average assets	2.38%	2.25%	2.02%
Return on average members' equity	13.32%	12.01%	11.03%
Net interest income as a percentage of average earning assets	2.72%	2.85%	2.76%
Net (charge-offs) recoveries to average loans	0.006%	0.018%	(0.149)%

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

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

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

Total notes payable to the Bank at December 31, 2020, were $462,996 as compared to $437,014 at December 31, 2019. The increase of 5.95 percent is attributable to an increase in loan volume. The average volume of outstanding notes payable to the Bank was $446,975 and $430,401 for the years ended December 31, 2020 and 2019, respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

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

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

Funds Management

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

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 30-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

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

Relationship with the Bank

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

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

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

CAPITAL RESOURCES

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

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

Total members' equity at December 31, 2020, increased 7.36 percent to $103,907 from the December 31, 2019, total of $96,784. At December 31, 2019, total members' equity decreased 1.27 percent from the December 31, 2018 total of $98,029. The increase was primarily attributed to association earnings.

Total capital stock and participation certificates were $4,726 on December 31, 2020, compared to $4,559 on December 31, 2019 and $4,478 on December 31, 2018.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk adjusted asset base. Risk adjusted assets mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded minimum regulatory standard for all the ratios.

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

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2020	2019	2018	2017
Risk-adjusted ratios:							
CET1 Capital	4.5%	2.5%	7.0%	17.40%	18.54%	16.32%	15.97%
Tier 1 Capital	6.0%	2.5%	8.5%	17.40%	18.54%	16.32%	15.97%
Total Capital	8.0%	2.5%	10.5%	18.94%	20.07%	17.86%	17.51%
Permanent Capital	7.0%	0.0%	7.0%	18.15%	20.27%	18.64%	19.04%
Non-risk-adjusted ratios:							
Tier 1 Leverage	4.0%	1.0%	5.0%	16.00%	16.47%	14.79%	14.60%
URE and UREE Leverage	1.5%	0.0%	1.5%	15.78%	16.18%	14.47%	14.40%

* *The capital conservation buffers have a 3 year phase-in period and became fully effective January 1, 2020. Risk-adjusted ratio minimums increased 0.625% each year until fully phased in. There was no phase-in period for the tier 1 leverage ratio.*

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

The following sets forth regulatory Capital ratios as previously reported:

	Regulatory Minimum	2016	2015	2014	2013	2012
Permanent Capital Ratio	7.00%	19.38%	19.16%	18.20%	18.45%	17.41%
Total Surplus Ratio	7.00%	18.61%	18.36%	17.33%	17.48%	16.28%
Core Surplus Ratio	3.50%	17.37%	17.24%	16.20%	16.29%	14.32%

See Note 7, *Members' Equity*, of the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of $10,521 in 2020, $11,331 in 2019, and $9,272 in 2018.

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

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young*, Beginning** and Small*** farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit. As a result, 2020 goals were exceeded for Beginning, Small and Young Farmers.

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

	As of December 31, 2020 Number of Loans	Amount of Loans *(dollars in thousands)*
Young	694	$86,570
Beginning	1,286	$151,270
Small	2,826	$206,493

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

The 2017 USDA Ag census data is the latest data available. It has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory (counties) there were 10,609 reported farmers of which by definition 1,511 or 14.24 percent were Young, 4,931 or 46.48 percent were Beginning and 9,860 or 92.94 percent were Small. Comparatively, as of December 2020, the demographics of the Association's agricultural portfolio contained 2,787 farmers, of which by definition 391 or 14% percent were Young, 793 or 28% percent were Beginning and 1,773 or 64% percent were Small.

ACA's goals are to maintain our YBS percentages at the 2020 level, but in no case slip below the goals set in the Business Plan of 14% for Young, 25% for Beginning and 35% for Small farmers. The differences in the census data and the Association data are primarily in the definition differences in Young, Beginning and Small farmers. The Association assigns Young, Beginning and Small based on the age, years of experience and income of the youngest individual involved in the operation. Our numbers also include farmers that do not own farmland but rent all of their land.

The Association addresses the specific credit programs and partnerships that have been developed to help small farmers, young farmers, and farmers just starting out. It comprises programs offered by:

1. The Farm Service Agency (FSA), which includes guaranteed and direct loans to qualifying borrowers. The Association is a Preferred Lender, a status designated by the FSA.
2. KAFC Beginning Farmer Program – the state of Kentucky has special interest rates for loans up to $250,000 for YBS in combination with ACA direct loans, with ACA as servicer of the account.
3. Association loan program to specifically target Young, Beginning and Small farmers.

The Association sponsors local events (such as 4-H, FFA, Tennessee Young Farmer's Conference, Agricultural Days, Farmers Markets, and summer internships) or events where the Association is an exhibitor (such as industry or trade shows).

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

* Young farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.
** Beginning farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.
*** Small farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than $250,000 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

REGULATORY MATTERS

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

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

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

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

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

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

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

Unincorporated Business Entity (UBE)

River Valley AgCredit, ACA holds an equity investment at December 31, 2020 in the following Unincorporated Business Entities (UBEs) as an equity interest holder of the limited liability company (LLC). The LLCs were organized for the stated purpose of holding and managing unusual or complex collateral associated with former loans, until such time as the assets may be sold or otherwise disposed of pursuant to the terms of Operating Agreements of the respective LLCs.

Entity Name	Entity Type	Entity Purpose
A1 Ledges Wilder LLC	LLC	Manage Acquired Property
A1 Sequatchie Point, LLC	LLC	Manage Acquired Property

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity which are located in Kentucky and Tennessee:

Location	Description	Form of Ownership
328 E. Broadway Mayfield, KY	Administrative	Owned
408 E. Broadway Mayfield, KY	Administrative	Owned
196 US Hwy 51 North Bardwell, KY	Branch	Leased*
102 N Washington St. Clinton, KY	Branch	Owned
1514 Union City Hwy. Hickman, KY	Branch	Owned
12350 U.S. Highway 60 West Kevil, KY	Branch	Owned
1401 N. 12th St. Murray, KY	Branch	Owned
545 Dick Castleman Bypass Mayfield, KY	Branch	Owned
2190 New Holt Road, Suite A Paducah, KY	Branch	Leased**
2620 APD 40 Cleveland, TN	Branch	Owned
3270 Main St Pikeville, TN	Branch	Owned
1117 S Congress Parkway Athens, TN	Branch	Owned
230 Main Street Dayton, TN	Branch	Owned
2052 Hwy 72 Loudon, TN	Branch	Owned
601 Morrison Springs Rd Chattanooga, TN	Branch	Owned

**Five year lease expiring 3/31/24. Monthly payment $1,749.60.*
***Five-year lease expiring 9/30/24. Monthly payment $2,700.00.*

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

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

Senior Officers

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

Name and Title	Term of Office	Prior Experience
Kyle Yancey, Chief Executive Officer	1/1/2016 - present	CEO Elect-Aug 2014-Dec 2015 Chief Credit Officer,2013-Aug 2014
Kip Ellington, Chief Credit Officer	3/16/2020 – present	Regional Lending Manager 2015-3/15/2020
Miranda Robertson, Chief Credit Officer	1/1/2018 – 3/13/2020	Loan Officer-2016-2017 VP of Ag & Commercial Banking with another financial institution-2014-2015
Beth Barkley, Chief Financial Officer	1/1/2014 – present	
Jessica Johnson, Chief Human Resources Officer	6/1/2019-present	Human Resources Manager-1/1/2015-5/31/2019

