
Cape Fear Farm Credit, ACA
FIRST QUARTER 2021

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2021 quarterly report of Cape Fear Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

/s/ Nash Johnson
Chairman of the Board

/s/ Evan J. Kleinhans
Chief Executive Officer

/s/ Charles M. Hester
Chief Financial Officer

May 7, 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. This process provides 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.

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the 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 March 31, 2021. 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 March 31, 2021, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2021.

/s/ Evan J. Kleinhans
Chief Executive Officer

/s/ Charles M. Hester
Chief Financial Officer

May 7, 2021

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Cape Fear Farm Credit, ACA, (Association) for the period ended March 31, 2021. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2020 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

COVID-19 OVERVIEW

In response to the COVID-19 pandemic, and without disruption to operations, the Association transitioned the vast majority of its employees to working remotely in mid-March 2020. The priority was, and continues to be, to ensure the health and safety of employees, while continuing to serve the mission of providing support for rural America and agriculture. A portion of Association employees have returned to working in the office on a rotating schedule while the remaining majority have returned to working in the office full time.

During the first quarter of 2021, significant progress has been made in the fight against COVID-19 with the distribution of vaccines. However, it remains unclear how quickly the vaccines will be distributed nationwide and globally or when the restrictions that were imposed to slow the spread of the pandemic will be lifted entirely. In this regard, the Association will adjust its business continuity plan to maintain the most effective and efficient business operations while safeguarding the health and safety of employees. In addition, the Association continues to work with borrowers to offer appropriate solutions to meet their operating and liquidity needs.

See further discussion of business risks associated with COVID-19 in the Annual Report.

COVID-19 Support Programs

Since the onset of the COVID-19 pandemic, the U.S. government has taken a number of actions to help businesses, individuals, state/local governments, and educational institutions that have been adversely impacted by the economic disruption caused by the pandemic.

On March 11, 2021, Congress passed the \$1.9 trillion American Rescue Plan Act of 2021 that provided an additional \$1.9 trillion of economic stimulus. Among other provisions was \$10.4 billion for agriculture and USDA, including \$4 billion and \$1 billion for debt forgiveness and outreach/support, respectively, for socially disadvantaged farmers.

The previously enacted Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was amended by subsequent legislation, included the Paycheck Protection Program (PPP). The PPP provides support to small businesses to cover payroll and certain other expenses. Loans made under the PPP are fully guaranteed by the Small Business Administration (SBA), whose guarantee is backed by the full faith and credit of the United States. As of March 31, 2021, the Association had \$6,033 of loans outstanding to approximately 257 borrowers. In addition, through March 31, 2021, the volume of loans that have received forgiveness from the SBA since the start of the program was \$856.

For a detailed discussion of programs enacted in 2020, see pages 5 and 6 of the 2020 Annual Report.

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. The Association's loan portfolio consists of agricultural commodities in our region, including swine, poultry, tobacco, and row crop operations. The Association's loan portfolio contains a concentration of swine and poultry loans. Demand for pork, chicken, turkey as well as prices of field grains affects the price of these commodities. Other factors including but not limited to international trade policies, political risks and nuisance lawsuits could impact these industries and the Association's corresponding loan portfolio. While demand for tobacco and cotton remains weak, increasing prices for corn and soy beans have improved the outlook for many row crop producers in the Association's territory. Credit quality has improved slightly since the fourth quarter of 2020 and remains acceptable overall.

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. Risk exposure is reduced by many of the borrowers in the region having diversified farming operations as well as varying farm

size. This factor, along with the opportunities for non-farm income in the area, lessens the level of dependency on any single given commodity. Concentration risk is further mitigated by a portfolio of participation loans purchased or originated and sold. The Association also mitigates concentration risk through the use of USDA and Farmer Mac guarantees.

The gross loan volume of the Association at March 31, 2021 was \$1,020,674, a decrease of \$5,054 or 0.49 percent as compared to \$1,025,728 at December 31, 2020. When compared to the same period of 2020, gross loan volume increased by \$50,059 or 5.16 percent from \$970,615. Net loans outstanding at March 31, 2021 were \$1,010,912, a decrease of \$4,584 or 0.45 percent as compared to \$1,015,496 at December 31, 2020. When compared to the same period of 2020, net loans outstanding increased by \$50,445 or 5.25 percent from \$960,467. Net loans accounted for 97.61 percent of total assets at March 31, 2021, as compared to 96.10 percent and 96.94 percent at December 31, 2020 and March 31, 2020, respectively.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans decreased \$392 to \$8,758 at March 31, 2021 from \$9,150 at December 31, 2020. The contraction in nonaccrual volume was primarily attributed to several liquidations and pay downs of nonaccrual balances during the three month period. Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2021 was \$9,762, which was less than the December 31, 2020 amount of \$10,232 by \$470 or 4.59 percent. The decrease in the overall allowance was primarily attributed to a decrease in the general reserve.

