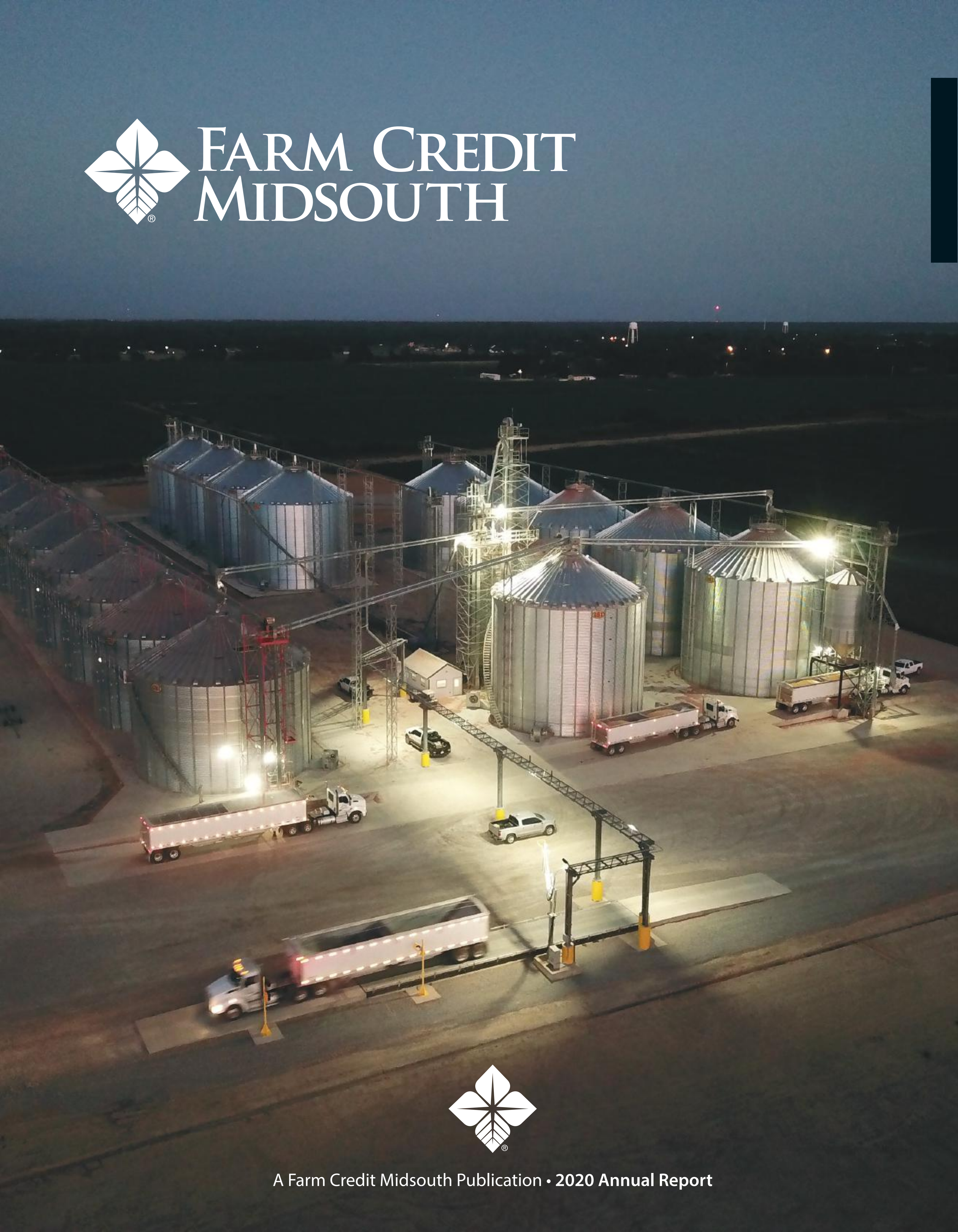
Farm Credit Midsouth



A Farm Credit Midsouth Publication • **2020 Annual Report**

Hindsight 2020

Letter from the CEO

While the past year was certainly unprecedent for most, 2020 will go down in the record books for a number of reasons at Farm Credit Midsouth.

As the pandemic hit in March, we truly put our emergency preparedness plan into place and, by all measures, exceeded our expectations in remotely servicing our members.

The first quarter of every year is without question the busiest time of the year for us. This is when customers are making payments, setting up new loans, or renewing their crop notes. Last year, not only were we working remotely and transacting our normal course of business during this time period, but the drastic drop in the financial markets had us repricing and converting existing loans to lower, longer term fixed rates. And in the face of all of these challenges, new loan requests also more than doubled.

As you will see from the enclosed financials, Farm Credit Midsouth made it through 2020 with flying colors. Our earnings were more than adequate to withstand loan losses, build capital, and pay patronage.

So, as we look back and close the books on 2020, I would like to offer my "Hindsight 2020," reflecting on the year that was at Farm Credit Midsouth.

- We were able to lower rates for a significant amount of our portfolio, saving our customers millions of dollars in interest costs for 2020 and for years to come.
- Our entire staff was able to work remotely, primarily from home, and still provide exceptional service in what turned out to be the busiest year in over a decade.
- Despite being hit with some unexpected and sizable loan losses, your Association was financially strong enough to not only endure, but grow, its capital while paying out a record amount of patronage.
- Our employees are simply the best! Despite the challenges of the year, with many members of our team personally experiencing the effects and devastation of the COVID-19 virus, they continued to exceed all expectations to ensure our members were served and the Association remained viable and strong.

As a final note, we wish to express our sympathy to several of our members who suffered personal and family loss during 2020. We hope and pray for this pandemic to end soon and are eagerly looking forward to some normalcy in 2021!

James McJunkins

President & Chief Executive Officer
Farm Credit Midsouth

In This Report

Cover Photo:
Josh Baker, Craighead County

2020 Annual Report

is produced for members and friends of Farm Credit Midsouth.

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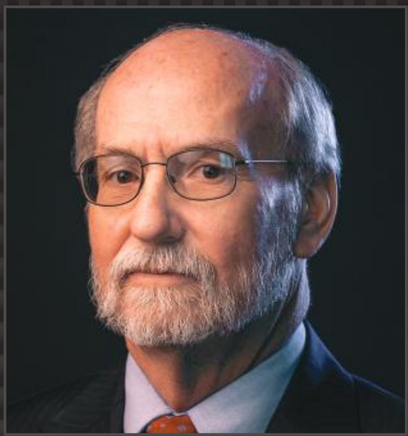
Article quotes have been edited for content and appropriateness.

Follow us on social media!

LOEWER RETIRES FROM BOARD



Carl Loewer, Director 1992-2021

Carl Loewer will retire from the Farm Credit Midsouth Board of Directors after spending nearly three decades in service to the Association. Carl joined the board in 1992 and represents Cross County.

A self-employed grain farmer, Carl has helped lead FCM through a period of outstanding and considerable growth. Privately, he is the president of Loewer Brothers, Inc. and also vice president of Loewer Oaks Farms. In addition, he finds time to serve the ag community as the Director of the Cross County Farm Bureau Board; and his greater community at large as a Justice of the Peace for the Cross County Quorum Court & as commissioner of the Wynne Water Utilities.

Carl was elected to his current term on the Board in Feb. 2017 for a term expiring in Feb. 2021. Carl served as board chair from Feb. 2009 to Feb. 2013. His current committee assignment is the Compensation Committee.

His expertise will be missed by his fellow directors on that committee and the board as a whole. Though we can't imagine retirement will give him too much opportunity to slow down, we hope it gives him more time spent on his own interests, personal and professional. Thank you for your many years of service and friendship, Carl!

Board of Directors

DANE COOMER, Chair

Clay County | *Piggott, Arkansas* | *2013*

Executive Committee, Chair

Dane graduated from the University of Arkansas with a bachelor's degree in Agricultural Engineering and has been a licensed professional engineer since 1994. Dane is a self-employed grain, cotton and cattle farmer. He is a partner of Coomer Farms, an officer of Wildflower Properties, LLC, and a member of the Piggott Volunteer Fire Department. Dane was elected to his current term on the Board in February 2017 which expires February 2021. Dane was re-elected to the Board for a term that will end February 2025. He serves as Chair of the Board. Dane represents Clay County and also serves as the Chairman of the Executive Committee. He has been a board member since 2013.

RAMEY STILES, Vice Chair

Lee County | *Marianna, Arkansas* | *2014*

Executive Committee, Vice Chair

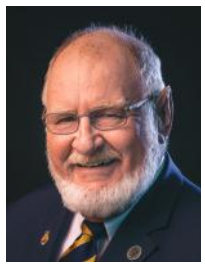
Compensation Committee, Chair

Ramey is a self-employed cotton and peanut farmer who is also engaged in custom cotton harvesting. He graduated from Arkansas State University with a degree in Ag Business and Economics. He serves on the Board of Directors of Cotton Incorporated, the Lee County Farm Bureau Board, and the Board of the Agricultural Council of Arkansas. Ramey joined the Board in 2014 and represents Lee County. Ramey serves as the Chair of the Board's Compensation Committee. He currently serves as Vice Chair of the Board. He was elected to his current term on the Board in February 2018 which expires in February 2022.

MARION FLETCHER, Outside Director

Hot Springs, Arkansas | *1993*

Compensation Committee



Marion graduated from Arkansas State University with a Bachelor of Science in Agriculture Education. He also has a Master of Education from Henderson State University. He joined the Board as an Outside Director for the Association in 1993. Marion is a retired educator. He taught agricultural education for 53 years. He also serves as a Director of the Garland County Farm Bureau in Hot Springs. In October 2014 he was honored with the Golden Owl Award at the National FFA Convention. He was appointed to his current term on the Board in March 2020 which expires in March 2024. In addition, Marion serves on the Board's Compensation Committee.

BOARD OF DIRECTORS • Continued on page 4

Board of Directors

FRANKLIN FOGLEMAN, JR.

Crittenden County | *Marion, Arkansas* | *2018*
Audit Committee

Franklin joined the Board in February 2018 as the representative for Crittenden County. Franklin is a self-employed grain farmer and owns a real estate brokerage firm specializing in agriculture investments. Franklin's family partnership operates a large-scale corn, rice, soybeans and wheat business. He also serves on the Board of Directors of the Agricultural Council of Arkansas. He is the Arkansas State University Midsouth Foundation Chair and the Crittenden Regional Hospital Foundation Chair. Franklin is also a board member of FarmVoice, Inc. and FarmVoice PAC and serves as treasurer for both. He was elected to his current term on the Board in February 2018 which expires in February 2022. Franklin also serves on the Audit Committee.

DUSTIN HENSON

Greene County | *Paragould, Arkansas* | *2019*
Compensation Committee

Dustin was elected to the Board in February 2019. A farmer, Dustin owns 350 acres and rents 3,250 acres. His operations consist of rice and soybeans. He has an Agriculture Business degree from Arkansas State University. He and his wife, Tiffany, have one daughter, Molly. The family attends First United Methodist Church in Paragould. He was elected to his current term on the Board in February 2019 which expires in February 2023. Dustin also serves on the Compensation Committee.

MATT KNIGHT, Outside Director

Jonesboro, Arkansas | *2008*
Audit Committee

Matt is a graduate of Arkansas State University and holds a bachelor's degree in Accounting. He is a CPA and a partner of Osborn & Osborn CPAs, PLLC. Matt joined the Board in 2008 as an Outside Director and the Board's Financial Expert. He was appointed to his current term on the Board in July 2019 which expires March 2022. In addition, Matt serves on the Board's Audit Committee.