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

Name of Individual or Number in Group	Year	Annual Salary	Bonus	Perq/ Other*	Pension Change	Total
Kyle Yancey	2020	$ 336,813	$ 64,245	$ 3,399	$ 212,136	$ 616,593
Kyle Yancey	2019	$ 305,012	$ 68,701	$ 2,501	$ 245,304	$ 621,518
Kyle Yancey	2018	$ 269,120	$ 51,333	$ 3,661	$ 2,501	$ 326,615
6	2020	$ 794,162	$ 133,393	$ 14,921	$ 858,894	$ 1,801,370
6	2019	$ 688,192	$ 130,088	$ 7,825	$ 627,568	$ 1,453,673
6	2018	$ 785,709	$ 119,164	$ 8,407	$ (33,621)	$ 879,659

**Amounts in the above table classified as Perquisites include group life insurance and automobile compensation.*

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

The Association participates in multi-association, District and multi-district sponsored benefit plans. Change in pension value is considered a part of compensation. The following Pension Benefits table reflects number of years credited service, actuarial present value of accumulated benefits, along with any payments made during 2020 for the CEO and senior officers and other highly compensated employees as a group.

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2020
Kyle Yancey	2020	IARP	15	$826,908	$-
6 Officers, excluding the CEO	2020	IARP	*21	$3,900,202	$-

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

In addition to a base salary, senior officers earn additional compensation under an incentive plan which is tied to the overall business performance and the individual's performance appraisal rating. The Association incentive plan is designed to motivate employees to exceed the business plan goals during the fiscal year. These goals typically include return on assets, credit quality, credit administration, loan volume, nonaccrual loan volume, permanent capital and other key ratios. Those covered by the plan include all employees. Also all employees except Administrative staff participate in insurance and lease incentive plans designed to motivate employees to increase insurance sales and leasing fee income to benefit the member as well as the Association. Additional incentive plans available to all employees include member referral incentives designed to encourage employees to promote new business through personal contacts. Bonuses are shown in the year earned, which may be different than the year of payment. Additionally, all employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request. Disclosure of information on the total compensation paid during 2020 to any senior officer, or to any other individual included in the total, is available to shareholders upon request.

Directors

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

DIRECTOR	ORIGINAL YEAR OF ELECTION OR APPOINTMENT	CURRENT TERM EXPIRATION	TOTAL COMP. PAID DURING 2020
David Richesin, ***Chairman***	2008*	2023	$ 12,580
Randall Heath, ***Vice Chairman***	2006	2022	10,655
Darren Grogan	2008	2023	9,560
Annette Bryant	2020	2022	5,385
Buddy D. Ray, *Outside Dir*	2003	2022	10,790
Aaron Wilson	2019	2022	8,790
Tiffany Myers, *Outside Dir*	2015	2021	9,195
Brandon Strasser	2015	2020	2,385
Andrew Falwell	2018	2021	10,540
Don Massengale	2018	2021	11,040
			$ 90,920

**Original year of election or appointment to the Board of Directors of Chattanooga, ACA.*

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

Mr. David Richesin, Chairman, is a row crop operator headquartered in Loudon County, TN. Currently, he serves as a director of the AgFirst Farm Credit Council. He also serves on the Tennessee Farm Bureau Board of Directors as Director-at-Large and as President of the Loudon County Farm Bureau Board of Directors. Mr. Richesin received his BS degree in Agricultural Business from the University of Tennessee.

Mr. Randall Heath, Vice Chairman, is retired from a row crop farming operation in Graves County, KY. Mr. Heath serves on the board of Graves County Farm Bureau.

Mr. Darren Grogan operates a row crop operation headquartered in Carlisle County, KY. Mr. Grogan is a graduate of Ashford University with a BA degree in Economics with specialization in Finance and a minor in Accounting.

Mrs. Annette Bryant was appointed to the board in May of 2020 to serve until the next election. She was then elected in November of 2020 to serve the remainder of the term which expires in 2022. Mrs. Bryant has been an Agriculture Teacher at McMinn Central High School for 12 years. She also owns and operates a cow/calf operation in McMinn County with her husband. They also raise market hogs and sheep and recently opened Harmony Hill Market, where they sell retail cuts of their beef, pork and lamb. She attended Fairview High School and the University of Tennessee at Martin, where she received her BS in Animal Science and Kansas State University where she received her MS in Ruminant Nutrition. She currently serves as an FFA Advisor, a committee member of McMinn Livestock Association and a committee member of McMinn Junior Livestock Association.

Mrs. Tiffany Myers, *Outside Director,* served as the Audit Committee chair in 2020. She is a licensed Certified Public Accountant for the state of Kentucky and is employed as the Chief Financial Officer for WK&T Telecommunications of Mayfield, KY. Mrs. Myers received her degree in accounting from Murray State University.

Dr. Buddy D. Ray, DVM, *Outside Director*, is a veterinarian at the Bovine Consulting Associates, LLC. He also serves on the Merck Large Animal Advisory Board and Elanco Food Animal Advisory Board. Dr. Ray received his BS degree in Agriculture from Murray State University and received his DVM from Auburn University.

Mr. Brandon Strasser served as a director until April 2020. He owns a farming operation consisting of approximately 225 milk cows. He received his Bachelor’s degree in Animal Science from the University of TN, Knoxville, and completed Agricultural Economics graduate course work from Texas A&M University.

Mr. Aaron Wilson owns/operates a row crop and cattle operation consisting of 2,800 acres of soybeans/corn and 160 head of beef cows in Ballard County, KY. He serves as Chairman of the Ballard County Soil Conservation Department. He also serves as an elder of Bethel Cumberland Presbyterian Church. Mr. Wilson received his BS degree in Biology from Transylvania University.

Mr. Andrew Falwell co-owns/operates a row crop and dark tobacco operation in Murray, KY, consisting of corn, soybeans, wheat, dark tobacco, and fruits & vegetables. He serves on the Site Base Decision Making Committee at East Calloway Elementary School and serves as a deacon at Glendale Road Church of Christ. Mr. Falwell received his BS degree from Murray State University and his Master’s degree from Purdue University.

Mr. Don Massengale is the owner/operator of a 50 head cow/calf operation with freezer beef sales and replacement heifers in Rhea County, TN. He also raises corn for silage and grain, wheat grain and hay, and grass hay. Don and his wife, Karen, own and operate a 2 house poultry breeder operation for Aviagen. Mr. Massengale is a Volunteer Fireman for the Rhea County Volunteer Fire Department. He serves as Vice President on the Rhea County Fair Board and Vice President for the Rhea County Cattlemen’s Association. Mr. Massengale also serves as a board member for Rhea County Farm Bureau.

Subject to approval by the board, the Association may allow directors honoraria of $500 for attendance at meetings, committee meetings, or special assignments. The Chairman of the Board and all other directors are paid a quarterly retainer fee of $1,000 and $500 respectively. Total compensation paid to directors as a group was $90,920.