Other investments consist of Rural America Bonds which come under the Farm Credit Administration's (FCA) Mission Related Investments. The objective of Rural America Bonds is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. At March 31, 2021, the Association had \$2,644 in Rural America Bonds, which were all classified as investment securities, as compared to \$2,663 at December 31, 2020.

Effective December 31, 2016, the FCA concluded each pilot program approved as part of the Investment in Rural America program. Each institution participating in such programs may continue to hold its investment through the maturity dates for the investments, provided the institution continues to meet all approval conditions. Although the pilot programs have concluded, the FCA can consider future requests on a case-by-case basis.

Other property owned (OPO) at March 31, 2021 was \$155, as compared to \$0 at December 31, 2020. The Association is actively marketing all properties classified as other property owned for resale.

RESULTS OF OPERATIONS

For the three months ended March 31, 2021

Net income for the three months ended March 31, 2021 totaled \$6,431 as compared to \$5,615 for the same period in 2020, an increase of \$816 or 14.53 percent.

For the three months ended March 31, 2021, net interest income increased \$28 or 0.41 percent as compared to the same period in 2020. Interest income on loans decreased by \$1,477 and interest income from investment securities decreased by \$5. Interest expense decreased by \$1,510 compared to the same period last year. Provision for loan losses decreased by \$846 in comparison to the same period in 2020. There was a reversal of allowance for loan losses of \$654 for the three months ended March 31, 2021, as compared to a provision for loan losses of \$192 for the same period in 2020. Nonaccrual income was \$260 for the three months ended March 31, 2021, as compared to \$84 for the same period in 2020 which is an increase of \$176.

Noninterest income for the three months ended March 31, 2021 totaled \$3,336 as compared to \$3,095 for the same period of 2020, an increase of \$241 or 7.79 percent. Positive variances for the period included a \$308 increase in loan fee income, a \$97 increase in patronage refunds from other Farm Credit institutions, a \$12 increase in gains on sales of premises and equipment, a \$9 increase in other gains, and a \$1 increase in fees for financially related services. The overall increase was offset by a \$182 decrease in insurance fund refunds and a \$4 decrease in gains on sales of rural home loans.

Noninterest expense for the three months ended March 31, 2021 totaled \$4,460 as compared to \$4,167 for the same period of 2020, an increase of \$293 or 7.03 percent. Items contributing to the increase included a \$306 increase in salaries and employee benefits, a \$154 increase in insurance fund premiums, and a \$46 increase in losses on OPO. The overall increase was offset by a \$208 decrease in other operating expenses and a \$5 decrease in occupancy and equipment.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes

payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2021 was \$779,223 as compared to \$801,307 at December 31, 2020.

See Note 5 in the Notes to the Consolidated Financial Statements for information on the status of compliance with covenants under the General Financing Agreement.

CAPITAL RESOURCES

Total members' equity at March 31, 2021 increased to \$227,572 from the December 31, 2020 total of \$221,105. The increase is primarily due to recognition of net income retained through the first quarter.

FCA regulations require all Farm Credit institutions to maintain minimum common equity tier 1 (CET1), tier 1 capital, total capital, and permanent capital risk-based capital ratios, along with tier 1 leverage and unallocated retained earnings equivalents leverage ratios. As of March 31, 2021, all ratios were well above the regulatory minimums.

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of March 31, 2021
Risk-adjusted ratios:				
CET1 Capital	4.5%	2.5%	7.0%	20.26%
Tier 1 Capital	6.0%	2.5%	8.5%	20.26%
Total Capital	8.0%	2.5%	10.5%	21.24%
Permanent Capital Ratio	7.0%	0.0%	7.0%	20.52%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	21.15%
UREE Leverage Ratio	1.5%	0.0%	1.5%	21.35%

* Includes fully phased-in capital conservation buffer 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.

There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

REGULATORY MATTERS

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.

FUTURE OF LIBOR

In 2017, the United Kingdom's Financial Conduct Authority (UK FCA), 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.

On March 5, 2021, ICE Benchmark Administration (IBA) (the entity that is responsible for calculating LIBOR) announced its intention to cease the publication of the one-week and two-month US dollar LIBOR settings immediately following the LIBOR publication on December 31, 2021, and the remaining US dollar LIBOR settings immediately following the LIBOR publication on June 30, 2023. On the same day, the UK FCA announced that the IBA had notified the UK FCA of its intent, among other things, to cease providing certain US dollar LIBOR settings as of June 30, 2023. In its announcement, the UK FCA confirmed that all 35 LIBOR tenors (including with respect to US dollar LIBOR) will be discontinued or declared nonrepresentative as of either: (a) immediately after December 31, 2021 or (b) immediately after June 30, 2023.