BOARD OF DIRECTORS • Continued on page 5

STAYING AHEAD OF THE CURVE

A Virtual Success Story

It's fair to say that few among us would have predicted that we would be managing our days as we are today. In both our personal and professional lives, we are all navigating new territory. For the employees of Farm Credit Midsouth, those two were forced to overlap like never before as the Association's branch lobbies closed to foot traffic and the staff transitioned to conducting business remotely.

We sat down with Farm Credit Midsouth Chief Credit Officer Ralph Stewart to discuss the impact of Covid-19 on our Cooperative. There is much to unpack here. Aside from the health and safety implications of a global pandemic, the markets were impacted more in the middle of 2020 than at any other time in most of our lifetimes. From the energy sector to interest rate volatility and beyond, it is truly an unprecedented time.

Though it's impossible to fully prepare for an event like this, Farm Credit Midsouth's Senior Leadership Team had a plan in place that had been developed well in advance. Executing a workable plan already in place was critical to the employees' transition to working offsite and the ability to continue the level of service our members have come to expect.

Thanks to the expertise and preparedness of our Information Technology team, led by Senior

COVID-19
CORONAVIRUS

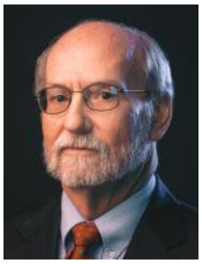
Vice President, Chief Information Officer Marc Miles, the transition to working remotely was able to happen almost immediately, and with very little disruption. Because the agriculture industry could not shut down, this enabled us to focus on keeping our members and employees health a priority. A win-win for all.

“At some point in the future, we will realize the positive impact this has had on members,” Stewart said. “The IT team deserves a lot of credit. But our employees showed great heart; overcoming obstacles and taking on challenges that had never before presented themselves.”

Stewart said that, for Farm Credit Midsouth, there are a number of positives that can be pulled out of this experience. The team has proven it can successfully work remotely; cross-training in multiple roles has paid off as employees stepped in for their colleagues; the communication channels are strong; and we were able to stay ahead of the curve. He added the ability to communicate quickly to the public via social media is of benefit as well. And an increase in loan demand has created opportunities that may not have been there before.

“Yes, it’s been different,” he said. “But we have a new normal. We’ve made lemonade out of lemons for sure.”

Board of Directors



CARL LOEWER (retiring)

Cross County | *Wynne, Arkansas* | *1992*
Compensation Committee

Carl joined the Board in 1992 and represents Cross County. He is a self-employed grain farmer, seed dealer and parts dealer. Carl is the president of Loewer Brothers, Inc., the vice president of Loewer Oaks Farms, Inc., and the general partner of Carl Loewer Farming Co. He is a Director of the Cross County Farm Bureau Board. He is a Justice of the Peace for the Cross County Quorum Court and serves as a Commissioner of the Wynne Water Utilities. Carl has been a member of the Board’s Compensation Committee since March 2020. He previously served on the Board’s Audit and Executive Committees in January and February 2020. Carl was elected to his current term on the Board in February 2017 which expires February 2021. Carl plans to retire from the board in February 2021.

CHRIS ROBERTS

St. Francis County | *Heth, Arkansas* | *2011*
Audit Committee, Chair
Executive Committee

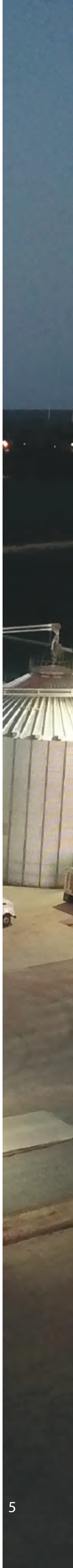
Chris graduated from Mississippi State University with a degree in Agricultural Engineering. He is a self-employed grain farmer primarily farming corn, rice, and soybeans. He serves as the representative for St. Francis County. Chris served as Chair of the Board from February 2017-2020. Chris has been a Board member since 2011 and was the Vice Chair from February 2013-2017. Chris is the Audit Commiteee chairman and also serves on the Executive Committee of the Board. Chris was elected to his current term on the Board in February 2019 which expires in February 2023. In addition to his role on the Midsouth Board, Chris serves on Congressman Crawford’s Arkansas Rivers Maritime Advisory Council Board and is the Vice-Chair of the AgriBank District Farm Credit Council Board.

GARY SITZER

Poinsett County | *Weiner, Arkansas* | *1985*
Executive Committee
Audit Committee

Gary is a self-employed rice and soybean farmer. He is president of Sitzer Farms, Inc. He interests in Sitzer Family Partnerships and Sitzer Land LLC. He serves on the Poinsett County Farm Bureau Board in Harrisburg, the Arkansas Soybean Association Board, the St. Bernards Medical Center Advisory Board, the Poinsett County Emergency Food and Shelter Board, and is a member of Congressman Crawford’s Ag Advisory Committee. Gary joined the Board in 1985 and represents Poinsett County. He was elected to his current term on the Board in February 2020 which expires in February 2024. He is a member of the Board’s Executive Committee and serves on the Board’s Audit Committee.

BOARD OF DIRECTORS • Continued on page 6



Board of Directors

MIKE SULLIVAN

Mississippi County | *Burdette, Arkansas* | *2013*
YBS / Scholarship Committee

Mike joined the Board in 2013 and represents Mississippi County. He serves as a member of the Board's Young, Beginning and Small Farmer Committee (YBS Committee). He graduated from the University of Arkansas with a bachelor's degree in Agronomy. He is a self-employed grain farmer, farming 18,000 acres with his son, nephew and brother. Mike also serves on the Board of Arkansas Rice Farmers, the Arkansas State Ag Advisory Board and the Ag Council of Arkansas. Mike was elected to his current term on the Board in February 2017 which expires February 2021. Mike was re-elected to the Board for a term that will end February 2025.

MICHAEL S. TAYLOR, JR.

Phillips County | *Helena, Arkansas* | *2018*
YBS / Scholarship Committee

Michael owns a farm partnership with his father farming corn, peanuts and soybeans on 4,300 acres. He also grazes cattle in the winter on cover crops. Michael has been a Board member since 2018. His term on the Board expires in February 2022. He serves as Chair of the Board's YBS/Scholarship Committee. Michael also serves on the Phillips County Conservation District, and DeSoto School Board. He attended Arkansas State University. He and his wife, Laura, have two children – a son, Wells, and a daughter, Merrie Leigh.

BRADLEY WALLACE

Craighead County | *Lake City, Arkansas* | *2020*
YBS / Scholarship Committee

Bradley was elected to the Board in February, 2020 representing Craighead County. A self-employed farmer, together with his wife and mother he owns 250 acres and rents another 4,750 growing corn, cotton, peanuts, and soybeans. He also raises livestock with an 80-head cow/calf operation. Bradley is a graduate of Arkansas State University with a degree in Ag Business. He serves on the Board's YBS/Scholarship Committee. In addition to the Farm Credit Board of Directors, Bradley also sits on the boards of the Craighead County Farm Bureau, the Craighead County NRCS Board, the Home Oil Company Board, and is a delegate for MFA Oil. Bradley and his wife Michele are the proud parents of Kate and Miller and the family attends Monette First Baptist Church. His current term will expire in February 2024.

2020 YBS Conference

Before COVID-19 made its way to the U.S., Farm Credit Midsouth along with AgHeritage Farm Credit Services and Farm Credit of Western Arkansas co-hosted a two-day conference for Young, Beginning and Small Farmers and Ranchers.

Twenty-two from the Midsouth attended, free of charge, the ***Future Legacy Young and Beginning Farmers Conference*** in North Little Rock in February of 2020. Dr. David Kohl lead several very engaging sessions on topics offering insight into young farmer success.

Plans are underway for the next YBS conference in February of 2022.

FCM's Senior Vice President of Branch Operations, Chief Marketing Officer visits with member Jenna Martin during a YBS conference break.

2020 Future Legacy Young and Beginning Farmers Conference Arkansas Attendees

FARM CREDIT MIDSOUTH

Board Committees

Farm Credit Midsouth has four committees in which board members participate — the Executive Committee, the Audit Committee, the Compensation Committee and the YBS/Scholarship Committee. In addition to attending seven regularly scheduled board meetings, the board members also provide their expertise and guidance for the organization by serving on these committees. Each board member is responsible for participating on at least one committee. The information that follows provides a narrative of the members and responsibilities assigned to each committee.

Executive Committee

Left to right: Dane Coomer - Chair, Chris Roberts, Ramey Stiles - Vice Chair, Gary Sitzer

The Executive Committee met three times during 2020. Their responsibility is to execute the orders of the Board including evaluation of the CEO and to serve as members of the Credit Review Committee.

Audit Committee

Chris Roberts - Chair, Franklin A. Fogleman, Jr., Matt Knight, Gary Sitzer

The Audit Committee met nine times during 2020. Their responsibilities include ensuring the financial statements are reliable; evaluating and communicating with external auditors; and ensuring effective internal controls of the organization are implemented.

Compensation Committee

Ramey Stiles - Chair, Marion Fletcher, Dustin Henson, Carl Loewer

The Compensation Committee met five times during 2020. Their primary responsibility is to ensure the compensation policies and plans are fair and adequately administered by the Association.

YBS / Scholarship Committee

Michael Taylor - Chair, Mike Sullivan, Bradley Wallace

The YBS/Scholarship Committee met two times during 2020. Their primary responsibility is to select scholarship recipients and to guide the Association in offerings for young, beginning and small farmers.

$6.7 Million in Patronage will be Paid to Eligible Members

Left to right: Matt Knight, Dustin Henson, Michael S. Taylor, Jr., Mike Sullivan, Ramey Stiles - Vice Chair, Dane Coomer - Chair, Chris Roberts, Carl Loewer, Marion Fletcher, Gary Sitzer, Bradley Wallace, Franklin Fogleman, Jr.

Farm Credit Midsouth is pleased to announce its board of directors unanimously approved an all-cash patronage distribution for eligible members. The distribution, totaling just under $6.7 million, will be made this February.

“Our Cooperative continues to maintain a strong financial position to help our borrowers through both good times and bad,” said Board Chairman Dane Coomer. “We appreciate their continued trust and look forward to this winter’s distribution.”

“Farm Credit Midsouth has a strong history of positive patronage for our members,” adds President and CEO James McJunkins. “In 2005 we paid out about $3.7 million. Today we are pleased to have increased that amount to our current level, which stands at $6.7 million. Over those 15 years, we have distributed more than $74 million to our members.”

Patronage Payout
Only from Farm Credit Midsouth

ABOUT FARM CREDIT MIDSOUTH

Farm Credit Midsouth (a part of the Farm Credit system) is a federally-chartered cooperative providing over $1.1 billion in credit and related services to more than 3,500 agriculture producers and rural home owners in the State of Arkansas, the Counties of Clay, Craighead, Crittenden, Cross, Greene, Lee, Mississippi, Phillips, Poinsett, and St. Francis, and that part of Desha County lying north of the Arkansas River. In the State of Missouri, the Counties of Carter, Ripley, and Wayne. In the State of Tennessee, that portion of the Counties of Shelby, Tipton, and Lauderdale west of the channel of the Mississippi River as it now flows.