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

	Days Served			
Name of Director	Regular Board Meetings	Other Official Activities*	Committee Assignments	Comp. Paid for other Activities*
David Richesin, ***Chairman***	6	8	Audit/Credit/ Governance/ Compensation	$ 5,580
Randall Heath, ***Vice Chairman***	6	10	Audit/Credit/ Governance	5,655
Brandon Strasser	2	1	Audit/Credit	885
Tiffany Myers, *Outside Dir*	6	6	Audit/Credit/ Governance	4,195
Darren Grogan	6	7	Governance/ Audit/Credit	4,560
Annette Bryant	3	5	Credit/Audit	2,885
Buddy D Ray, *Outside Dir*	6	10	Credit/Audit/ Compensation/ Governance	5,790
Aaron Wilson	6	6	Audit/Credit	3,790
Andrew Falwell	6	9	Credit/Audit/ Compensation	5,540
Don Massengale	6	10	Credit/Audit/ Compensation	6,040
				$ 44,920

**Includes board committee meetings and other board activities other than regular board meetings and quarterly retainer fees.*

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $10,615 for 2020, $14,564 for 2019 and $18,400 for 2018.

Transactions with Senior Officers and Directors

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

Involvement in Certain Legal Proceedings

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

Relationship with Independent Registered Public Accounting Firm

Dixon Hughes Goodman LLP has been the Association's principal auditor since 2011. There were no changes in or material disagreements with our independent registered public accounting firm on any matter of accounting principles or financial statement disclosure during this period.

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

	2020
Independent Registered Public Accounting Firm	
Dixon Hughes Goodman LLP	
Audit services	$ 74,751
Total	$ 74,751

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

Consolidated Financial Statements

The Consolidated Financial Statements, together with the report thereon of Dixon Hughes Goodman LLP dated March 11, 2021 and the report of management, which appear in this Annual Report are incorporated herein by reference.

Copies of the Association's quarterly reports are available upon request free of charge by calling 1-270-247-5613 or writing Beth Barkley, River Valley AgCredit, ACA, P. O. Box 309, Mayfield, KY 42066 or accessing the website, ***www.rivervalleyagcredit.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

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

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

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

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

Shareholder Investment

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

Report of the Audit Committee

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

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

Dixon Hughes Goodman LLP (DHG), the Association's auditor for 2020, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with DHG the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance)*. The Committee discussed with DHG its independence from River Valley AgCredit, ACA.

The Committee has also reviewed the non-audit services provided by DHG, if any, and concluded that these services were not incompatible with maintaining DHG's independence.

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

/s/ Tiffany Myers
Chairperson of the Audit Committee

Members of Audit Committee
Tiffany Myers
David Richesin
Randall Heath
Annette Bryant
Andrew Falwell
Darren Grogan
Don Massengale
Dr. Buddy Ray
Aaron Wilson

March 11, 2021

DIXON HUGHES GOODMAN LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members
River Valley AgCredit, ACA
Mayfield, KY

We have audited the accompanying consolidated financial statements of River Valley AgCredit, ACA (the "Association") which comprise the consolidated balance sheets as of December 31, 2020, 2019, and 2018, and the related consolidated statements of comprehensive income, changes in members' equity and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of River Valley AgCredit, ACA as of December 31, 2020, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

Atlanta, Georgia

March 11, 2021

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2020	2019	2018
Assets			
Cash	**$ 396**	$ 853	$ 1,084
Loans	**559,547**	531,362	540,945
Allowance for loan losses	**(6,993)**	(6,292)	(6,734)
Net loans	**552,554**	525,070	534,211
Loans held for sale	**1,329**	680	—
Accrued interest receivable	**6,892**	7,692	8,460
Equity investments in other Farm Credit institutions	**5,945**	6,487	6,175
Premises and equipment, net	**5,758**	5,544	5,708
Other property owned	**31**	313	356
Accounts receivable	**8,772**	5,898	6,907
Other assets	**279**	375	462
Total assets	**$ 581,956**	$ 552,912	$ 563,363
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 462,996**	$ 437,014	$ 451,508
Accrued interest payable	**860**	1,145	1,255
Patronage refunds payable	**4,810**	9,916	3,743
Accounts payable	**653**	542	480
Advanced conditional payments	**4,375**	2,208	2,234
Other liabilities	**4,355**	5,303	6,114
Total liabilities	**478,049**	456,128	465,334
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**4,726**	4,559	4,478
Additional paid-in-capital	**15,817**	15,817	15,817
Retained earnings			
Allocated	**46,708**	41,930	43,889
Unallocated	**36,656**	34,478	33,845
Total members' equity	**103,907**	96,784	98,029
Total liabilities and members' equity	**$ 581,956**	$ 552,912	$ 563,363

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2020	2019	2018
Interest Income			
Loans	**$ 26,112**	$ 29,117	$ 27,159
Other	**13**	13	10
Total interest income	**26,125**	29,130	27,169
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**11,247**	14,177	13,006
Other	**66**	56	63
Total interest expense	**11,313**	14,233	13,069
Net interest income	**14,812**	14,897	14,100
Provision for (reversal of allowance for) loan losses	**670**	(539)	982
Net interest income after provision for (reversal of allowance for) loan losses	**14,142**	15,436	13,118
Noninterest Income			
Loan fees	**846**	693	562
Fees for financially related services	**267**	294	243
Patronage refunds from other Farm Credit institutions	**8,651**	5,784	6,634
Gains (losses) on sales of rural home loans, net	**300**	394	320
Gains (losses) on sales of premises and equipment, net	**5**	30	12
Gains (losses) on other transactions	**—**	10	(12)
Insurance Fund refunds	**89**	97	786
Other noninterest income	**3**	4	2
Total noninterest income	**10,161**	7,306	8,547
Noninterest Expense			
Salaries and employee benefits	**7,546**	7,146	7,914
Occupancy and equipment	**520**	600	562
Insurance Fund premiums	**344**	313	310
(Gains) losses on other property owned, net	**201**	4	(17)
Other operating expenses	**2,339**	2,478	2,191
Total noninterest expense	**10,950**	10,541	10,960
Income before income taxes	**13,353**	12,201	10,705
Provision for income taxes	**61**	57	56
Net income	**$ 13,292**	$ 12,144	$ 10,649
Other comprehensive income	**—**	—	—
Comprehensive income	**$ 13,292**	$ 12,144	$ 10,649

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2017	$ 4,428	$ 15,817	$ 42,830	$ 32,468	$ 95,543
Comprehensive income				10,649	10,649
Capital stock/participation certificates issued/(retired), net	50				50
Patronage distribution					
Cash				(3,386)	(3,386)
Nonqualified retained earnings			5,886	(5,886)	—
Retained earnings retired			(3,059)		(3,059)
Patronage distribution adjustment			(1,768)		(1,768)
Balance at December 31, 2018	$ 4,478	$ 15,817	$ 43,889	$ 33,845	$ 98,029
Comprehensive income				12,144	12,144
Capital stock/participation certificates issued/(retired), net	81				81
Patronage distribution					
Cash				(10,379)	(10,379)
Nonqualified retained earnings			952	(952)	—
Retained earnings retired			(3,264)		(3,264)
Patronage distribution adjustment			353	(180)	173
Balance at December 31, 2019	$ 4,559	$ 15,817	$ 41,930	$ 34,478	$ 96,784
Comprehensive income				**13,292**	**13,292**
Capital stock/participation certificates issued/(retired), net	**167**				**167**
Patronage distribution					
Cash				**(3,977)**	**(3,977)**
Nonqualified retained earnings			**6,544**	**(6,544)**	**—**
Retained earnings retired			**(4,349)**		**(4,349)**
Patronage distribution adjustment			**2,583**	**(593)**	**1,990**
Balance at December 31, 2020	**$ 4,726**	**$ 15,817**	**$ 46,708**	**$ 36,656**	**$ 103,907**