The Association has exposure to LIBOR arising 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, and adversely affect the yield on, and fair value of, loans held that reference LIBOR. In addition, there could be other ramifications including those that may arise as a result of the need to redeem or terminate such instruments.

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

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

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 which benchmark will 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.

For example, on April 6, 2021, the New York Governor signed into law the New York State Legislature's Senate Bill 297B/Assembly Bill 164B (the New York LIBOR Legislation). The New York LIBOR Legislation amends the New York General Obligations Law by adding new Article 18-c and

mirrors a legislative proposal drafted by the Alternative Reference Rates Committee (the ARRC) aimed at ensuring legal clarity for legacy instruments governed by New York law during the US dollar LIBOR transition. The ARRC is an industry-working group convened by the Federal Reserve Board and the New York Fed to lead the LIBOR transition, which, among other work, has developed industry-specific fallback language that may be used by market participants to address the cessation of US dollar LIBOR. The New York LIBOR Legislation applies to US dollar LIBOR-based contracts, securities, and instruments governed under New York law that (i) do not have any US dollar LIBOR fallback provisions in place, (ii) have US dollar LIBOR fallback provisions that result in replacement rates that are in some way based on US dollar LIBOR, or (iii) have US dollar LIBOR fallback provisions that allow or require one of the parties or an outsider to select a replacement rate for US dollar LIBOR. The New York LIBOR Legislation (a) provides in respect of (i) and (ii) above, upon the occurrence of a "LIBOR Discontinuance Event" and the related "LIBOR Replacement Date" (each as defined in the New York LIBOR Legislation), that the then-current US dollar LIBOR based benchmark, by operation of law, be replaced by a "Recommended Benchmark Replacement" (as defined in the New York LIBOR Legislation) based on the Secured Overnight Financing Rate (SOFR), or, (b) in respect of (iii), encourages the replacement of LIBOR with the "Recommended Benchmark Replacement" by providing a safe harbor from legal challenges under New York law.

The New York LIBOR Legislation may apply to certain of the System institutions' LIBOR-based instruments. For example, to the extent there is an absence of controlling federal law or unless otherwise provided under the terms and conditions of a particular issue of Systemwide Debt Securities, the Systemwide Debt Securities are governed by and construed in accordance with the laws of the State of New York, including the New York General Obligations Law.

At present, there is no specific federal law akin to the New York LIBOR Legislation addressing the US dollar LIBOR transition. However, United States Congress began working on a draft version of federal legislation in October of 2020 that would provide a statutory substitute benchmark rate for contracts that use US dollar LIBOR as a benchmark and that do not have any sufficient fallback clauses in place. While similar to the New York LIBOR Legislation, there are differences in the current draft of the federal legislation, which was discussed at the House of Representative Subcommittee on Investor Protection, Entrepreneurship and Capital Markets on April 15, 2021. These include, perhaps most significantly, that the draft bill specifically provides for the preemption of state law, which would include the New York LIBOR Legislation. At this time, it is uncertain as to whether, when and in what form such federal legislation would be adopted.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2020 Annual Report to Shareholders for recently issued accounting pronouncements. Additional information is provided in the following table.

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
<ul style="list-style-type: none"> Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the entire remaining life of the financial assets. Changes the present incurred loss impairment guidance for loans to an expected loss model. Modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit quality. Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted. 	<ul style="list-style-type: none"> Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. The new guidance is expected to result in a change in allowance for credit losses due to several factors, including: <ol style="list-style-type: none"> 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, An allowance will be established for estimated credit losses on any debt securities, 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 January 1, 2023.

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports 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 at their website, www.agfirst.com. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-368-5819 ext. 3262, or writing Charles M. Hester, Cape Fear Farm Credit, P. O. Box 2405, Fayetteville, NC 28302, or accessing the website, www.capefearfarmcredit.com. The Association prepares a 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 Association.

Cape Fear Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2021 <i>(unaudited)</i>	December 31, 2020 <i>(audited)</i>
Assets		
Cash	\$ 9	\$ 1
Investments in debt securities:		
Held to maturity (fair value of \$2,748 and \$2,888, respectively)	2,644	2,663
Loans	1,020,674	1,025,728
Allowance for loan losses	(9,762)	(10,232)
Net loans	1,010,912	1,015,496
Loans held for sale	—	140
Accrued interest receivable	6,468	7,623
Equity investments in other Farm Credit institutions	10,229	10,168
Premises and equipment, net	2,408	2,372
Other property owned	155	—
Accounts receivable	2,374	17,845
Other assets	416	362
Total assets	\$ 1,035,615	\$ 1,056,670
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 779,223	\$ 801,307
Accrued interest payable	1,330	1,421
Patronage refunds payable	56	25,532
Accounts payable	824	972
Other liabilities	26,610	6,333
Total liabilities	808,043	835,565
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	2,544	2,512
Retained earnings		
Allocated	116,694	116,377
Unallocated	108,621	102,507
Accumulated other comprehensive income (loss)	(287)	(291)
Total members' equity	227,572	221,105
Total liabilities and members' equity	\$ 1,035,615	\$ 1,056,670