FCM CARES

Bucket Brigades Spread Across The Midsouth

If you attended a local high school football game, chances are you witnessed a FCM Bucket Brigade! Twenty-one schools including 946 players received their own numbered FCM bucket to keep their personal items and equipment in to help with social distancing requirements due to COVID-19. All buckets were customized with school colors. The FCM Bucket Brigades were well received and were shared across the Midsouth through social media. We’d like to think we started a trend – Friday Night Bucket Brigades.

Congratulations!

2020 FCM Scholarship Recipients

One of the highlights at Farm Credit Midsouth is the annual presentation of 14 scholarships worth $1,000 each to outstanding undergraduates. Each student was chosen based on a combination of academic, extracurricular, agricultural, and leadership achievement. We congratulate this year's honorees on a job well done and wish them the best of luck in college and beyond. Students may apply online for 2021 scholarships at FCMidsouth.com/scholarships. Deadline: March 5, 2021

Carlee Bird
Arkansas State University

Haley Byrd
Lee Academy

Cade Carnathan
DeSoto School

Conner Catt
Arkansas State University

Eli Cook
Paragould High School

John Garrett Edwards
Buffalo Island Central High School

Cooper Harris
Piggott High School

D'Angelo Jones
Blytheville New Tech High School

Ray Jones
Harrisburg College & Career Prepatory School

Kessler Mack
Westside High School

Jas Malone
Paragould High School

Sam Massengill
Harrisburg College & Career Prepatory School

Guy Smith
Corning High School

Chris Stuckey
University of Arkansas

RETIREMENT

DAVY CROCKETT

36 Years of Service

Last February, Davy Crockett closed the door on a 36-year career with Farm Credit Midsouth. Davy, who started out as a loan officer in 1983, retired as one of the most trusted and highly regarded members of the FCM team. While his knowledge and industry expertise are missed, we wish him the very best in his next chapter.

Former Employee Randy Kingston, Davy Crockett and FCM President and CEO James McJunkins

FCM's Chief Credit Officers – Past and Present – Ralph Stewart, Steve Lewis and Davy Crockett

Earnings Continue To Be Strong

FCM Exceeds $1 Billion!

Farm Credit Midsouth defines success on how we have been able to excel at our mission to "enhance our diverse agricultural and rural economy". 2020 proved to be a successful year for Midsouth and its customers. The Association ended the year with over $15.1 million in earnings. After paying out approximately $6.7 to our customers in the form of patronage the association will add $8.4 million to capital all while maintaining excellent credit quality.

Despite all of the challenges that 2020 presented, the association gained $105 million in outstanding loan volume over 2019 and had a record year loaning more than $337 million. During the first quarter of the year interest rates dropped as the Pandemic ensued. Rates stayed low for the majority of the year providing excellent financing opportunities for our customers. The association was able to lower rates on over 1,300 loans and $358 million in loan volume during the year by an average of 130 basis points. New loan volume had a weighted average term of 153 months with an average rate of 3.46%. This average was approximately 125 basis points lower than new loans received in 2019. Putting this in perspective, you can see that Farm Credit Midsouth has been there for our customers providing over $337 million in new loan volume, $6.7 million in patronage, and interest savings on new and existing loans of approximately $8.7 million. We are thankful that we had the opportunity to serve your financing needs during the year.

	2019	2020	Change
Accrual Loans	5,109	5,541	432
Customers *CIF #*	1,971	2,036	65
Average Bill Rate	5.27%	4.30%	-.97%
Average Patronage BPS *based on Patronage/ADB*	.72%	.68%	-.04%
Accrual ADB	$ 9.1	$ 9.8	$ 7.4

Executive Management

JAMES MCJUNKINS, President, CEO

James McJunkins is President and Chief Executive Officer of Farm Credit Midsouth. He has management responsibility for all aspects of Farm Credit Midsouth and reports to the Board of Directors. James began his career with Farm Credit in 1984 as a loan officer in Helena. He has held other positions with the Association such as Branch Manager, Vice President of Internal Review, Vice President of Credit Supervision, and Senior Vice President of Field Operations. In 2012 James was named President, CEO.

James earned his Bachelor of Science in Agriculture Economics from the University of Arkansas and is a graduate of the Graduate School of Banking at Louisiana State University. He currently serves on the Farm Credit Services CEO Group. James previously served on the Board of Farm Credit Foundations and is a board member of the University of Arkansas LeadAR program. He holds the honor of being a recipient of the Paul Harris Fellow Award from the University Heights Rotary Club.

DIANE STEILING, Executive Vice President, Finance/CFO

Diane began her career at Farm Credit Midsouth in October 2016. In January 2021 Diane assumed the role of Executive Vice President, Finance/CFO. Previously her role was Chief Accounting Officer. In that role she was responsible for ensuring the Association's financial information is accurately reported to all stake-holders. Prior to joining the Farm Credit Midsouth team, Diane worked in the commercial banking industry, most recently serving as the CFO of Heritage Bank for 15 years.

Diane earned her Bachelor of Science in Business Administration with an emphasis in Accounting from the University of Arkansas and is a licensed Certified Public Accountant.

RALPH STEWART, Executive Vice President, CCO

Ralph Stewart is the Executive Vice President and Chief Credit Officer for Farm Credit Midsouth. He guides our team in directing, managing and monitoring risk within the laws and policies of regulatory authorities. Prior to joining Farm Credit Midsouth, he served for a decade in the same role with Alabama Farm Credit after holding positions of progressive responsibility within the Farm Credit system. He is also a member of the Farm Credit Council Services Learning Task Force.

Ralph is a graduate of the Nashville School of Law earning a Doctor of Jurisprudence in 2002. He completed his undergraduate education at the University of Tennessee at Martin with a Bachelor of Science in Natural Resources Management. Among the many ag/leadership awards he has earned, Stewart is most proud of his American FFA degree and two citations awarded him by the Governor of Tennessee for his work in agriculture.

SHARI WILSON, Executive Vice President, Advisor (retiring)

Shari Wilson is the Executive Vice President, Advisor, as of January, 2021 and will be retiring in April, 2021. Prior to January she was the Executive Vice President-Finance/CFO for Farm Credit Midsouth since 2008. In that role she was responsible for ensuring the Association's financial information is accurately reported to all stake-holders. She began her career with Farm Credit at the Sixth District Farm Credit Bank in 1987. Since then she has served as the CFO of Farm Credit Services of Western Arkansas and the CFO for Farm Credit Midsouth.

Shari holds a Bachelor of Business Administration degree with a concentration in Accounting and her MBA with concentration in Leadership and Organizational Management both from Harding University. She has been a licensed CPA in the state of Arkansas since 1993.

Vice Presidents

MICHAEL CLAYMAN, Senior VP of Branch Operations, Chief Marketing Officer | Central Office

Michael works closely with the branches to develop new business and helps with all aspects of the marketing and YBS programs for the Association.

Michael began his career with Farm Credit in 2002 as a loan officer with Farm Credit of Central Kansas. He has been a branch manager with Capital Farm Credit and a regional vice president with Agriland Farm Credit prior to joining Farm Credit Midsouth in September 2014 as branch manager in Marion. Michael was promoted to his position of Senior Vice President of Branch Operations, Chief Marketing Officer in 2018. Michael is a proud Oklahoma State University graduate. Michael and his wife, Cassey, have two children.

MELISSA COLES, Senior VP, Chief Human Resource Officer | Central Office

Melissa began her career with Farm Credit Midsouth in December of 2007. Melissa is responsible for overseeing all human resource functions for the Association: organizational development, compensation analysis, performance management, recruiting and retention, employee relations, job analysis, payroll and benefit administration, assists with marketing and public relations. She also serves as the Association's Standards of Conduct Officer.

Melissa holds a Bachelor of Science in Business Management with an emphasis in Human Resources. She holds a PHR certification in human resources, a SHRM-CP certification and served in the Arkansas Army National Guard.

JAMES GARDNER, Senior VP, Chief Risk Officer | Central Office

James joined Farm Credit Midsouth in 1999 as a loan officer in the Osceola branch. He continued his journey as an Internal Credit Reviewer in 2005 then as a Risk Reviewer in 2013. In 2018 he began his current role as Senior Vice President and the Chief Risk Officer for the Association. He graduated from Arkansas State University with a bachelor's degree in Ag Business.

James is responsible for identifying, assessing and reviewing loans to provide executive management and the Board of Directors as assessment of risk to ensure Farm Credit Midsouth is meeting regulatory requirements as well as allowing management to address any current and future risks. In his spare time James enjoys hunting and spending time with his family.

WATCH US:

Farm Credit Midsouth Takes the Plunge into Videos

A year with limited physical interaction with members created an opportunity to approach marketing in a new way. In 2020, Farm Credit Midsouth launched a social media video series titled Member Minutes – short videos of a several members describing their operations and their relationship with Farm Credit Midsouth.

To say the videos have been a success is an understatement. After launching the first six videos, total views have exceeded 43 thousand views since mid-September. Plans are underway to continue the video series with new installments in 2021.

In addition to the videos being used on social media, they are also housed in the video gallery section of our new website. Visitors to the website get a glimpse into our culture and have an opportunity to learn more about what we do here at Farm Credit Midsouth.

You may view all videos at https://www.fcmidsouth.com/news/video-gallery

Vice Presidents

CARY MATTHEWS, Senior VP, Chief Appraisal Officer | Central Office

Cary joined Farm Credit Midsouth in 2009 as a Senior Real Estate Appraiser. In 2012 he was promoted to Chief Appraiser, then in 2013 Cary was promoted to Senior Vice-President/Chief Appraisal Officer. Cary is responsible for overall management of the appraisal department that includes managing appraisal assignments for internal loans and supporting the lending staff. Additionally, he is a Senior Manager involved in the daily management of Farm Credit Midsouth.

Cary graduated from Arkansas State University with a degree in Management and from the Barret School of Banking in Memphis. He holds an Arkansas State Certified General Appraisal License, Accredited Rural Appraiser (ARA) Designation from the American Society of Farm Managers and Rural Appraisers, Real Estate Review Appraiser (RPRA) Designation from the American Society of Farm Mangers and Rural Appraisers, IFAS (Senior) Designation from the National Association of Independent Fee Appraisers now the American Society of Appraisers, IFAA (Agricultural) Designation from the National Association of Independent Fee Appraisers now the American Society of Appraisers. Cary was appointed by the Governor to the Arkansas Appraiser Licensing and Certification Board of Directors in 2015 where he serves as Board Chair. He serves on the Jonesboro Regional Chamber of Commerce Board of Directors.

Cary and his sons operate a 50 head cow/calf operation in Lawrence County. In his spare time, Cary enjoys spending time with family and friends. Cary is an avid Arkansas State University sports fan.

MARCIA MCVAY, VP, Controller | Central Office

Marcia began her career at Farm Credit Midsouth recently in January, 2021. As Controller, she is primarily responsible for ensuring the accuracy of internal reporting, internal controls, and cash processes for the Association. Prior to joining the Farm Credit Midsouth team, Marcia worked in the commercial banking industry as a vice president and accounting manager. She holds more than 25 years of accounting experience.

Marcia earned her Bachelor of Science in Accounting from Arkansas State University. A native of Newark, Arkansas, she resides in Jonesboro. She enjoys spending time with family and friends and counts reading and music among her favorite ways to fill her downtime.