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2020	2019	2018
Cash flows from operating activities:			
Net income	**$ 13,292**	$ 12,144	$ 10,649
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**257**	303	288
Amortization (accretion) of net deferred loan costs (fees)	**874**	839	817
Amortization (accretion) of yield mark resulting from merger	**(43)**	(32)	(8)
Provision for (reversal of allowance for) loan losses	**670**	(539)	982
(Gains) losses on other property owned	**145**	(20)	(52)
(Gains) losses on sales of premises and equipment, net	**(5)**	(30)	(12)
(Gains) losses on sales of rural home loans, net	**(300)**	(394)	(320)
(Gains) losses on other transactions	**—**	(10)	12
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(21,393)**	(17,400)	(20,539)
Proceeds from sales of loans held for sale, net	**21,044**	17,114	21,569
(Increase) decrease in accrued interest receivable	**800**	768	(1,445)
(Increase) decrease in accounts receivable	**(2,874)**	1,009	245
(Increase) decrease in other assets	**96**	87	(442)
Increase (decrease) in accrued interest payable	**(285)**	(110)	236
Increase (decrease) in accounts payable	**111**	62	(263)
Increase (decrease) in other liabilities	**(948)**	(801)	(2,227)
Total adjustments	**(1,851)**	846	(1,159)
Net cash provided by (used in) operating activities	**11,441**	12,990	9,490
Cash flows from investing activities:			
Net (increase) decrease in loans	**(29,191)**	8,826	(20,586)
(Increase) decrease in equity investments in other Farm Credit institutions	**542**	(312)	(222)
Purchases of premises and equipment	**(472)**	(148)	(420)
Proceeds from sales of premises and equipment	**6**	39	12
Proceeds from sales of other property owned	**305**	67	80
Net cash provided by (used in) investing activities	**(28,810)**	8,472	(21,136)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**26,020**	(14,451)	23,116
Net increase (decrease) in advanced conditional payments	**2,167**	(26)	(1,394)
Capital stock and participation certificates issued/(retired), net	**167**	81	50
Patronage refunds and dividends paid	**(7,093)**	(4,033)	(6,627)
Retained earnings retired	**(4,349)**	(3,264)	(3,059)
Net cash provided by (used in) financing activities	**16,912**	(21,693)	12,086
Net increase (decrease) in cash	**(457)**	(231)	440
Cash, beginning of period	**853**	1,084	644
Cash, end of period	**$ 396**	$ 853	$ 1,084
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	**$ 50**	$ —	$ 19
Receipt of property in settlement of loans	**218**	4	370
Estimated cash dividends or patronage distributions declared or payable	**3,977**	10,379	3,386
Supplemental information:			
Interest paid	**$ 11,636**	$ 14,386	$ 12,863
Taxes (refunded) paid, net	**86**	86	85

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** River Valley AgCredit, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Ballard, Calloway, Carlisle, Fulton, Graves, Hickman, Marshall and McCracken in the state of Kentucky and in the counties of Hamilton, Marion, Bradley, Polk, Bledsoe, Sequatchie, Monroe, Meigs, McMinn, Rhea, Loudon and Roane in the state of Tennessee.

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

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

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

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

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

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

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

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

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

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

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

Note 2 — Summary of Significant Accounting Policies

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

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

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

A. **Cash:** Cash represents cash on hand and on deposit at banks. At the most recent year-end, the Association held $3 in cash in excess of insured amounts.

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

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

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

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

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

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

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

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

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

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

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

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

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

Acquired loans are recorded at estimated fair value on their purchase date with no carryover of any related allowance for loan losses. Acquired loans were segregated between those considered to be credit impaired and those deemed performing. To make this determination, management considered such factors as past due status, nonaccrual status and credit risk ratings. The fair value of acquired performing loans was determined by discounting expected cash flows, both principal and interest, for each loan at prevailing market interest rates. The difference between the fair value and principal balances due at acquisition date, the fair value discount, is accreted into income over the estimated life of each loan.

For certain acquired loans that experienced deterioration in credit quality between origination and acquisition, the amount paid for the loan will reflect this fact. At acquisition, each loan is reviewed to determine whether there is evidence of deterioration of credit quality since origination and if it is probable that the Association would be unable to collect all amounts due according to the loan's contractual terms. If both conditions exist, the purchaser determines whether each such loan is to be accounted for individually or whether such loans would be assembled into pools of loans based on common risk characteristics (credit score, loan type, and date of origination, for example). Considerations of value should include expected prepayments, the estimated amount and timing of undiscounted expected principal, interest, and other cash flows (expected at acquisition) for each loan and the subsequently aggregated pool of loans. Any excess of the loan's or pool's scheduled principal and contractual interest payments over all of the cash flows expected at acquisition is an amount that should not be accreted to income (nonaccretable difference). The remaining amount, representing the excess of the loan's cash flows expected to be collected over the amount paid, is accreted into interest income over the remaining life of the loan or pool (accretable yield).

Accounting guidance requires that the purchaser continue to estimate cash flows expected to be collected over the life of the loan or pool. It then evaluates at the balance sheet date whether the present value of its loans, determined using the effective interest rate, has decreased and if so, recognizes a loss. For loans or pools that are not accounted for as debt securities, the present value of any subsequent significant increase in the loan's or pool's actual cash flows or cash flows expected to be collected is used first to reverse any existing valuation allowance for that loan or pool. For any remaining increases in cash flows expected to be collected, or for loans or pools accounted for as debt securities, a purchaser adjusts the amount of accretable yield recognized on a prospective basis over the loan's or pool's remaining life.

Valuation allowances for all purchased impaired loans reflect only those losses incurred after acquisition, that is, the present value of cash flows expected at acquisition that are not expected to be collected. Valuation allowances are established only subsequent to acquisition of the loans.

In addition to the probability of default methodology, management applies an additional qualitative reserve that captures changes in loan concentrations, weather, local economy, and other events that impact the loan portfolio.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Additional information may be found in Note 9.

Multiemployer Defined Benefit Plans
Substantially all employees hired before January 1, 2009 may participate in the Independent Associations Retirement Plan (Plan), which is a defined benefit plan and considered multiemployer under FASB accounting guidance. The Plan is noncontributory and includes eligible Association and District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes.

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

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

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

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

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

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

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

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

J. **Due from AgFirst Farm Credit Bank:** The Association records patronage refunds from the Bank and certain District Associations on an accrual basis. Patronage refunds due from the Bank for the years ended December 31, 2020, 2019 and 2018 of $8,595, $5,752, and $6,634 respectively, are reflected in Accounts Receivable on the Consolidated Balance Sheets.

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

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

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

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

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

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

Additional information may be found in Note 8.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020.