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

Cape Fear Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

	For the Three Months Ended March 31,	
	2021	2020
<i>(dollars in thousands)</i>		
Interest Income		
Loans	\$ 10,813	\$ 12,290
Investments	39	44
Total interest income	10,852	12,334
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	3,933	5,443
Net interest income	6,919	6,891
Provision for (reversal of allowance for) loan losses	(654)	192
Net interest income after provision for (reversal of allowance for) loan losses	7,573	6,699
Noninterest Income		
Loan fees	943	635
Fees for financially related services	5	4
Patronage refunds from other Farm Credit institutions	2,378	2,281
Gains (losses) on sales of rural home loans, net	3	7
Gains (losses) on sales of premises and equipment, net	3	(9)
Gains (losses) on other transactions	4	(5)
Insurance Fund refunds	—	182
Total noninterest income	3,336	3,095
Noninterest Expense		
Salaries and employee benefits	3,042	2,736
Occupancy and equipment	211	216
Insurance Fund premiums	298	144
(Gains) losses on other property owned, net	47	1
Other operating expenses	862	1,070
Total noninterest expense	4,460	4,167
Income before income taxes	6,449	5,627
Provision for income taxes	18	12
Net income	\$ 6,431	\$ 5,615
Other comprehensive income net of tax		
Employee benefit plans adjustments	4	4
Comprehensive income	\$ 6,435	\$ 5,619

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

Cape Fear Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
<i>(dollars in thousands)</i>						
Balance at December 31, 2019	\$ 3	\$ 2,450	\$ 112,361	\$ 99,950	\$ (288)	\$ 214,476
Comprehensive income				5,615	4	5,619
Capital stock/participation certificates issued/(retired), net		14				14
Patronage distribution adjustment			60	(60)		—
Balance at March 31, 2020	\$ 3	\$ 2,464	\$ 112,421	\$ 105,505	\$ (284)	\$ 220,109
Balance at December 31, 2020	\$ —	\$ 2,512	\$ 116,377	\$ 102,507	\$ (291)	\$ 221,105
Comprehensive income				6,431	4	6,435
Capital stock/participation certificates issued/(retired), net		32				32
Patronage distribution adjustment			317	(317)		—
Balance at March 31, 2021	\$ —	\$ 2,544	\$ 116,694	\$ 108,621	\$ (287)	\$ 227,572

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

Cape Fear Farm Credit, ACA

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements

Organization

The accompanying financial statements include the accounts of Cape Fear Farm Credit, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2020, are contained in the 2020 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair statement of results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The results of any interim period are not necessarily indicative of those to be expected for a full year.

Significant Accounting Policies

The Association's accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the financial statements, income and expenses during the reporting period, and the related disclosures. Although these estimates contemplate current conditions and expectations of change in the future, it is reasonably possible that actual conditions may be different than anticipated, which could materially affect results of operations and financial condition.

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and

other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

For further details of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, from the latest Annual Report.

Accounting Standards Updates (ASUs) Issued During the Period and Applicable to the Association

There were no applicable Updates issued by the Financial Accounting Standards Board (FASB) during the period.

ASUs Pending Effective Date

For a detailed description of the ASUs below, see the latest Annual Report.

Potential effects of ASUs issued in previous periods:

- 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 issued, is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date through the life of the financial instrument. Financial institutions and other organizations will use forward-looking information to estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

Accounting Standards Effective During the Period

There were no changes in the accounting principles applied from the latest Annual Report, other than any discussed below.

No recently adopted accounting guidance issued by the FASB had a significant effect on the current period reporting.

- 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 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. Adoption of this guidance had no effect on the statements of financial condition and results of operations.
- 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. Adoption of this guidance did not have a material impact on the statements of financial condition and results of operations.

Note 2 — Loans and Allowance for Loan Losses

The Association maintains an allowance for loan losses 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. See Note 3, *Loans and Allowance for Loan Losses*, from the latest Annual Report for further discussion.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. 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.