SOCIAL MEDIA
2020 By The Numbers

Facebook @FCMidsouth
Followers as of 12-31-20: **5,071**

Of the five, Facebook has been Farm Credit's most active platform. We have featured employee anniversaries and accomplishments, FFA/4H members, new graduates, and FCM scholarship recipients. Posts have promoted job openings, as well as key deadlines and other important information for ag lending customers. In addition, we are spreading good will with giveaways that will help us build our following. We have access to Facebook analytics that give us insight into our audience, who they are and what they want to see. We have increased followers from 3,223 to 5,071 at the same time as last year.

Twitter @FCMidsouth
Followers as of 12-31-20: **295**

Twitter is best used for short messages and quick transmission of important bits of information or photos/graphics to users, most often on the go on a mobile device. We are finding this to be a useful tool, and we are exploring more ways we can expand our audience and make the best use out of this platform. As with Facebook, there is an abundance of data available.

Instagram @farm_credit_midsouth
Followers as of 12-31-20: **396**

Instagram is a very visual platform. Our intention is to engage our core audience, as well as target a younger demographic. As with the other platforms, analytics are available to help us develop a strategy to maximize Farm Credit Midsouth exposure and reach. We are making steady progress with Instagram.

LinkedIn
Followers as of 12-31-20: **449**

Farm Credit Midsouth's LinkedIn page is used as a professional tool to communicate employee happenings, promote events and post open positions. The page is a vehicle for FCM Human Resources to confidentially recruit qualified candidates and can be used to highlight professional accomplishments, conferences/events attended, or for the sharing of FCM-authored professional articles.

YouTube

We have not pushed for folks to 'subscribe' directly to our YouTube channel; rather we use it as a landing spot to create video posts for social media (which can be linked to the channel). The channel currently houses a variety of informational videos, celebratory pieces, and our *Member Minutes* series. With the launching of the new Farm Credit Midsouth website this year, we have intentionally directed traffic more to our site's video gallery (to increase site visits.)

Vice Presidents

MARC MILES, Senior VP, Chief Information Officer | Central Office

Marc began his career with Farm Credit Midsouth in 2002 as the Information Systems Manager. In 2013 Marc was promoted to Vice President of Information Technology Operations. In January 2018, Marc's title became Senior Vice President, Chief Information Officer. Marc serves as the overall administrator and primary contact in all matters related to IT Operations including planning, coordinating, directing, and designing all operational activities of the IT department. He provides direction and support for IT solutions that enhance mission-critical business operations.

Marc holds a Bachelor of Science in Computer Science from Arkansas State University. Marc was a founding committee member and integral in creating and coordinating an annual IT symposium with peers which has grown to become the Farm Credit IT Symposium attended by IT staffs from Farm Credit associations and Farm Credit district banks across the nation. In his spare time Marc enjoys photography.

MIKE WILLIAMS, Senior VP of Branch Operations, Chief Services Officer | Central Office

Mike holds a Bachelor of Science in Agriculture Business and Economics from Arkansas State University. He is also a graduate of the Barret School of Banking in Memphis. Mike began his career with Farm Credit of Eastern Arkansas in 1992 as a loan officer in Piggott. In 2006, he became the Branch Manager of the Corning Branch. In 2012, he became the Vice President, Branch Manager of the Jonesboro Branch. Mike was promoted in 2018 to his current position of Vice President of Branch Operations, Chief Services Officer.

Mike, a native of Kennett, was raised on a family farm near Holly Island in Clay County. He and his wife, Audra, have two children and they reside in Paragould. Mike enjoys spending his extra time with his kids in youth sports and is an avid hunter and fisherman.

FCM CONTINUES TO GROW

Team Building

ALEX CLIFF has joined Farm Credit Midsouth as a Regional Loan Officer servicing the Barton, Marion, Osceola and Wynne branches. Over the past four years, Alex has worked in crop technology throughout the Delta and into Missouri enabling him to develop strong relationships with farmers throughout the FCM service area. He holds a bachelor's degree in Ag Business from Arkansas State University and a Master's in Plant and Soil Science. Alex will consider the Marion branch his home base.

AMANDA MILLER joins the FCM Wynne branch as a Customer Credit Representative. A native of Wynne, where she has resided for much of her life, Amanda is currently attending East Arkansas Community College and will graduate in May 2021. Amanda will draw from more than five years of experience in customer service in the banking industry. She will work to support the entire Wynne credit team in her new role.

BRITTANY BARNES has joined FCM as a Credit Analyst. Her new role expands the Credit team, where her responsibilities will include evaluating financial information and providing training and mentoring for field staff on credit processes and procedures. Brittany attended ASU where she earned a bachelor's degree in Agriculture. She holds a Bachelor of Arts degree from Lyon College as well.

GARRETT WISE

has joined Farm Credit Midsouth as a Regional Loan Officer serving the Jonesboro, Paragould and Corning areas. Garrett earned a bachelor's degree in Ag Business from Arkansas State University and has spent the last five years working in management at an Arkansas ag company with farmers in Clay, Greene and Dunklin Counties.

MARCIA MCVAY

has joined Farm Credit Midsouth as Vice President, Controller. She holds more than 25 years of accounting experience in commercial banking. A native of Newark, Arkansas, Marcia is a graduate of Arkansas State University. She earned her bachelor's of science degree in Accounting. Marcia has resided in Jonesboro, Arkansas for more than 18 years. She enjoys spending time with family and friends. Marcia counts reading and music among her favorite ways to unwind.

MICHAEL MONTGOMERY

joins the Farm Credit Midsouth team as a Senior Crop Insurance Specialist. A United States Army veteran, he was most recently employed as Crop Insurance Manag-

Continued on page 16

EXCITING CHANGES

Employee News

DANIEL PIERONI

was promoted to Vice President of Credit in October. Daniel will continue to contribute to the Association's growing credit department. Join us as we congratulate Daniel for this achievement.

DIANE STEILING

assumed the CFO role on FCM's executive team as a Executive Vice President, CFO effective January 1. Diane will work closely with Shari Wilson as Shari prepares for retirement in April. Congratulations, Diane!

GREG GIBSON

We congratulate Greg Gibson on his recent Farm Credit Midsouth promotion to Senior Loan Officer in our Barton branch. We appreciate Greg's hard work and dedication that earned him this promotion and consider him a valuable member of our team.

STANLEY MITCHELL

will be taking on additional duties as the Branch Manager of the Marion office along with his current duties managing the Wynne branch at the beginning of year. Help us congratulate Stanley on his new role at Farm Credit Midsouth.

TAYLER BALENTINE

was promoted to Specialized Loan Processor in early November. Tayler has served as a Customer Service Specialist at our Wynne branch for almost two years. Congratulations, Tayler on your promotion!

TROY MISNER

Congrats to Troy Misner in our Osceola branch on his recent Farm Credit Midsouth promotion to Senior Loan Officer. Troy's exceptional attitude and lending expertise earned him this promotion. We are very happy for Troy and the Osceola team.

VICKI HOLCOMBE

Extending congratulations to Vicki Holcombe on her recent Farm Credit Midsouth promotion to Senior Loan Officer in our Barton branch. We appreciate the nearly 30 years of dedication to our members that earned her this promotion. Glad to have her experience on our side.

Branches

ERIC BRANSCUM, VP, Branch Manager | Jonesboro Branch

Eric holds a Bachelor of Science in Finance from Arkansas State University. He is also a graduate of the LSU Graduate School of Banking. After having served as Senior Vice President with a ten-year tenure at Heritage Bank, he began his career at Farm Credit Midsouth in 2006 as Senior Loan Officer in the Jonesboro Branch. In 2018, he became the Vice President, Branch Manager of the Jonesboro Branch.

Eric, a native of Caraway, grew up and worked on the family farm in Craighead County. Eric and his wife, Amy, have two sons, Braden and Bryson, and currently reside in Jonesboro. Eric enjoys spending time with his family and attending his sons' sports activities.

CHRISTY CASE, Assistant VP | Jonesboro Branch

Christy graduated from Arkansas State University with a bachelor's degree in Ag Business with an emphasis in Finance. She has been employed with Farm Credit Midsouth since November 2001. Christy has held various titles in the association and most recently was promoted to Assistant Vice President at the Jonesboro Branch in April 2018. She lives in Jonesboro with her husband, Chris, and two daughters, Abby and Kara. She is a member of First Free Will Baptist Church in Jonesboro.

PATRICK H. LENDERMAN, VP, Branch Manager | Corning & Paragould Branches

Patrick joined Farm Credit Midsouth in 2006 as a Senior Loan Officer in the Jonesboro Branch. He became the Branch Manager for the Corning Branch in 2012. We combined the management of the Corning and Paragould offices in 2018. Patrick manages both offices. He graduated from Arkansas State University with a bachelor's degree in Ag Business with an emphasis in Finance and the Barret School of Banking in Memphis. In his spare time Patrick enjoys hunting, fishing, and making duck calls.

CONTINUED FROM PAGE 15

Team Building

er with another agriculture financial institution. His résumé includes previous experience as an entrepreneur and agronomist for AgriPro. Mike's office will be located in our Jonesboro branch, but he will be working with farmers in the following offices: Paragould, Corning, Jonesboro, Osceola and Marion.

ROB TAYLOR has joined Farm Credit Midsouth as a Senior Loan Officer working out of our Paragould and Corning branches. Rob holds a bachelor's degree from Delta State and a master's degree in Agronomy from Mississippi State University. He comes to us from Mississippi Land Bank, ACA, bringing with him 14 years of Farm Credit experience.

TERA CLAYTON recently became part of the customer service team at our Jonesboro branch. Tera brings 16 years of customer service experience to Farm Credit Midsouth. She is a first line of contact for customers providing a number of account service functions and branch support. We welcome Tera's enthusiam to our Jonesboro team.

ACHIEVEMENTS

BESSIE RICHMOND
Staff Appraiser

In 2020, Farm Credit Midsouth's own Bessie Richmond, ARA, RPRA, earned the Real Property Review Appraiser (RPRA) designation from the American Society of Farm Managers and Rural Appraisers (ASFMRA).

This designation is earned by meeting stringent requirements in experience and education, in addition to passing rigorous written examination and abiding by the society's Code of Ethics.

Branches

STANLEY MITCHELL, VP, Branch Manager | Marion & Wynne Branches

After almost a decade in manufacturing, Stanley began his career in Northeast Arkansas agriculture as a manager of a grain dryer in Jonesboro. Stanley graduated with a bachelor's degree in Agriculture with an emphasis in Agricultural Science from Arkansas State University. He joined the Farm Credit Midsouth team at the Jonesboro Branch and was promoted to Vice President, Branch Manager at our Wynne Branch. Recently Stanley add Branch Manager at the Marion Branch to his responsibilities. Stanley and his wife have two children, a daughter and son. In his spare time, he enjoys his kids' sports activities and hunting.

LEE PETTY, VP, Branch Manager | Barton Branch

Lee is a graduate of Arkansas State University with a bachelor's degree in Agriculture and of the Barret School of Banking. He started his career with Farm Credit in 1987 in West Memphis as a loan officer and was promoted to Branch Manager in Helena. Lee currently is Vice President, Branch Manager of the Barton Branch. In his spare time Lee enjoys golf, yard work, and carpentry.