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

In April 2019, the FASB issued ASU 2019-04 Codification Improvements to Topic 326 Financial Instruments—Credit Losses, Topic 815 Derivatives and Hedging, and Topic 825 Financial Instruments. The amendments in this Update clarify, correct, and improve various aspects of the guidance in the following Updates related to financial instruments: ASU 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities, ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and ASU 2017-12 Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The items addressed generally are not expected to have a significant effect on current accounting practice or to create a significant administrative cost for most entities. For entities that have not yet adopted the amendments in ASU 2016-13, the effective dates and transition requirements for the amendments related to this Update are the same as the effective dates and transition requirements in ASU 2016-13. The transition adjustment includes adjustments made as a result of an entity developing or amending its accounting policy upon adoption of the amendments in this Update for determining when accrued interest receivables are deemed uncollectible and written off. For entities that have adopted the amendments in ASU 2017-12 as of the issuance date of this Update, the effective date is as of the beginning of the first annual period beginning after the issuance date of this Update. For those entities, early adoption is permitted, including adoption on any date on or after the issuance of this Update. The amendments in this Update related to ASU 2016-01 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim period following the issuance of this Update as long as the entity has adopted all of the amendments in ASU 2016-01. The amendments in this Update should be applied on a modified-retrospective transition basis by means of a cumulative-effect adjustment to the opening retained earnings balance in the statement of financial position as of the date an entity adopted all of the amendments in ASU 2016-01. Adoption of the guidance related to ASU 2016-01 and ASU 2017-12 did not have an impact on the statements of financial condition or results of operations. Any possible effects the Credit Losses guidance may have on the statements of financial condition and results of operations will be evaluated along with implementation of ASU 2016-13.

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

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

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

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

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

Note 3 — Loans and Allowance for Loan Losses

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

Credit risk arises from the potential inability of an obligor to meet its repayment obligation which exists in outstanding loans. The Association manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the Board of Directors.

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

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

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

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

A summary of loans outstanding at period end follows:

	December 31, 2020	2019	2018
Real estate mortgage	$ 296,440	$ 262,608	$ 248,651
Production and intermediate-term	195,255	200,729	216,125
Loans to cooperatives	649	430	296
Processing and marketing	7,642	3,251	2,568
Farm-related business	9,615	6,971	13,084
Rural residential real estate	15,479	12,963	13,910
Other (including Mission Related)	34,467	44,410	46,311
Total loans	$ 559,547	$ 531,362	$ 540,945

A substantial portion of the Association's lending activities is collateralized and the Association's exposure to credit loss associated with lending activities is reduced accordingly.

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are collateralized by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in loan to value ratios in excess of the regulatory maximum.

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

December 31, 2020

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 2,626	$ 5,134	$ –	$ –	$ –	$ 3,568	$ 2,626	$ 8,702
Production and intermediate-term	3,106	3,189	214	–	–	2,781	3,320	5,970
Loans to cooperatives	651	–	–	–	–	–	651	–
Processing and marketing	3,429	4,000	–	–	–	–	3,429	4,000
Farm-related business	11	198	–	–	–	–	11	198
Other (including Mission Related)	–	–	–	–	32,980	–	32,980	–
Total	$ 9,823	$ 12,521	$ 214	$ –	$ 32,980	$ 6,349	$ 43,017	$ 18,870

December 31, 2019

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 2,004	$ –	$ –	$ –	$ –	$ 2,799	$ 2,004	$ 2,799
Production and intermediate-term	2,282	2,531	4	–	–	2,319	2,286	4,850
Loans to cooperatives	432	–	–	–	–	–	432	–
Processing and marketing	946	2,000	–	–	–	–	946	2,000
Farm-related business	47	1,928	–	–	–	–	47	1,928
Other (including Mission Related)	–	–	–	–	42,041	–	42,041	–
Total	$ 5,711	$ 6,459	$ 4	$ –	$ 42,041	$ 5,118	$ 47,756	$ 11,577

December 31, 2018

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 1,290	$ –	$ –	$ –	$ –	$ 1,853	$ 1,290	$ 1,853
Production and intermediate-term	1,652	2,695	5	–	–	2,108	1,657	4,803
Loans to cooperatives	298	–	–	–	–	–	298	–
Processing and marketing	1,745	–	–	–	–	–	1,745	–
Farm-related business	322	2,226	–	–	–	–	322	2,226
Other (including Mission Related)	–	–	–	–	44,005	–	44,005	–
Total	$ 5,307	$ 4,921	$ 5	$ –	$ 44,005	$ 3,961	$ 49,317	$ 8,882

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

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

	December 31, 2020	2019	2018
Real estate mortgage:			
Acceptable	94.17%	93.62%	91.46%
OAEM	1.93	4.18	4.34
Substandard/doubtful/loss	3.90	2.20	4.20
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	90.71%	92.79%	86.70%
OAEM	4.97	3.82	4.24
Substandard/doubtful/loss	4.32	3.39	9.06
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%

	December 31, 2020	2019	2018
Farm-related business:			
Acceptable	72.84%	99.05%	95.34%
OAEM	24.76	0.95	–
Substandard/doubtful/loss	2.40	–	4.66
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	98.84%	97.91%	97.64%
OAEM	0.07	0.25	0.55
Substandard/doubtful/loss	1.09	1.84	1.81
	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	93.16%	94.06%	90.57%
OAEM	3.19	3.53	3.71
Substandard/doubtful/loss	3.65	2.41	5.72
	100.00%	100.00%	100.00%

The following tables provide an aging analysis of past due loans with related accrued interest, premiums, and discounts as of periods ended:

December 31, 2020	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 506	$ 2,763	$ 3,269	$ 296,557	$ 299,826
Production and intermediate-term	274	1,470	1,744	196,605	198,349
Loans to cooperatives	–	–	–	649	649
Processing and marketing	–	–	–	7,660	7,660
Farm-related business	233	–	233	9,472	9,705
Rural residential real estate	–	52	52	15,479	15,531
Other (including Mission Related)	2,104	–	2,104	32,615	34,719
Total	$ 3,117	$ 4,285	$ 7,402	$ 559,037	$ 566,439

December 31, 2019	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 959	$ 2,838	$ 3,797	$ 262,441	$ 266,238
Production and intermediate-term	2,305	866	3,171	201,149	204,320
Loans to cooperatives	–	–	–	430	430
Processing and marketing	–	–	–	3,247	3,247
Farm-related business	269	–	269	6,814	7,083
Rural residential real estate	59	–	59	12,947	13,006
Other (including Mission Related)	–	–	–	44,730	44,730
Total	$ 3,592	$ 3,704	$ 7,296	$ 531,758	$ 539,054

December 31, 2018	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 837	$ 2,578	$ 3,415	$ 249,045	$ 252,460
Production and intermediate-term	413	1,133	1,546	218,730	220,276
Loans to cooperatives	–	–	–	296	296
Processing and marketing	–	–	–	2,582	2,582
Farm-related business	328	615	943	12,246	13,189
Rural residential real estate	36	49	85	13,874	13,959
Other (including Mission Related)	–	–	–	46,643	46,643
Total	$ 1,614	$ 4,375	$ 5,989	$ 543,416	$ 549,405

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

	December 31, 2020	2019	2018
Nonaccrual loans:			
Real estate mortgage	$ 3,049	$ 2,947	$ 3,137
Production and intermediate-term	2,087	985	1,192
Farm-related business	–	–	615
Rural residential real estate	118	45	49
Total	$ 5,254	$ 3,977	$ 4,993
Accruing restructured loans:			
Real estate mortgage	$ 5,026	$ 5,175	$ 4,948
Production and intermediate-term	236	707	534
Rural residential real estate	12	49	62
Total	$ 5,274	$ 5,931	$ 5,544
Accruing loans 90 days or more past due:			
Real estate mortgage	$ –	$ –	$ 13
Total	$ –	$ –	$ 13
Total nonperforming loans	$ 10,528	$ 9,908	$ 10,550
Other property owned	31	313	356
Total nonperforming assets	$ 10,559	$ 10,221	$ 10,906
Nonaccrual loans as a percentage of total loans	0.94%	0.75%	0.92%
Nonperforming assets as a percentage of total loans and other property owned	1.89%	1.92%	2.01%
Nonperforming assets as a percentage of capital	10.16%	10.56%	11.12%