A summary of loans outstanding at period end follows:

	March 31, 2021	December 31, 2020
Real estate mortgage	\$ 764,022	\$ 770,944
Production and intermediate-term	192,154	189,799
Loans to cooperatives	9,615	7,266
Processing and marketing	25,553	29,014
Farm-related business	13,873	13,706
Communication	4,227	4,251
Rural residential real estate	5,713	5,523
International	4,592	3,596
Lease receivables	925	1,629
Total loans	\$ 1,020,674	\$ 1,025,728

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

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

March 31, 2021								
	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	\$ 18,305	\$ 256,568	\$ —	\$ —	\$ 40,741	\$ —	\$ 59,046	\$ 256,568
Production and intermediate-term	17,614	203,259	—	10,999	197	—	17,811	214,258
Loans to cooperatives	6,896	—	2,738	—	—	—	9,634	—
Processing and marketing	21,549	28,162	—	—	17,027	—	38,576	28,162
Farm-related business	—	1,068	—	4,616	—	—	—	5,684
Communication	4,238	—	—	—	—	—	4,238	—
International	4,597	—	—	—	—	—	4,597	—
Lease receivables	—	—	928	—	—	—	928	—
Total	\$ 73,199	\$ 489,057	\$ 3,666	\$ 15,615	\$ 57,965	\$ —	\$ 134,830	\$ 504,672

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	\$ 17,696	\$ 250,616	\$ —	\$ —	\$ 43,301	\$ —	\$ 60,997	\$ 250,616
Production and intermediate-term	16,025	276,870	—	10,999	26,274	—	42,299	287,869
Loans to cooperatives	4,803	—	2,473	—	—	—	7,276	—
Processing and marketing	23,032	36,865	—	—	—	—	23,032	36,865
Farm-related business	—	1,156	—	4,954	—	—	—	6,110
Communication	4,261	—	—	—	—	—	4,261	—
International	3,600	—	—	—	—	—	3,600	—
Lease receivables	—	—	1,632	—	—	—	1,632	—
Total	\$ 69,417	\$ 565,507	\$ 4,105	\$ 15,953	\$ 69,575	\$ —	\$ 143,097	\$ 581,460

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

The following table shows the recorded investment of loans, classified under the FCA Uniform Loan Classification System, as a percentage of the recorded investment of total loans by loan type as of:

	March 31, 2021	December 31, 2020		March 31, 2021	December 31, 2020
Real estate mortgage:			Communication:		
Acceptable	94.05%	93.78%	Acceptable	100.00%	100.00%
OAEM	5.24	5.46	OAEM	—	—
Substandard/doubtful/loss	0.71	0.76	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Rural residential real estate:		
Acceptable	94.31%	91.72%	Acceptable	94.36%	93.98%
OAEM	4.80	6.72	OAEM	3.94	4.12
Substandard/doubtful/loss	0.89	1.56	Substandard/doubtful/loss	1.70	1.90
	100.00%	100.00%		100.00%	100.00%
Loans to cooperatives:			International:		
Acceptable	100.00%	100.00%	Acceptable	100.00%	100.00%
OAEM	—	—	OAEM	—	—
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
Processing and marketing:			Lease receivables:		
Acceptable	100.00%	100.00%	Acceptable	78.16%	85.61%
OAEM	—	—	OAEM	11.65	6.77
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	10.19	7.62
	100.00%	100.00%		100.00%	100.00%
Farm-related business:			Total loans:		
Acceptable	56.93%	55.93%	Acceptable	93.83%	93.15%
OAEM	42.56	43.47	OAEM	5.44	5.96
Substandard/doubtful/loss	0.51	0.60	Substandard/doubtful/loss	0.73	0.89
	100.00%	100.00%		100.00%	100.00%

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

	March 31, 2021				
	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	\$ 721	\$ 2,285	\$ 3,006	\$ 765,486	\$ 768,492
Production and intermediate-term	634	2,050	2,684	191,250	193,934
Loans to cooperatives	—	—	—	9,622	9,622
Processing and marketing	—	—	—	25,614	25,614
Farm-related business	71	—	71	13,897	13,968
Communication	—	—	—	4,227	4,227
Rural residential real estate	35	49	84	5,659	5,743
International	—	—	—	4,600	4,600
Lease receivables	—	—	—	929	929
Total	\$ 1,461	\$ 4,384	\$ 5,845	\$ 1,021,284	\$ 1,027,129

	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	\$ 937	\$ 2,640	\$ 3,577	\$ 772,429	\$ 776,006
Production and intermediate-term	1,406	2,706	4,112	188,079	192,191
Loans to cooperatives	—	—	—	7,269	7,269
Processing and marketing	—	—	—	29,062	29,062
Farm-related business	82	—	82	13,682	13,764
Communication	—	—	—	4,251	4,251
Rural residential real estate	93	58	151	5,393	5,544
International	—	—	—	3,603	3,603
Lease receivables	207	—	207	1,442	1,649
Total	\$ 2,725	\$ 5,404	\$ 8,129	\$ 1,025,210	\$ 1,033,339