NATHAN SANDERS, VP, Branch Manager | Osceola Branch

Nathan graduated from Arkansas State University with a degree in Business Administration. Nathan went to work for Farm Credit Midsouth in Osceola immediately after college. Apart from a brief one-year stint with Heritage Bank in Caraway, Nathan has been with Farm Credit Midsouth his entire professional career. Nathan became Vice President, Branch Manager of the Osceola Branch in 2019.

U.S. Sen. John Boozman (right) receives the 2020 Friend of Farm Credit Award from AgriBank District Farm Credit Council Vice Chair Roberts (left) and Mark Kaufman (center). Many other Farm Credit representatives were also in attendance.

2020 FRIEND OF FARM CREDIT AWARD

Sen. John Boozman

The AgriBank District Farm Credit Council (ADFCC) presented its 2020 Friend of Farm Credit Award to U.S. Sen. John Boozman of Arkansas.

"His achievements on behalf of American agriculture and our consumers are to be celebrated," said ADFCC member Chris Roberts, a farmer from Heth, Arkansas and a board member of Farm Credit Midsouth. "Americans depend on our nation's farmers to grow the food, fuel and fiber we need," Boozman said. "I'm honored to receive the 2020 Friend of Farm Credit Award. "

We extend congratulations to Senator Boozman.

FARM CREDIT MIDSOUTH

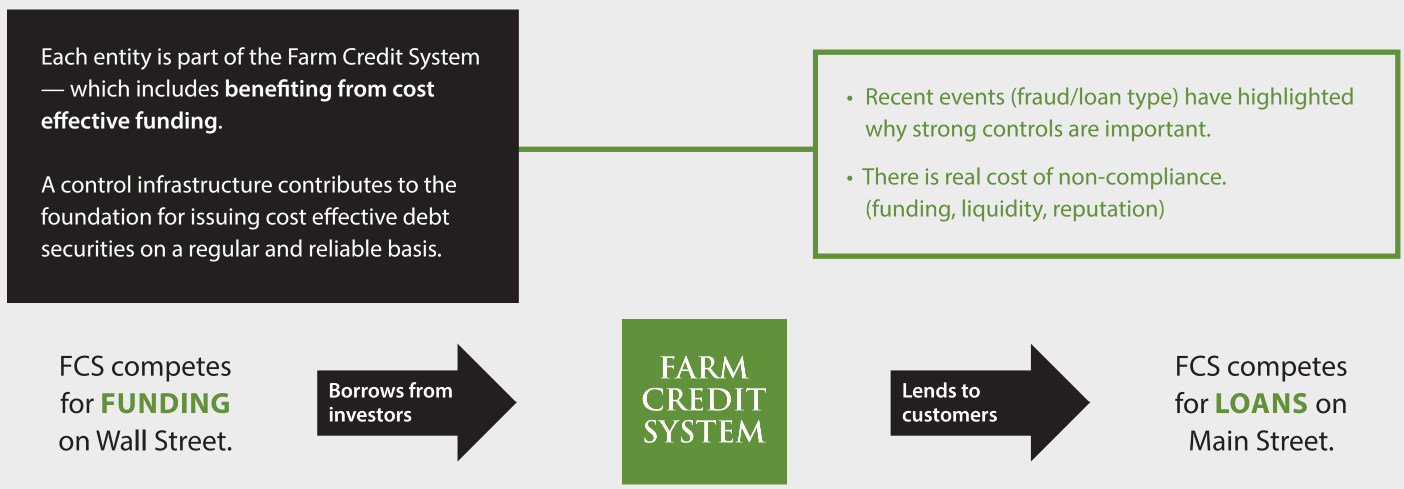
Internal Controls over Financial Reporting

Over the last few years there has been a heightened awareness of internal controls over our financial information which has lead to the Association investing a great amount of time and effort to create a robust *Internal Control over Financial Reporting* program.

So you may ask, what are Internal Controls over Financial Reporting (ICFRs) and what does it mean to me as a member of Farm Credit Midsouth?

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of our financial statements in accordance with Generally Accepted Accounting Principles (GAAP). Having an effective internal control program provides the customer with assurance that controls have been designed by the organization to limit exposure to fraud and material misstatement. These controls will not guarantee fraud or misstatement cannot happen, but they do provide a level of assurance your association board and management are monitoring activities they believe will limit the risk. Having the appropriate internal controls in place not only affects the reliability of the financial statements, but it also has an impact on the cost our customers have to pay for their loans. When investor confidence is high in the Farm Credit System, we are able to sell bonds fluidly at competitive rates.

Why is Internal Controls over Financial Reporting Important?

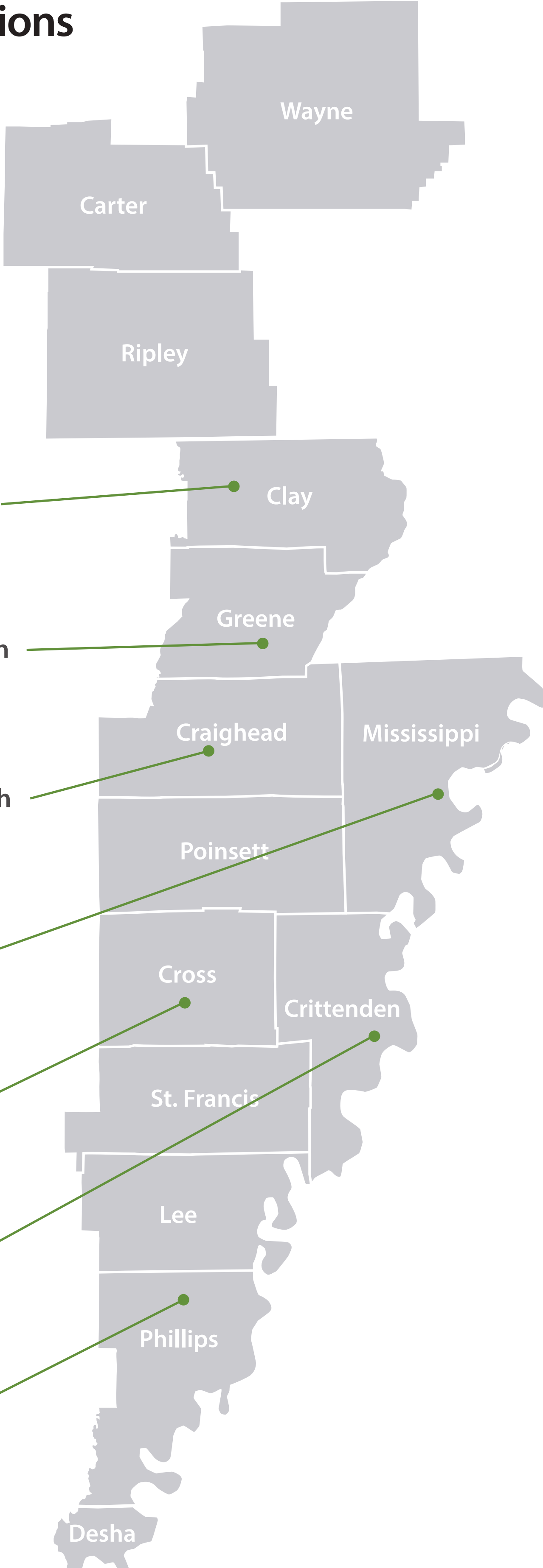


Farm Credit Midsouth continually evaluates the control system within the organization. Identifying control processes that are efficient and cost-effective is key to developing a sustainable control program. Control processes are identified as either "detective" or "preventative." A detective control process is one that occurs after a procedure has been completed. An example of a detective control would be the review of a report after the transactions have been processed. A preventative control process would be one that occurs during the process that prohibits an erroneous action to occur. An example of a preventative control would be one where one person could not complete an entire process such as creating and issuing a wire transfer. While preventative controls are the most desired type, Farm Credit Midsouth is reliant on our district technology infrastructure to help in developing these.

Our focus at Farm Credit Midsouth is to provide the most efficient method of loan financing and funds disbursement to our customers in a safe and sound manner. We have put an emphasis on providing our customers with same-day ACH transfers, ACH transactions and wire transfers. ACH/Wire processes have a preventative control built in through the segregation of duties in the process.

Farm Credit Midsouth also works to ensure that our customer data is kept secure. During 2020 we implemented a new website and online banking platform. We believe this move has increased security and offered a more user-friendly experience for our customers. The online banking platform allows the customer to review their loan information and create cash transfers at their convenience. Customers also have an opportunity to exchange documents securely through use of our MyFCM customer portal. A customer may authorize their CPA to provide tax returns or other sensitive financial data through this system. Contact your local branch office to learn more about these services.

Branch Locations



Corning Branch
870-857-3541
600 W Elm
Corning AR 72422

Paragould Branch
870-236-8525
1312 Hwy 135 N
Paragould AR 72450

Jonesboro Branch
870-932-2817
3000 Prosperity Dr
Jonesboro AR 72404

Osceola Branch
870-563-2676
4389 W Keiser Ave
Osceola AR 72370

Wynne Branch
870-238-2211
1674 S Falls Blvd
Wynne AR 72396

Marion Branch
870-739-6275
151 Block St
Marion AR 72364

Barton Branch
870-572-9900
6216 Hwy 49
Poplar Grove AR 72374


Barton Branch


Corning Branch


Central Office / Jonesboro Branch


Marion Branch


Osceola Branch


Central Office / Paragould Branch


Wynne Branch

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Farm Credit Midsouth, ACA

(dollars in thousands)

As of December 31	2020	2019	2018	2017	2016
Statement of Condition Data					
Loans	**$ 1,042,156**	$ 936,733	$ 901,382	$ 858,247	$ 849,609
Allowance for loan losses	**4,158**	2,682	3,682	2,593	1,634
Net loans	**1,037,998**	934,051	897,700	855,654	847,975
Investment in AgriBank, FCB	**23,354**	20,696	18,794	18,794	17,669
Other assets	**34,401**	36,142	34,298	26,319	25,771
Total assets	**$ 1,095,753**	$ 990,889	$ 950,792	$ 900,767	$ 891,415
Obligations with maturities of one year or less	**$ 14,300**	$ 15,533	$ 15,781	$ 15,210	$ 693,478
Obligations with maturities greater than one year	**840,062**	742,342	714,589	677,222	--
Total liabilities	**854,362**	757,875	730,370	692,432	693,478
Protected members' equity	**--**	--	--	2	2
Capital stock and participation certificates	**1,945**	1,896	1,895	1,904	1,994
Unallocated surplus	**239,709**	231,240	218,714	206,715	195,941
Accumulated other comprehensive loss	**(263)**	(122)	(187)	(286)	--
Total members' equity	**241,391**	233,014	220,422	208,335	197,937
Total liabilities and members' equity	**$ 1,095,753**	$ 990,889	$ 950,792	$ 900,767	$ 891,415