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

	December 31, 2020	2019	2018
Impaired nonaccrual loans:			
Current as to principal and interest	$ 880	$ 131	$ 120
Past due	4,374	3,846	4,873
Total	$ 5,254	$ 3,977	$ 4,993
Impaired accrual loans:			
Restructured	$ 5,274	$ 5,931	$ 5,544
90 days or more past due	–	–	13
Total	$ 5,274	$ 5,931	$ 5,557
Total impaired loans	$ 10,528	$ 9,908	$ 10,550
Additional commitments to lend	$ 20	$ 21	$ 24

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

	December 31, 2020			Year Ended December 31, 2020	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Production and intermediate-term	$ 1,041	$ 1,262	$ 346	$ 1,078	$ 16
Rural residential real estate	42	79	14	43	1
Total	$ 1,083	$ 1,341	$ 360	$ 1,121	$ 17
With no related allowance for credit losses:					
Real estate mortgage	$ 8,075	$ 8,099	$ –	$ 8,359	$ 127
Production and intermediate-term	1,282	1,367	–	1,326	20
Rural residential real estate	88	87	–	92	1
Total	$ 9,445	$ 9,553	$ –	$ 9,777	$ 148
Total impaired loans:					
Real estate mortgage	$ 8,075	$ 8,099	$ –	$ 8,359	$ 127
Production and intermediate-term	2,323	2,629	346	2,404	36
Rural residential real estate	130	166	14	135	2
Total	$ 10,528	$ 10,894	$ 360	$ 10,898	$ 165

Impaired loans:	December 31, 2019 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2019 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 3	$ 25	$ 13	$ 4	$ –
Production and intermediate-term	329	541	203	420	17
Rural residential real estate	45	81	14	58	2
Total	$ 377	$ 647	$ 230	$ 482	$ 19
With no related allowance for credit losses:					
Real estate mortgage	$ 8,119	$ 8,093	$ –	$ 10,373	$ 407
Production and intermediate-term	1,363	1,443	–	1,743	68
Rural residential real estate	49	50	–	62	2
Total	$ 9,531	$ 9,586	$ –	$ 12,178	$ 477
Total impaired loans:					
Real estate mortgage	$ 8,122	$ 8,118	$ 13	$ 10,377	$ 407
Production and intermediate-term	1,692	1,984	203	2,163	85
Rural residential real estate	94	131	14	120	4
Total	$ 9,908	$ 10,233	$ 230	$ 12,660	$ 496

Impaired loans:	December 31, 2018 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2018 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 11	$ 33	$ 13	$ 13	$ –
Production and intermediate-term	323	535	192	370	3
Rural residential real estate	49	85	15	56	1
Total	$ 383	$ 653	$ 220	$ 439	$ 4
With no related allowance for credit losses:					
Real estate mortgage	$ 8,087	$ 8,206	$ –	$ 9,271	$ 83
Production and intermediate-term	1,403	1,464	–	1,609	15
Farm-related business	615	1,639	–	705	6
Rural residential real estate	62	62	–	71	–
Total	$ 10,167	$ 11,371	$ –	$ 11,656	$ 104
Total impaired loans:					
Real estate mortgage	$ 8,098	$ 8,239	$ 13	$ 9,284	$ 83
Production and intermediate-term	1,726	1,999	192	1,979	18
Farm-related business	615	1,639	–	705	6
Rural residential real estate	111	147	15	127	1
Total	$ 10,550	$ 12,024	$ 220	$ 12,095	$ 108

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Rural Residential Real Estate	Other (including Mission Related)	Total
Activity related to the allowance for credit losses:						
Balance at December 31, 2019	$ 2,522	$ 3,549	$ 133	$ 88	$ –	$ 6,292
Charge-offs	(18)	(87)	–	–	–	(105)
Recoveries	64	46	23	3	–	136
Provision for (reversal of) loan losses	468	23	141	38	–	670
Balance at December 31, 2020	$ 3,036	$ 3,531	$ 297	$ 129	$ –	$ 6,993
Balance at December 31, 2018	$ 927	$ 3,894	$ 1,825	$ 88	$ –	$ 6,734
Charge-offs	–	(8)	–	(24)	–	(32)
Recoveries	2	66	59	2	–	129
Provision for (reversal of) loan losses	1,593	(403)	(1,751)	22	–	(539)
Balance at December 31, 2019	$ 2,522	$ 3,549	$ 133	$ 88	$ –	$ 6,292
Balance at December 31, 2017	$ 2,446	$ 3,812	$ 145	$ 113	$ –	$ 6,516
Charge-offs	(277)	(52)	(806)	(9)	–	(1,144)
Recoveries	273	67	–	40	–	380
Provision for loan losses	(1,515)	67	2,486	(56)	–	982
Balance at December 31, 2018	$ 927	$ 3,894	$ 1,825	$ 88	$ –	$ 6,734
Allowance on loans evaluated for impairment:						
Individually	$ –	$ 346	$ –	$ 14	$ –	$ 360
Collectively	3,036	3,185	297	115	–	6,633
PCI**	–	–	–	–	–	–
Balance at December 31, 2020	$ 3,036	$ 3,531	$ 297	$ 129	$ –	$ 6,993
Individually	$ 13	$ 203	$ –	$ 14	$ –	$ 230
Collectively	2,509	3,346	133	74	–	6,062
PCI**	–	–	–	–	–	–
Balance at December 31, 2019	$ 2,522	$ 3,549	$ 133	$ 88	$ –	$ 6,292
Individually	$ 13	$ 192	$ –	$ 15	$ –	$ 220
Collectively	914	3,702	1,825	73	–	6,514
PCI**	–	–	–	–	–	–
Balance at December 31, 2018	$ 927	$ 3,894	$ 1,825	$ 88	$ –	$ 6,734
Recorded investment in loans evaluated for impairment:						
Individually	$ 8,075	$ 2,323	$ –	$ 130	$ –	$ 10,528
Collectively	291,751	196,026	18,014	15,401	34,719	555,911
PCI**	–	–	–	–	–	–
Balance at December 31, 2020	$ 299,826	$ 198,349	$ 18,014	$ 15,531	$ 34,719	$ 566,439
Individually	$ 8,122	$ 1,692	$ –	$ 60	$ –	$ 9,874
Collectively	258,116	202,628	10,760	12,911	44,730	529,145
PCI**	–	–	–	35	–	35
Balance at December 31, 2019	$ 266,238	$ 204,320	$ 10,760	$ 13,006	$ 44,730	$ 539,054
Individually	$ 8,098	$ 1,726	$ 615	$ 67	$ –	$ 10,506
Collectively	244,362	218,550	15,452	13,845	46,643	538,852
PCI**	–	–	–	47	–	47
Ending balance at December 31, 2018	$ 252,460	$ 220,276	$ 16,067	$ 13,959	$ 46,643	$ 549,405

**Includes the loan types: Loans to cooperatives, Processing and marketing, and Farm-related business.*
***Purchased credit impaired (PCI) loans. This table includes PCI loans currently classified as performing and not individually evaluated for impairment.*

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. The tables do not include purchased credit impaired loans. There were no new TDRs that occurred during the year ended December 31, 2020.