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

	March 31, 2021	December 31, 2020
Nonaccrual loans:		
Real estate mortgage	\$ 4,849	\$ 4,899
Production and intermediate-term	3,667	3,960
Farm-related business	71	82
Rural residential real estate	76	83
Lease receivables	95	126
Total	\$ 8,758	\$ 9,150
Accruing restructured loans:		
Real estate mortgage	\$ 1,595	\$ 1,849
Production and intermediate-term	2,781	3,417
Rural residential real estate	9	10
Total	\$ 4,385	\$ 5,276
Accruing loans 90 days or more past due:		
Total	\$ —	\$ —
Total nonperforming loans	\$ 13,143	\$ 14,426
Other property owned	155	—
Total nonperforming assets	\$ 13,298	\$ 14,426
Nonaccrual loans as a percentage of total loans	0.86%	0.89%
Nonperforming assets as a percentage of total loans and other property owned	1.30%	1.41%
Nonperforming assets as a percentage of capital	5.84%	6.52%

The following table presents information related to the recorded investment of impaired loans at period end. 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.

	March 31, 2021	December 31, 2020
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 3,788	\$ 3,181
Past due	4,970	5,969
Total	\$ 8,758	\$ 9,150
Impaired accrual loans:		
Restructured	\$ 4,385	\$ 5,276
90 days or more past due	—	—
Total	\$ 4,385	\$ 5,276
Total impaired loans	\$ 13,143	\$ 14,426
Additional commitments to lend	\$ —	\$ —

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

	March 31, 2021			Three Months Ended March 31, 2021	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	\$ 1,523	\$ 1,758	\$ 315	\$ 1,583	\$ 34
Production and intermediate-term	2,861	2,971	611	2,975	65
Farm-related business	—	—	—	—	—
Rural residential real estate	—	—	—	—	—
Lease receivables	—	—	—	—	—
Total	\$ 4,384	\$ 4,729	\$ 926	\$ 4,558	\$ 99
With no related allowance for credit losses:					
Real estate mortgage	\$ 4,921	\$ 5,431	\$ —	\$ 5,116	\$ 112
Production and intermediate-term	3,587	3,666	—	3,728	81
Farm-related business	71	76	—	74	1
Rural residential real estate	85	169	—	89	2
Lease receivables	95	95	—	98	2
Total	\$ 8,759	\$ 9,437	\$ —	\$ 9,105	\$ 198
Total impaired loans:					
Real estate mortgage	\$ 6,444	\$ 7,189	\$ 315	\$ 6,699	\$ 146
Production and intermediate-term	6,448	6,637	611	6,703	146
Farm-related business	71	76	—	74	1
Rural residential real estate	85	169	—	89	2
Lease receivables	95	95	—	98	2
Total	\$ 13,143	\$ 14,166	\$ 926	\$ 13,663	\$ 297

	December 31, 2020			Year Ended December 31, 2020	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans:					
With a related allowance for credit losses:					
Real estate mortgage	\$ 1,634	\$ 1,863	\$ 359	\$ 2,113	\$ 189
Production and intermediate-term	1,860	2,006	428	2,406	215
Farm-related business	—	—	—	—	—
Rural residential real estate	—	—	—	—	—
Lease receivables	126	126	58	162	15
Total	\$ 3,620	\$ 3,995	\$ 845	\$ 4,681	\$ 419
With no related allowance for credit losses:					
Real estate mortgage	\$ 5,114	\$ 5,629	\$ —	\$ 6,613	\$ 592
Production and intermediate-term	5,517	5,566	—	7,134	639
Farm-related business	82	85	—	106	9
Rural residential real estate	93	176	—	121	11
Lease receivables	—	—	—	—	—
Total	\$ 10,806	\$ 11,456	\$ —	\$ 13,974	\$ 1,251
Total impaired loans:					
Real estate mortgage	\$ 6,748	\$ 7,492	\$ 359	\$ 8,726	\$ 781
Production and intermediate-term	7,377	7,572	428	9,540	854
Farm-related business	82	85	—	106	9
Rural residential real estate	93	176	—	121	11
Lease receivables	126	126	58	162	15
Total	\$ 14,426	\$ 15,451	\$ 845	\$ 18,655	\$ 1,670