For the year ended December 31	2020	2019	2018	2017	2016
Statement of Income Data					
Net interest income	**$ 27,258**	$ 27,689	$ 25,857	$ 25,983	$ 25,155
Provision for (reversal of) loan losses	**4,635**	(913)	977	1,672	601
Other expenses, net	**7,455**	9,476	6,382	8,137	9,532
Net income	**$ 15,168**	$ 19,126	$ 18,498	$ 16,174	$ 15,022
Key Financial Ratios					
For the Year					
Return on average assets	**1.5%**	2.0%	2.0%	1.8%	1.7%
Return on average members' equity	**6.4%**	8.5%	8.6%	8.0%	7.8%
Net interest income as a percentage of average earning assets	**2.7%**	3.0%	2.9%	3.0%	3.0%
Net charge-offs (recoveries) as a percentage of average loans	**0.3%**	0.0%	(0.0%)	0.1%	0.1%
At Year End					
Members' equity as a percentage of total assets	**22.0%**	23.5%	23.2%	23.1%	22.2%
Allowance for loan losses as a percentage of loans	**0.4%**	0.3%	0.4%	0.3%	0.2%
Capital ratios effective beginning January 1, 2017:					
Common equity tier 1 ratio	**18.6%**	19.9%	19.8%	19.6%	N/A
Tier 1 capital ratio	**18.6%**	19.9%	19.8%	19.6%	N/A
Total capital ratio	**18.9%**	20.2%	20.1%	19.9%	N/A
Permanent capital ratio	**18.7%**	20.0%	19.8%	19.7%	N/A
Tier 1 leverage ratio	**20.0%**	21.5%	21.0%	21.0%	N/A
Capital ratios effective prior to 2017:					
Permanent capital ratio	**N/A**	N/A	N/A	N/A	18.7%
Total surplus ratio	**N/A**	N/A	N/A	N/A	18.5%
Core surplus ratio	**N/A**	N/A	N/A	N/A	18.5%
Net Income Distributed					
For the Year					
Patronage distributions:					
Cash	**$ 6,599**	$ 6,500	$ 5,399	$ 4,200	$ 4,200

MANAGEMENT'S DISCUSSION AND ANALYSIS

Farm Credit Midsouth, ACA

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Midsouth, ACA (the Association) and its subsidiaries, Farm Credit Midsouth, FLCA and Farm Credit Midsouth, PCA and provides additional specific information. The accompanying Consolidated Financial Statements and Notes to the Consolidated Financial Statements also contain important information about our financial condition and results of operations.

The Farm Credit System (System) is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations, established by Congress to meet the credit needs of American agriculture. As of January 1, 2021, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 67 borrower-owned cooperative lending institutions (associations). The System serves all 50 states, Washington D.C., and Puerto Rico. This network of financial cooperatives is owned and governed by the rural customers the System serves.

AgriBank, FCB (AgriBank), a System Farm Credit Bank, and its District associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). We are an association in the District.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System. The Farm Credit System Insurance Corporation (FCSIC) administers the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used to ensure the timely payment of principal and interest on Systemwide debt obligations, to ensure the retirement of protected borrower capital at par or stated value, and for other specified purposes.

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of AgriBank financial reports, contact us at:

Farm Credit Midsouth, ACA
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Jonesboro, AR 72404
(870) 932-2288
www.FCMidsouth.com

AgriBank, FCB
30 East 7th Street, Suite 1600
St. Paul, MN 55101
(651) 282-8800
www.AgriBank.com
FinancialReporting@AgriBank.com

Our Annual Report is available on our website no later than 75 days after the end of the calendar year and members are provided a copy of such report no later than 90 days after the end of the calendar year. The Quarterly Reports are available on our website no later than 40 days after the end of each calendar quarter. To request free copies of our Annual or Quarterly Reports, contact us as stated above.

NOTICE OF SIGNIFICANT OR MATERIAL EVENTS

During the fourth quarter of 2020, Diane Steiling was named as the new Chief Financial Officer in preparation for our current Chief Financial Officer's, Shari Wilson, upcoming retirement. Ms. Steiling's title of Executive Vice-President of Finance and Chief Financial Officer is effective as of January 1, 2021, and Ms. Wilson's anticipated retirement will be in April 2021.

FORWARD-LOOKING INFORMATION

This Annual Report includes 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 "anticipate", "believe", "estimate", "may", "expect", "intend", "outlook", and similar expressions are used to identify such forward-looking statements. These statements reflect our current views with respect to future events. However, actual results may differ materially from our expectations due to a number of risks and uncertainties which may be beyond our control. These risks and uncertainties include, but are not limited to:

- Political (including trade and environmental policies), legal, regulatory, financial markets, and economic conditions and developments in the United States (U.S.) and abroad
- Length and severity of an epidemic or pandemic
- Economic fluctuations in the agricultural, international, rural and farm-related business sectors
- Weather-related, disease, and other adverse climatic or biological conditions that periodically occur and can impact agricultural productivity and income
- Changes in U.S. government support of the agricultural industry (including government support payments) and the System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government, other government-sponsored enterprises, and other financial institutions
- Actions taken by the Federal Reserve System in implementing monetary policy
- Credit, interest rate, and liquidity risks inherent in our lending activities
- Changes in our assumptions for determining the allowance for loan losses and fair value measurements
- Industry outlooks for agricultural conditions
- Changes in interest rate indices utilized in our lending

COVID-19 PANDEMIC

The spread of COVID-19 has created a global public-health crisis that has stifled the world-wide economy, decreased liquidity in fixed income and equity markets, significantly increased unemployment levels and disrupted global supply and demand chains. Unprecedented actions are being taken by governments, businesses and individuals to slow or contain the spread of COVID-19, including quarantines, stay-at-home orders, school closings and travel bans that have substantially restricted daily activities and forced many businesses to curtail or cease operations. The impact of COVID-19 on companies is evolving rapidly and its future effects are uncertain.

The extent to which the COVID-19 pandemic impacts the Association will depend on future developments that are highly uncertain and cannot be predicted, such as the duration, extent and severity of the pandemic, the continued response by the U.S. government and how quickly “normal” daily activities resume.

Despite volatility and uncertainty in the market, we have weathered the significant initial challenges presented by the current operating environment and operations of our Association are fully functioning. Our business continuity response has allowed us to continue to serve our mission. We are working on a rotation basis, with half our staff working remote and half in the office. Our offices are open to customers but require social distancing and the utilization of masks. We also have set up hand sanitizer stations to encourage a sterile environment. We have not had any significant changes to internal controls over financial reporting due to working remotely or due to limited staff.

This outbreak puts the economy and agriculture sector in uncharted territory. The overall impact of COVID-19 on U.S. agriculture will depend on the severity and duration of the outbreak, including a potential reoccurrence later in the year. Overall, agriculture will adjust, providing an “essential service” to the U.S. and global consumer.

AGRICULTURAL AND ECONOMIC CONDITIONS

Crop Production and Yields

According to the United States Department of Agriculture (USDA) Arkansas Crop Production Report released January 12, 2021, cotton acres harvested decreased 15% from 2019 levels. It is projected that the yields for 2020 (1,200 pounds per acre) will be up 15 pounds from the 2019 yields. Production is forecasted at 1.3 million bales down, 14% from 2019.

The corn area harvested in Arkansas decreased 18% from 2019. The average yield for 2020 is estimated at 184 bushels per acre, up 9 bushels from 2019. Production totaled 111 million bushels, down 13% from 2019.

Rice acres harvested are expected to be 1.4 million acres, up 28% from 2019. The average yield is estimated at 7,500 pounds per acre, up 20 pounds from last year. Production totaled 108 million hundredweight (cwt), up 28% from 2019.

Soybean acres harvested is 2.8 million acres, up 7% from 2019. The average yield is estimated at 50 bushels per acre, up 1 bushel from last year. Production totaled 139 million bushels, up 9% from 2019.

Peanuts harvested is 38,000 acres, up 15% from 2019. The average yield is estimated at 4,800 pounds per acre, down 400 pounds per acre from 2019. Production totaled 182 million pounds, up 6% from 2019.

Crop Production

According to the November 29, 2020 USDA Crop Progress and Condition report, cotton harvested was at 100% compared to 99% for the 5 year average and soybeans harvested was 98% compared to the 5 year average of 97%. Peanuts harvested were 98% compared to the 5 year average of 94%. Winter wheat emerged was 89% compared to the 5 year average of 86%. According to our branch offices, harvest went well and yields were average.

Crop Prices

According to the December 10, 2020, World Agricultural Supply and Demand Estimates report, the 2020/2021 all rice season-average farm price is raised $0.10 per cwt to $13.10, compared to $13.00 for 2019/2020. The 2020/2021 U.S. corn projected season-average farm price is $4.00 per bushel. The U.S. season-average soybean price for 2019/2020 is forecasted at $10.55 per bushel, up $0.15. Soybean meal price forecast is up $15.00 to $370.00 per short ton. The soybean oil price forecast is up $0.02 at $0.36 per pound. Upland cotton’s season-average farm price is up $0.05 from 2019 to $0.65 per pound.

Land Values

Analysis by Farm Credit Midsouth Senior Vice President and Chief Appraisal Officer, Cary C. Matthews found that after two consecutive years of small decreases there has been a slight increase in demand for good-quality land used for production of all typical agricultural commodities, but primarily for rice, corn, soybeans, and cotton. Land values across east-central and eastern Arkansas indicated a change from -5.17% to +10.77% during the period July 1, 2019, to June 30, 2020. The rate of change overall is fairly static, although four of the benchmarks in eastern Arkansas showed increases from 2.38% to 10.77%; the other eastern Arkansas benchmark showed no change. The benchmark that showed the highest increase is an outlier compared to the other benchmarks; the next highest increase was 4.44%. The benchmarks in east-central Arkansas showed changes varying from -3.77% to +2.28%; in our opinion this is the sign of a static market. In this market area, demand remains resilient – particularly for cropland tracts which are irrigated, developed, and comprised of versatile soil types. Compared to recent years, sales volume over the past twelve months has remained normal in the east-central and eastern Arkansas cropland area. Although many areas in the market are still dominated by the traditional buyer, the local landowner/farmer, demand is still being exhibited by out-of-area investment-minded buyers. These investment buyers seem particularly interested in the larger tracts of farm land (500+ acres).

Economy

As of November 2020, the unemployment within our territory has increased from 2019 primarily due to the impact of the global COVID-19 pandemic. According to the November 2020, Arkansas Labor Market Report, the state unemployment rate of 5.7% (not seasonally adjusted) was significantly higher than the previous year of 3.1%. The national average was 6.4%, also significantly higher than the prior year 3.3%. From the November 2020 Arkansas Labor Market Report:

> Compared to November 2019, Arkansas' nonfarm payroll jobs in Arkansas are down 36,600. Employment in eight major industry sectors declined. Jobs in **manufacturing** fell 14,700. Contractions occurred in both durable goods (-8,200) and nondurable goods (-6,500) manufacturing. Industries with the largest reported declines include the manufacturing of transportation equipment, food, and fabricated metal products. Employment in **leisure and hospitality** decreased 12,200. While all subsectors reported losses, the largest was in food services (-9,200). Jobs in **government** are down 10,100. Most of the contraction was in local government-educational services (-6,600). **Educational and health services** declined 7,800, largely in health care and social assistance (-7,400). Employment in **other services** decreased 4,100. Jobs in **trade, transportation, and utilities** are up 11,900. While all subsectors posted growth, the greatest gains were in retail trade (+6,100) and transportation-warehousing-utilities (+4,600). **Construction** added 2,200 jobs, related in part to multiple large-scale projects across the state.

According to the Bureau of Economic Analysis, Arkansas had a decline in personal income of 20.3% for the period September 2019 – September 2020.

Arkansas Real Gross Domestic Product, which is a measure of changes in the output of goods and services produced by labor and property located in the U.S., increased 31.8% in the third quarter of 2020 according to the Bureau of Economic Analysis published December 23, 2020.