	Year Ended December 31, 2019				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 565	$ –	$ 565	
Production and intermediate-term	–	197	–	197	
Total	$ –	$ 762	$ –	$ 762	
Post-modification:					
Real estate mortgage	$ –	$ 569	$ –	$ 569	$ –
Production and intermediate-term	–	219	–	219	–
Total	$ –	$ 788	$ –	$ 788	$ –

Outstanding Recorded Investment	Year Ended December 31, 2018 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	$ 244	$ –	$ 244	
Production and intermediate-term	–	551	–	551	
Total	$ –	$ 795	$ –	$ 795	
Post-modification:					
Real estate mortgage	$ –	$ 255	$ –	$ 255	$ –
Production and intermediate-term	–	555	–	555	–
Total	$ –	$ 810	$ –	$ 810	$ –

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

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

The following table provides information at 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 December 31, 2020	2019	2018	Nonaccrual TDRs December 31, 2020	2019	2018
Real estate mortgage	$ 6,408	$ 6,955	$ 6,728	$ 1,382	$ 1,780	$ 1,780
Production and intermediate-term	868	1,083	958	632	376	424
Rural residential real estate	12	49	62	–	–	–
Total loans	$ 7,288	$ 8,087	$ 7,748	$ 2,014	$ 2,156	$ 2,204
Additional commitments to lend	$ 20	$ 21	$ 24			

Purchased Credit Impaired (PCI) Loans

River Valley acquires loans individually and in groups or portfolios.

In connection with a 2012 business combination, River Valley purchased impaired loans that are accounted for under the Cost Recovery Method. The carrying amounts of those loans included in the balance sheet amounts of loans receivable at December 31, were as follows.

	2020	2019	2018
Rural residential real estate	$ –	$ 35	$ 47
Total loans	$ –	$ 35	$ 47

There was no allowance for loan losses related to these loans at December 31, 2020, 2019, or 2018. During the years ended December 31, 2020, 2019, and 2018, net provision expense on these loans was a net provision reversal of $4, a net provision reversal of $32, and a net provision reversal of $42, respectively. See above for a summary of changes in the total allowance for loan losses for the period ended December 31, 2020. There were no other loans acquired during the year ended December 31, 2020 for which it was probable at acquisition that all contractually required payments would not be collected. The total of loans acquired in the 2012 business combination for which it was probable at acquisition that all contractually required payments would not be collected were as follows:

	Acquired in 2012
Real estate mortgage	$ 3,488
Production and intermediate-term	4,105
Rural residential real estate	236
Total loans	$ 7,829

The loans acquired by the Association in the business combination that were within the scope of purchased impaired loan guidance are accounted for using a cash basis method of income recognition because the Association cannot reasonably estimate cash flows expected to be collected. Substantially all of the loans acquired were real estate collateral dependent loans. As discussed previously, the real estate market is unpredictable, making the estimation of the amount and timing of a sale of loan collateral in essentially the same condition as received upon foreclosure indeterminate. As such, the Association does not have the information necessary to reasonably estimate cash flows expected to be collected to compute its yield. Management determined a nonaccrual classification would be the most appropriate and that no income would be recognized on these loans as is allowed under accounting guidance.

Note 4 — Investments

Equity Investments in Other Farm Credit Institutions
Equity investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. These investments are carried at cost and evaluated for impairment

based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 2.04 percent of the issued stock of the Bank as of December 31, 2020 net of any reciprocal investment. As of that date, the Bank's assets totaled $36.3 billion and shareholders' equity totaled $2.5 billion. The Bank's earnings were $418 million for 2020. The Bank's information is audited by another external auditor. In addition, the Association had investments of $457 related to other Farm Credit institutions at December 31, 2020.

Note 5 — Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2020	2019	2018
Land	$ 2,074	$ 2,069	$ 2,124
Buildings and improvements	5,077	4,750	4,813
Furniture and equipment	1,835	1,722	1,628
	8,986	8,541	8,565
Less: accumulated depreciation	3,228	2,757	2,857
Less: right of use asset	–	240	–
Total	$ 5,758	$ 5,544	$ 5,708

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

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

The weighted average interest rates on the variable rate advances were 1.70 percent for LIBOR-based loans and 1.57 percent for Prime-based loans, and the weighted average remaining maturities were 4.5 years and 1.4 years, respectively, at December 31, 2020. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 2.35 percent, and the weighted average remaining maturity was 11.9 years at December 31, 2020. The weighted-average interest rate on all interest-bearing notes payable was 2.20 percent and the weighted-average remaining maturity was 9.9 years at December 31, 2020. Variable rate and fixed rate notes payable represent approximately 2.69 percent and 97.31 percent, respectively, of total notes payable at December 31, 2020. The weighted average maturities described above are related to matched-funded loans. The Direct Note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

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

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

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

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

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

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

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

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2020	2019	2018
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	17.40%	18.54%	16.32%
Tier 1 Capital	6.0%	2.5%	8.5%	17.40%	18.54%	16.32%
Total Capital	8.0%	2.5%	10.5%	18.94%	20.07%	17.86%
Permanent Capital	7.0%	0.0%	7.0%	18.15%	20.27%	18.64%
Non-risk-adjusted ratios:						
Tier 1 Leverage	4.0%	1.0%	5.0%	16.00%	16.47%	14.79%
URE and UREE Leverage	1.5%	0.0%	1.5%	15.78%	16.18%	14.47%

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

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

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

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

Class	Protected	Shares Outstanding Number	Aggregate Par Value
B Common/Nonvoting	No	240,487	$ 1,203
C Common/Voting	No	606,671	3,033
C Participation Certificates/Nonvoting	No	98,026	490
Total Capital Stock and Participation Certificates		945,184	$ 4,726

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

Retained Earnings

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

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

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

Allocated equities shall be retired solely at the discretion of the Board; provided, however, that minimum capital standards established by the FCA and the Board are met. Nonqualified retained surplus is considered to be permanently invested in the Association and as such, there is no plan to revolve or retire this surplus. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2020, allocated members' equity consisted of $46,708 of nonqualified retained surplus. The Association retired $4,195 of nonqualified allocated surplus and $154 of qualified allocated surplus in 2020.

Patronage Distributions

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

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members' equity account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash. Amounts not distributed are retained as unallocated member's equity.

Dividends

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 8 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid on all classes of stock and participation certificates.

The rate of dividends on Classes B or C Common Stock and participation certificates shall be at the same rate per share.

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

Transfer

Classes B and C Common Stocks and Participation Certificates may be transferred to persons or entities eligible to purchase or hold such Stock or Participation Certificates as provided in Section 830 of the Association's bylaws.