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivables	Total
Activity related to the allowance for credit losses:									
Balance at December 31, 2020	\$ 6,122	\$ 3,581	\$ 313	\$ 35	\$ 3	\$ 52	\$ 34	\$ 92	\$ 10,232
Charge-offs	(22)	(8)	(1)	—	—	—	—	—	(31)
Recoveries	16	47	152	—	—	—	—	—	215
Provision for loan losses	(377)	(41)	(169)	(2)	—	(3)	(2)	(60)	(654)
Balance at March 31, 2021	\$ 5,739	\$ 3,579	\$ 295	\$ 33	\$ 3	\$ 49	\$ 32	\$ 32	\$ 9,762
Balance at December 31, 2019	\$ 5,635	\$ 3,823	\$ 274	\$ 31	\$ 3	\$ 45	\$ 30	\$ 113	\$ 9,954
Charge-offs	(1)	—	—	—	—	—	—	—	(1)
Recoveries	—	3	—	—	—	—	—	—	3
Provision for loan losses	(120)	(55)	394	(1)	—	—	—	(26)	192
Balance at March 31, 2020	\$ 5,514	\$ 3,771	\$ 668	\$ 30	\$ 3	\$ 45	\$ 30	\$ 87	\$ 10,148
Allowance on loans evaluated for impairment:									
Individually	\$ 315	\$ 611	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 926
Collectively	5,424	2,968	295	33	3	49	32	32	8,836
Balance at March 31, 2021	\$ 5,739	\$ 3,579	\$ 295	\$ 33	\$ 3	\$ 49	\$ 32	\$ 32	\$ 9,762
Individually	\$ 359	\$ 428	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 58	\$ 845
Collectively	5,763	3,153	313	35	3	52	34	34	9,387
Balance at December 31, 2020	\$ 6,122	\$ 3,581	\$ 313	\$ 35	\$ 3	\$ 52	\$ 34	\$ 92	\$ 10,232
Recorded investment in loans evaluated for impairment:									
Individually	\$ 6,447	\$ 3,916	\$ 82	\$ —	\$ —	\$ 86	\$ —	\$ 95	\$ 10,626
Collectively	762,045	190,018	49,122	4,227	—	5,657	4,600	834	1,016,503
Balance at March 31, 2021	\$ 768,492	\$ 193,934	\$ 49,204	\$ 4,227	\$ —	\$ 5,743	\$ 4,600	\$ 929	\$ 1,027,129
Individually	\$ 7,007	\$ 6,354	\$ 184	\$ —	\$ —	\$ 93	\$ —	\$ 219	\$ 13,857
Collectively	768,999	185,837	49,911	4,251	—	5,451	3,603	1,430	1,019,482
Balance at December 31, 2020	\$ 776,006	\$ 192,191	\$ 50,095	\$ 4,251	\$ —	\$ 5,544	\$ 3,603	\$ 1,649	\$ 1,033,339

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

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

Outstanding Recorded Investment	Three Months Ended March 31, 2021					Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total		
Pre-modification:						
Real estate mortgage	\$ —	\$ 31	\$ —	\$ 31		
Total	\$ —	\$ 31	\$ —	\$ 31		
Post-modification:						
Real estate mortgage	\$ —	\$ 19	\$ —	\$ 19	\$ (12)	
Total	\$ —	\$ 19	\$ —	\$ 19	\$ (12)	

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

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

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

	Total TDRs		Nonaccrual TDRs	
	March 31, 2021	December 31, 2020	March 31, 2021	December 31, 2020
Real estate mortgage	\$ 2,768	\$ 2,849	\$ 1,173	\$ 1,000
Production and intermediate-term	4,144	4,252	1,363	835
Rural residential real estate	15	19	6	9
Total loans	\$ 6,927	\$ 7,120	\$ 2,542	\$ 1,844
Additional commitments to lend	\$ —	\$ —		

Note 3 — Investments

Investments in Debt Securities

The Association's investments consist of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have different eligibility requirements. At March 31, 2021, the Association held no RABs whose credit quality had deteriorated beyond the program limits.

A summary of the amortized cost and fair value of investment securities held-to-maturity follows:

	March 31, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 2,644	\$ 104	\$ —	\$ 2,748	5.95%

	December 31, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 2,663	\$ 225	\$ —	\$ 2,888	5.95%

A summary of the contractual maturity, amortized cost and estimated fair value of investment securities held-to-maturity follows:

	March 31, 2021		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ —	\$ —	—%
After one year through five years	—	—	—
After five years through ten years	—	—	—
After ten years	2,644	2,748	5.95
Total	\$ 2,644	\$ 2,748	5.95%

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

An investment is considered impaired if its fair value is less than its cost. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified. The Association had no investments that were in a continuous unrealized loss position at March 31, 2021 and December 31, 2020.

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

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. The Association has not recognized any credit losses as any impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

Equity Investments in Other Farm Credit System Institutions

Equity investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. 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.