As reported by the Bureau of Economic Analysis and Census Bureau in their January 2021 release, the U.S. international trade in goods and services for November 2020 deficit increased year-to-date by $73.6 billion or 13.9% from 2019. Exports decreased $372.3 billion or 16.1% while imports decreased $298.7 billion or 10.5%. The majority of the change in the economic factors above can be directly attributed to the COVID-19 pandemic.

The December 2020 Conference Board report indicated that the Leading Economic Index (LEI) was increased in November to 109.1 following a 0.8% increase in October and a 0.7% increase in September. "The U.S. LEI continued rising in November, but its pace of improvement has been decelerating in recent months, suggesting a significant moderation in growth as the U.S. economy heads into 2021," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "Initial claims for unemployment insurance, new orders for manufacturing, residential construction permits, and stock prices made the largest positive contributions to the LEI. However, falling average working hours in manufacturing and consumers' worsening outlook underscore the downside risks to growth from a second wave of COVID-19 and high unemployment."

The Consumer Price index as reported by the U.S. Bureau of Labor Statistics for December 2020 measures changes in the cost of items over time and is a prime indicator of inflation. Over the past 12 months the index has increased 1.4% before seasonal adjustment. The food index rose 3.9% over the past year while the index for energy decreased -7.0%.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.0 billion at December 31, 2020, an increase of $105.4 million from December 31, 2019.

Components of Loans

(in thousands)

As of December 31	**2020**	2019	2018
Accrual loans:			
Real estate mortgage	**$ 561,942**	$ 508,445	$ 500,243
Production and intermediate-term	**396,686**	367,285	336,911
Agribusiness	**72,511**	58,107	52,321
Other	**2,166**	2,296	1,313
Nonaccrual loans	**8,851**	600	10,594
Total loans	**$ 1,042,156**	$ 936,733	$ 901,382

The other category is composed of rural residential real estate related loans.

The increase in total loans from December 31, 2019, was primarily due to the growth in the real estate mortgage and production and intermediate-term portfolios relating to real estate purchases, refinancing of real estate and equipment, and new equipment purchases.

We have sold to AgriBank participation interests in certain loans as part of a pool program. The total outstanding participation interests in this program were $8.2 million, $9.3 million, and $14.9 million at December 31, 2020, 2019, and 2018, respectively.

The U.S. government has instituted various programs in support of the COVID-19 economic recovery. In early 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act). Among other provisions, the CARES Act and congressional approval made available for small businesses approximately $660.0 billion under the Paycheck Protection Program (PPP), which is a guaranteed loan program administered by the U.S.

Small Business Administration (SBA). We obtained approval from the SBA in April 2020 to participate as a lender in the PPP. Loan applicants with 500 or fewer employees or who fit within the revenue-based size standard and who are eligible to receive financing under the Farm Credit Act and the FCA Regulations are able to borrow from our association under this program. The PPP provided for loan forgiveness under limited circumstances and loan payments were deferred up to six months. Since beginning the program, we have successfully processed $682 thousand in PPP loans for customers. We are working with our customers gathering documentation and submitting applications for the forgiveness of the PPP loans and $215 thousand has been forgiven as of December 31, 2020. At the end of December 2020, additional legislation was passed to extend the PPP by approximately $280.0 billion, which modified and expanded eligibility to borrowers and will be available through March 31, 2021. We have had some interest in the expanded program and anticipate at least doubling the amount of loans involved.

Typically, our production and intermediate-term loan portfolio exhibits some seasonality relating to patterns of operating loans made to crop producers. These loans are normally at their lowest levels following the harvest and then increase in the spring and throughout the rest of the year as borrowers fund operating needs.

We offer variable, fixed, indexed, and adjustable interest rate loan programs to our borrowers. We also offer lease programs through our affiliation with Western Equipment Finance, Inc. We determine interest margins charged on each lending program based on cost of funds, credit risk, market conditions, and the need to generate sufficient earnings.

Portfolio Distribution

We are chartered to serve certain counties in Arkansas, Missouri, and Tennessee. Approximately 98.7% of our total loan portfolio was in the state of Arkansas at December 31, 2020. Craighead and Mississippi counties in Arkansas made up 35.1% of the outstanding loan balance.

Agricultural Concentrations

As of December 31	**2020**	2019	2018
Cash grains	**60.4%**	59.5%	62.6%
Landlords	**18.7%**	21.2%	21.4%
Cotton	**10.6%**	9.0%	6.7%
Other	**10.3%**	10.3%	9.3%
Total	**100.0%**	100.0%	100.0%

Commodities are based on the borrower's primary intended commodity at the time of loan origination and may change due to borrower business decisions as a result of changes in weather, prices, input costs, and other circumstances.

Portfolio Credit Quality

The credit quality of our portfolio slightly declined from December 31, 2019. Adversely classified loans increased to 1.0% of the portfolio at December 31, 2020, from 0.6% of the portfolio at December 31, 2019. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, Federal Agricultural Mortgage Corporation (Farmer Mac) and other government agency guarantee programs are used to reduce the risk of loss. At December 31, 2020, $7.6 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands)

As of December 31	**2020**	2019	2018
Loans:			
Nonaccrual	**$ 8,851**	$ 600	$ 10,594
Accruing restructured	**1**	24	510
Accruing loans 90 days or more past due	**--**	395	--
Total risk loans	**8,852**	1,019	11,104
Other property owned	**--**	--	534
Total risk assets	**$ 8,852**	$ 1,019	$ 11,638
Total risk loans as a percentage of total loans	**0.8%**	0.1%	1.2%
Nonaccrual loans as a percentage of total loans	**0.8%**	0.1%	1.1%
Current nonaccrual loans as a percentage of total nonaccrual loans	**0.8%**	16.8%	55.7%
Total delinquencies as a percentage of total loans	**0.9%**	0.1%	1.2%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2019, but have remained at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans were well within our established risk management guidelines.

The increase in nonaccrual loans was primarily due to one large customer that is past due and in the process of collection. Nonaccrual loans remained at an acceptable level at December 31, 2020, 2019, and 2018.

Our accounting policy requires loans past due 90 days or more to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis in 2019, accruing loans 90 days or more past due were eligible to remain in accruing status.

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans inherent in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on the periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Allowance Coverage Ratios

As of December 31	**2020**	2019	2018
Allowance as a percentage of:			
Loans	**0.4%**	0.3%	0.4%
Nonaccrual loans	**47.0%**	447.0%	34.8%
Total risk loans	**47.0%**	263.2%	33.2%
Net charge-offs (recoveries) as a percentage of average loans	**0.3%**	0.0%	(0.0%)
Adverse assets to capital and allowance for loan losses	**4.3%**	2.4%	18.2%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2020.

Additional loan information is included in Notes 3, 9, 10, and 11 to the accompanying Consolidated Financial Statements.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands)

For the year ended December 31	**2020**	2019	2018
Net income	**$ 15,168**	$ 19,126	$ 18,498
Return on average assets	**1.5%**	2.0%	2.0%
Return on average members' equity	**6.4%**	8.5%	8.6%

Changes presented in the profitability information chart relate directly to:

- Changes in income discussed in this section
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Capital Adequacy section

Changes in Significant Components of Net Income

	For the year ended December 31			(Decrease) increase in net income	
(in thousands)	**2020**	2019	2018	**2020 vs 2019**	2019 vs 2018
Net interest income	**$ 27,258**	$ 27,689	$ 25,857	**$ (431)**	$ 1,832
Provision for (reversal of) loan losses	**4,635**	(913)	977	**(5,548)**	1,890
Non-interest income	**8,180**	5,883	7,976	**2,297**	(2,093)
Non-interest expense	**16,083**	14,875	14,156	**(1,208)**	(719)
(Benefit from) provision for income taxes	**(448)**	484	202	**932**	(282)
Net income	**$ 15,168**	$ 19,126	$ 18,498	**$ (3,958)**	$ 628

Net Interest Income

Changes in Net Interest Income

(in thousands)

For the year ended December 31	**2020 vs 2019**	2019 vs 2018
Changes in volume	**$ 2,231**	$ 754
Changes in interest rates	**(1,624)**	(29)
Changes in nonaccrual income and other	**(1,038)**	1,107
Net change	**$ (431)**	$ 1,832

Net interest income included net reversals of previously accrued interest on loans which were transferred into nonaccrual in 2020 and 2018 that totaled $8 thousand and $77 thousand, respectively, and net income on nonaccrual loans of $1.0 million in 2019. Nonaccrual income is recognized when received in cash, collection of the recorded investment is fully expected, and prior charge-offs have been recovered. See the Regulatory Matters section for discussion regarding revised criteria to reinstate nonaccrual loans to accrual status.

Net interest margin (net interest income as a percentage of average earning assets) was 2.7%, 3.0%, and 2.9% in 2020, 2019, and 2018, respectively. Our net interest margin is sensitive to interest rate changes and competition.

Provision for (Reversal of) Loan Losses

The change in the provision for (reversal of) loan losses was related to our estimate of losses in our portfolio for the applicable years. We added $4.6 million to provision during 2020 to accommodate the risk in the portfolio from loan growth and our impaired loans. Additional discussion is included in Note 3 to the accompanying Consolidated Financial Statements.

Non-Interest Income

The change in non-interest income was primarily due to patronage and fee income.

Patronage Income: We may receive patronage from AgriBank and other Farm Credit Institutions. Patronage distributions from AgriBank and other Farm Credit Institutions are declared solely at the discretion of each institution's Board of Directors.

Patronage Income

(in thousands)

For the year ended December 31	2020	2019	2018
Patronage from AgriBank	**$ 4,995**	$ 4,413	$ 4,248
Other patronage	**87**	9	6
Total patronage income	**$ 5,082**	$ 4,422	$ 4,254
Form of patronage distributions:			
Cash	**$ 5,082**	$ 2,520	$ 4,254
Stock	**--**	1,902	--
Total patronage income	**$ 5,082**	$ 4,422	$ 4,254

Patronage from AgriBank primarily includes wholesale patronage and pool program patronage. All patronage payments are at the sole discretion of the AgriBank Board of Directors and are determined based on actual financial results, projections, and long-term capital goals.

Fee Income: The increase in fee income was primarily due to an increase in loan conversion fees, along with fees originating PPP loans guaranteed by the SBA. The increased loan opportunities were the result of the lower interest rate environment created by the COVID-19 pandemic. The Association repriced approximately 1,300 loans saving customers 1.3% on average.

Non-Interest Expense

Components of Non-interest Expense

(dollars in thousands)

For the year ended December 31	2020	2019	2018
Salaries and employee benefits	**$ 10,402**	$ 9,425	$ 9,079
Other operating expense:			
Purchased and vendor services	**1,834**	1,579	1,614
Communications	**106**	107	104
Occupancy and equipment	**1,099**	1,019	823
Advertising and promotion	**531**	483	426
Examination	**365**	365	344
Farm Credit System insurance	**800**	686	667
Other	**936**	1,211	1,099
Other non-interest expense	**10**	--	--
Total non-interest expense	**$ 16,083**	$ 14,875	$ 14,156
Operating rate	**1.6%**	1.6%	1.6%

Salaries and employee benefits expense increased primarily due to increased incentives associated with portfolio growth along with increased pension and medical expenses.

Purchased services increased as the Association redesigned their website and increased marketing efforts. Initiatives for evaluating a new loan scoring system, forms, DocuSign, and a new online banking platform also contributed to the increased expense. A new vendor was also engaged to assist in developing a new Enterprise Risk Management system which will be utilized in the Association's ongoing efforts to identify, evaluate, and monitor risk.