Impairment

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

1. Classes B and C Common Stock and Participation Certificates

Liquidation

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

1. Holders of Classes B and C Common Stock and Participation Certificates
2. Holders of allocated surplus evidenced by qualified written notices of allocation, in the order of the year of issuance, until the total amount of such account has been distributed
3. Holders of nonqualified allocated surplus evidenced by written notices of allocation in the order of the year of issuance, until the total amount of such account has been distributed

4. Any remaining assets after such distribution shall be distributed to present and former Stockholders, to the extent practicable

Note 8 — Fair Value Measurement

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

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

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

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

Level 1
The Association had no Level 1 assets and liabilities measured at fair value on a recurring basis. For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

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

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

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

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

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

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

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

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

	December 31, 2020				
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Recurring Measurements					
Assets:					
Recurring Assets	$ –	$ –	$ –	$ –	$ –
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 723	$ –	$ –	$ 723	$ 723
Other property owned	31	–	–	33	33
Nonrecurring Assets	$ 754	$ –	$ –	$ 756	$ 756
Other Financial Instruments					
Assets:					
Cash	$ 396	$ 396	$ –	$ –	$ 396
Loans	553,160	–	–	556,205	556,205
Accrued interest receivable	6,892	–	6,892	–	6,892
Other Financial Assets	$ 560,448	$ 396	$ 6,892	$ 556,205	$ 563,493
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 462,996	$ –	$ –	$ 465,893	$ 465,893
Accrued interest payable	860	–	860	–	860
Other Financial Liabilities	$ 463,856	$ –	$ 860	$ 465,893	$ 466,753

	December 31, 2019				
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Recurring Measurements					
Assets:					
Recurring Assets	$ –	$ –	$ –	$ –	$ –
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 147	$ –	$ –	$ 147	$ 147
Other property owned	313	–	–	351	351
Nonrecurring Assets	$ 460	$ –	$ –	$ 498	$ 498
Other Financial Instruments					
Assets:					
Cash	$ 853	$ 853	$ –	$ –	$ 853
Loans	525,603	–	–	523,247	523,247
Accrued interest receivable	7,692	–	7,692	–	7,692
Other Financial Assets	$ 534,148	$ 853	$ 7,692	$ 523,247	$ 531,792
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 437,014	$ –	$ –	$ 436,448	$ 436,448
Accrued interest payable	1,145	–	1,145	–	1,145
Other Financial Liabilities	$ 438,159	$ –	$ 1,145	$ 436,448	$ 437,593

	December 31, 2018				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Recurring Assets	$ –	$ –	$ –	$ –	$ –
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 163	$ –	$ –	$ 163	$ 163
Other property owned	356	–	–	397	397
Nonrecurring Assets	$ 519	$ –	$ –	$ 560	$ 560
Other Financial Instruments					
Assets:					
Cash	$ 1,084	$ 1,084	$ –	$ –	$ 1,084
Loans	534,048	–	–	521,835	521,835
Accrued interest receivable	8,460	–	8,460	–	8,460
Other Financial Assets	$ 543,592	$ 1,084	$ 8,460	$ 521,835	$ 531,379
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 451,508	$ –	$ –	$ 444,021	$ 444,021
Accrued interest payable	1,255	–	1,255	–	1,255
Other Financial Liabilities	$ 452,763	$ –	$ 1,255	$ 444,021	$ 445,276

Uncertainty in Measurements of Fair Value

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

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

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 756	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*
			Collateral discounts	*

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Accrued interest receivable	Carrying value	Par/principal
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Accrued interest payable	Carrying value	Par/principal

Note 9 — Employee Benefit Plans

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

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

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

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

The IAR Plan covers employees hired prior to January 1, 2009 and includes other District employees that are not employees of the Association. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. IAR Plan expenses included in employee benefit costs on the Association's Statements of Comprehensive Income were $883 for 2020, $691 for 2019, and $1,811 for 2018. At December 31, 2020, 2019, and 2018, the total liability balance for the IAR Plan presented in the District Combined Balance Sheets was $12,578, $14,603, and $8,626, respectively. The IAR Plan was 87.06 percent, 83.65 percent, and 88.42 percent funded to the projected benefit obligation as of December 31, 2020, 2019, and 2018, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Association or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs on the Association's Statements of Comprehensive Income were $163 for 2020, $162 for 2019, and $127 for 2018. The total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition was $219,990, $209,531, and $181,820 at December 31, 2020, 2019, and 2018, respectively.

The Association also participates in the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. The 401(k) Plan requires the Association to match 100 percent of employee optional contributions up to a maximum employee contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $341, $339, and $337 for the years ended December 31, 2020, 2019, and 2018, respectively. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2008.

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

Total loans to such persons at December 31, 2020 amounted to $15,509. During 2020, $17,474 of new loans were made and repayments totaled $21,077. In the opinion of management, none of these loans outstanding at December 31, 2020 involved more than a normal risk of collectibility.

Note 11 — Commitments and Contingencies

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

In the normal course of business, the Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers. These financial instruments may include commitments to extend credit or letters of credit.

The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2020, $112,275 of commitments to extend credit and no commercial letters of credit were outstanding with no related reserve for unfunded commitments included in Other Liabilities in the Consolidated Balance Sheets.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2020, standby letters of credit outstanding totaled $275 with expiration dates ranging from January 19, 2021 to December 12, 2023. The maximum potential amount of future payments that may be required under these guarantees was $275.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2020	2019	2018
Current:			
Federal	$ 61	$ 57	$ 56
Deferred:	–	–	–
Total provision (benefit) for income taxes	$ 61	$ 57	$ 56

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

	December 31,		
	2020	2019	2018
Federal tax at statutory rate	$ 2,804	$ 2,561	$ 2,248
Patronage distributions	(835)	(2,179)	(711)
Tax-exempt FLCA earnings	(1,790)	(355)	(1,533)
Change in deferred tax asset valuation allowance	(14)	(2)	13
Other	(104)	32	39
Provision (benefit) for income taxes	$ 61	$ 57	$ 56

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

	December 31,		
	2020	2019	2018
Deferred income tax assets:			
Allowance for loan losses	$ 793	$ 847	$ 741
Nonaccrual Interest	88	68	151
Annual leave	67	59	63
Other postretirement benefits	–	–	–
Other Property Owned write-downs	2	–	–
Loss Carryforward	–	–	–
Gross deferred tax assets	950	974	955
Less: valuation allowance	(884)	(898)	(899)
Gross deferred tax assets, net of valuation allowance	66	76	56
Deferred income tax liabilities:			
Pensions and other postretirement benefits	–	–	–
FAS 91	–	–	–
Depreciation	(66)	(76)	(56)
Gross deferred tax liability	–	–	–
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2020, deferred income taxes have not been provided by the Association on approximately $4.8 million of its investment in the Bank. Management expects that these earnings will not be converted to cash.

The Association recorded a valuation allowance of $884, $898 and $899 as of December 31, 2020, 2019 and 2018, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and no unrecognized tax benefits at December 31, 2020 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense.

The tax years that remain open for federal and major state income tax jurisdictions are 2017 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2020				
	First	Second	Third	Fourth	Total
Net interest income	$ 3,641	$ 3,692	$ 3,695	$ 3,784	$ 14,812
Provision for (reversal of allowance for) loan losses	(10)	530	200	(50)	670
Noninterest income (expense), net	(1,620)	(1,469)	(1,431)	3,670	(850)
Net income	$ 2,031	$ 1,693	$ 2,064	$ 7,504	$ 13,292

	2019				
	First	Second	Third	Fourth	Total
Net interest income	$ 3,688	$ 3,651	$ 3,786	$ 3,772	$ 14,897
Provision for (reversal of allowance for) loan losses	(32)	(623)	14	102	(539)
Noninterest income (expense), net	(1,272)	(1,271)	(1,131)	382	(3,292)
Net income	$ 2,448	$ 3,003	$ 2,641	$ 4,052	$ 12,144

	2018				
	First	Second	Third	Fourth	Total
Net interest income	$ 3,480	$ 3,433	$ 3,539	$ 3,648	$ 14,100
Provision for (reversal of allowance for) loan losses	211	281	246	244	982
Noninterest income (expense), net	(784)	(1,531)	(1,444)	1,290	(2,469)
Net income	$ 2,485	$ 1,621	$ 1,849	$ 4,694	$ 10,649

Note 14 — Subsequent Events

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

River Valley AgCredit

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