Associations are required to maintain ownership in AgFirst (AgFirst or 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 3.56 percent of the issued stock of the Bank as of March 31, 2021 net of any reciprocal investment. As of that date, the Bank's assets totaled \$36.0 billion and shareholders' equity totaled \$2.5 billion. The Bank's earnings were \$124 million for the first three months of 2021. In addition, the Association held \$642 in investments related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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. The contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

Changes in Accumulated Other Comprehensive Income by Component (a)			
Three Months Ended March 31,			
	2021	2020	
Employee Benefit Plans:			
Balance at beginning of period	\$ (291)	\$ (288)	
Other comprehensive income before reclassifications	—	—	
Amounts reclassified from AOCI	4	4	
Net current period other comprehensive income	4	4	
Balance at end of period	\$ (287)	\$ (284)	

Reclassifications Out of Accumulated Other Comprehensive Income (b)			
Three Months Ended March 31,			
	2021	2020	Income Statement Line Item
Defined Benefit Pension Plans:			
Periodic pension costs	\$ (4)	\$ (4)	See Note 7.
Net amounts reclassified	\$ (4)	\$ (4)	

(a) Amounts in parentheses indicate debits to AOCI.

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

Note 6 — 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.

The classifications within the fair value hierarchy are as follows:

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

Level 2 inputs 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 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 the third-party valuation or internal model pricing.

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see the latest Annual Report to Shareholders.

There were no Level 3 assets or 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.

		March 31, 2021								
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value				
<u>Recurring Measurements</u>										
Assets:										
Assets held in trust funds	\$	76	\$	76	\$	—	\$	—	\$	76
Recurring Assets	\$	76	\$	76	\$	—	\$	—	\$	76
Liabilities:										
Recurring Liabilities	\$	—	\$	—	\$	—	\$	—	\$	—
<u>Nonrecurring Measurements</u>										
Assets:										
Impaired loans	\$	3,458	\$	—	\$	—	\$	3,458	\$	3,458
Other property owned		155		—		—		171		171
Nonrecurring Assets	\$	3,613	\$	—	\$	—	\$	3,629	\$	3,629
<u>Other Financial Instruments</u>										
Assets:										
Cash	\$	9	\$	9	\$	—	\$	—	\$	9
Investments in debt securities, held-to-maturity		2,644		—		—		2,748		2,748
Loans		1,007,454		—		—		1,022,322		1,022,322
Other Financial Assets	\$	1,010,107	\$	9	\$	—	\$	1,025,070	\$	1,025,079
Liabilities:										
Notes payable to AgFirst Farm Credit Bank	\$	779,223	\$	—	\$	—	\$	774,768	\$	774,768
Other Financial Liabilities	\$	779,223	\$	—	\$	—	\$	774,768	\$	774,768

December 31, 2020

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<u>Recurring Measurements</u>					
Assets:					
Assets held in trust funds	\$ 79	\$ 79	\$ –	\$ –	\$ 79
Recurring Assets	\$ 79	\$ 79	\$ –	\$ –	\$ 79
Liabilities:					
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –
<u>Nonrecurring Measurements</u>					
Assets:					
Impaired loans	\$ 2,775	\$ –	\$ –	\$ 2,775	\$ 2,775
Other property owned	–	–	–	–	–
Nonrecurring Assets	\$ 2,775	\$ –	\$ –	\$ 2,775	\$ 2,775
<u>Other Financial Instruments</u>					
Assets:					
Cash	\$ 1	\$ 1	\$ –	\$ –	\$ 1
Investments in debt securities, held-to-maturity	2,663	–	–	2,888	2,888
Loans	1,012,861	–	–	1,018,023	1,018,023
Other Financial Assets	\$ 1,015,525	\$ 1	\$ –	\$ 1,020,911	\$ 1,020,912
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	\$ 801,307	\$ –	\$ –	\$ 806,808	\$ 806,808
Other Financial Liabilities	\$ 801,307	\$ –	\$ –	\$ 806,808	\$ 806,808

Uncertainty in Measurements of Fair Value

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

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

Investments in Debt Securities

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

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

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

Inputs to Valuation Techniques

Management determines the 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	\$ 3,629	Appraisal	Income and expense Comparable sales Replacement cost Comparability adjustments	* * * *

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Investments in debt securities, held-to-maturity	Discounted cash flow	Prepayment rates Risk adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

Note 7 — Employee Benefit Plans

The following is a table of retirement and other postretirement benefit expenses for the Association:

	Three Months Ended March 31,	
	2021	2020
Pension	\$ 378	\$ 354
401(k)	177	153
Other postretirement benefits	87	81
Total	<u>\$ 642</u>	<u>\$ 588</u>

Expenses in the above table are computed using allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2021.

Further details regarding employee benefit plans are contained in the 2020 Annual Report to Shareholders.

Note 8 — Commitments and Contingent Liabilities

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 remote 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.

Note 9 — Subsequent Events

The Association evaluated subsequent events and determined there were none requiring disclosure through May 7, 2021, which was the date the financial statements were issued.