(Benefit from) Provision for Income Taxes

The variance in (benefit from) provision for income taxes was related to our estimate of taxes based on taxable income as well as a provision that was needed. Patronage distributions to members reduced our tax liability in 2020, 2019, and 2018. Additional discussion is included in Note 7 to the accompanying Consolidated Financial Statements.

FUNDING AND LIQUIDITY

We borrow from AgriBank, under a note payable, in the form of a line of credit, as described in Note 5 to the accompanying Consolidated Financial Statements. This line of credit is our primary source of liquidity and is used to fund operations and meet current obligations. At December 31, 2020, we had $157.4 million available under our line of credit. We generally apply excess cash to this line of credit. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

Note Payable Information

(dollars in thousands) For the year ended December 31	**2020**	2019	2018
Average balance	**$ 798,012**	$ 725,401	$ 708,221
Average interest rate	**1.9%**	2.8%	2.6%

Our average cost of funds is variable and may fluctuate based on the current interest rate environment.

In 2017, the United Kingdom’s Financial Conduct Authority, which regulates the London Inter-bank Offer Rate (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 expected, but not certain, that LIBOR will no longer be quoted after 2021. In late 2020, ICE Benchmark Administration (IBA), the administrator of LIBOR, announced its intention to publish major USD LIBOR indexes through June 30, 2023. The FCA issued a response and guidance that the IBA proposal is not in any way intended to slow down the transition.

The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. However, we maintain some exposure to interest rates, including LIBOR, primarily from loans to customers which may not have a component of our line of credit with an exact repricing attribute. At this time, it remains uncertain when LIBOR will cease to be available or if the Secured Overnight Financing Rate (SOFR) will become the benchmark to replace LIBOR.

The Farm Credit System has established a LIBOR transition workgroup to provide leadership in addressing the LIBOR phase-out across System entities. In coordination with this group, we have developed a comprehensive project plan to address the issues surrounding a transition away from LIBOR. This plan is consistent with regulatory guidance from the FCA, and it incorporates actions to address risk identification and reporting, mitigation strategies, development or adoption of products utilizing alternative reference rates, operational and system impacts, a process for monitoring regulatory and industry developments, as well as communication to stakeholders. While many factors can impact our net interest income, we do not expect a significant impact due to the LIBOR transition at this time.

We have entered into a Standby Commitment to Purchase Agreement with Farmer Mac to help manage credit risk. If a loan covered by the agreement goes into default, subject to certain conditions, we have the right to sell the loan to Farmer Mac. This agreement remains in place until the loan is paid in full. The guaranteed volume of loans subject to the purchase agreement was $1.1 million, $1.3 million, and $1.4 million at December 31, 2020, 2019, and 2018, respectively. We paid Farmer Mac commitment fees totaling $5 thousand, $6 thousand, and $7 thousand in 2020, 2019, and 2018, respectively. These amounts are included in “Other operating expense” in the Consolidated Statements of Comprehensive Income. Sales of loans to Farmer Mac under this agreement were $1.3 million as of December 31, 2019. There were no loans sold to Farmer Mac under this agreement in 2020 and 2018.

CAPITAL ADEQUACY

Total members’ equity was $241.4 million, $233.0 million, and $220.4 million at December 31, 2020, 2019, and 2018, respectively. Total members’ equity increased $8.4 million from December 31, 2019, primarily due to net income for the year partially offset by patronage distribution accruals.

The FCA Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage.

Regulatory Capital Requirements and Ratios

As of December 31	**2020**	2019	2018	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:						
Common equity tier 1 ratio	**18.6%**	19.9%	19.8%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**18.6%**	19.9%	19.8%	6.0%	2.5%	8.5%
Total capital ratio	**18.9%**	20.2%	20.1%	8.0%	2.5%	10.5%
Permanent capital ratio	**18.7%**	20.0%	19.8%	7.0%	N/A	7.0%
Non-risk-adjusted:						
Tier 1 leverage ratio	**20.0%**	21.5%	21.0%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**20.4%**	21.7%	21.2%	1.5%	N/A	1.5%

Our capital plan is designed to maintain an adequate amount of surplus and allowance for loan losses which represents our reserve for adversity prior to impairment of stock. We manage our capital to allow us to meet member needs and protect member interests, both now and in the future.

Capital ratios are directly impacted by changes in capital, assets, and off-balance sheet commitments. Refer to the Loan Portfolio section for further discussion of the changes in assets. Additional discussion of regulatory ratios and members' equity information is included in Note 6 to the accompanying Consolidated Financial Statements and off-balance sheet commitments are discussed in Note 10 to the accompanying Consolidated Financial Statements.

In addition to these regulatory requirements, we establish an optimum total capital target range. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. Our optimum total capital target range was 15% to 19%, as defined in our 2021 capital plan.

If the capital ratios fall below the total 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. We do not foresee any events that would result in this prohibition in 2021.

RELATIONSHIP WITH AGRIBANK

Borrowing

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement (GFA), as discussed in Note 5 to the accompanying Consolidated Financial Statements, governs this lending relationship.

The components of cost of funds under the GFA include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity, and bank profit
- A risk premium component, if applicable

In the periods presented, we were not subject to the risk premium component. Certain factors may impact our cost of funds, which primarily include market interest rate changes impacting marginal cost of debt as well as changes to pricing methodologies impacting the spread components described above.

The marginal cost of debt approach simulates matching the cost of underlying debt with similar terms as the anticipated terms of our loans to borrowers. This approach substantially protects us from market interest rate risk. We may occasionally engage in funding strategies that result in limited interest rate risk with approval by AgriBank's Asset/Liability Committee.

Investment

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing distributed AgriBank surplus. As of December 31, 2020, we were required by AgriBank to maintain an investment equal to 2.5% of the average quarterly balance of our note payable, with an additional amount required on association growth in excess of a targeted growth rate, if the District is also growing above a targeted growth rate.

We are also required to hold additional investment in AgriBank based on a contractual agreement under a pool program.

Patronage

AgriBank's capital plan is intended to provide for adequate capital at AgriBank under capital regulations as well as to create a path to long-term capital optimization within the AgriBank District. The plan optimizes capital at AgriBank; distributing available AgriBank earnings in the form of patronage, either cash or AgriBank stock, which is at the sole discretion of the AgriBank Board of Directors. The plan is designed to maintain capital adequacy such that sufficient earnings will be retained in the form of unallocated retained earnings and allocated stock to meet the leverage ratio target and other regulatory or policy constraints prior to any cash patronage distributions.

Purchased Services

As of December 31, 2020, we purchased certain business services from AgriBank. Until the formation of SunStream Business Services (SunStream) on April 1, 2020, we also purchased financial and retail information technology, collateral, tax reporting, and insurance services from AgriBank. These services are now offered by SunStream. For further discussion on our relationship with SunStream see the Other Relationships and Programs section. Additional related party information is included in Note 9 to the accompanying Consolidated Financial Statements.

Impact on Members' Investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our members' investment.

OTHER RELATIONSHIPS AND PROGRAMS

Relationships with Other Farm Credit Institutions

CentRic Technology Collaboration: We participate in CentRic Technology Collaboration (CTC) with certain other AgriBank District associations. The CTC facilitates the development and maintenance of certain retail technology systems essential to providing credit and other services to our members. The CTC operations are governed by representatives of each participating association. The expenses of CTC are allocated to each of the participating associations based on an agreed upon formula. The systems developed are owned by each of the participating associations.

CoBank, ACB: We have a relationship with CoBank, ACB (CoBank), a System bank, which involves purchasing and selling participation interests in loans. As part of this relationship, our equity investment in CoBank was $3 thousand, $3 thousand, and $2 thousand at December 31, 2020, 2019, and 2018, respectively.

SunStream Business Services: We have a relationship with SunStream, which involves purchasing financial and retail information technology, collateral, tax reporting, and insurance services. SunStream was a division of AgriBank prior to April 1, 2020, when SunStream formed a separate System service corporation of which we are a partial owner. Our entire investment in SunStream was called on April 1, 2020, at which time $125 thousand was paid in cash and the remainder was paid in January 2021. As of December 31, 2020, our investment in SunStream was $225 thousand. Additional related party information is included in Note 9 to the accompanying Consolidated Financial Statements.

Farm Credit Foundations: We have a relationship with Farm Credit Foundations (Foundations), a System service corporation, which involves purchasing human resource, benefit, payroll, and workforce management services. As of December 31, 2020, 2019, and 2018, our investment in Foundations was $14 thousand. Additional related party information is included in Note 9 to the accompanying Consolidated Financial Statements.

Programs

We are involved in a number of programs designed to improve our credit delivery, related services, and marketplace presence.

AgFirst Farm Credit Bank: We have a relationship with AgFirst Farm Credit Bank, a System bank, which involves selling rural home loans through the secondary market.

Farm Cash Management: We offer Farm Cash Management to our members. Farm Cash Management links members' revolving lines of credit with an AgriBank investment bond to optimize members' use of funds.

Western Equipment Finance, Inc.: We offer a program with Western Equipment Finance, Inc., a subsidiary of Western State Bank, to provide equipment financing and leasing solutions. Leases are originated and serviced by Western Equipment Finance, Inc. and we purchase a participation interest in the cash flows of the transaction. This arrangement provides our members with a broader selection of product offerings and enhanced lease expertise.

REGULATORY MATTERS

Criteria to Reinstate Nonaccrual Loans

The FCA Board approved a final rule to revise how high-risk loans for System banks and associations are classified by clarifying the factors used to place loans in nonaccrual status and revising reinstatement criteria, which became effective October 21, 2020. The stated objectives of the revised requirements are to:

- Enhance the usefulness of high-risk loan categories
- Replace the subjective measure of "reasonable doubt" used for reinstating loans to accrual status with a measurable standard
- Improve the timely recognition of a change in a loan's status
- Update existing terminology and make other grammatical changes

Investment Securities Eligibility

The FCA Board approved a final rule to amend the investment eligibility regulation. The final rule became effective December 4, 2020, and allows associations to purchase portions of loans in the secondary market that are fully and unconditionally guaranteed by the United States Department of Agriculture (USDA). We currently do not have investment securities on our Consolidated Statements of Condition.

For both final rules we have updated our policies, procedures, and other documentation to ensure compliance with the amended regulations. The amendments did not have a material impact to our financial statements.

REPORT OF MANAGEMENT

Farm Credit Midsouth, ACA

We prepare the Consolidated Financial Statements of Farm Credit Midsouth, ACA (the Association) and are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Consolidated Financial Statements, in our opinion, fairly present the financial condition of the Association. Other financial information included in the Annual Report is consistent with that in the Consolidated Financial Statements.

To meet our responsibility for reliable financial information, we depend on accounting and internal control systems designed to provide reasonable, but not absolute assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the benefits derived when designing accounting and internal control systems. Financial operations audits are performed to monitor compliance. PricewaterhouseCoopers LLP, our independent auditors, audit the Consolidated Financial Statements. They also consider internal controls to the extent necessary to design audit procedures that comply with auditing standards generally accepted in the United States of America. The Farm Credit Administration also performs examinations for safety and soundness as well as compliance with applicable laws and regulations.

The Board of Directors has overall responsibility for our system of internal control and financial reporting. The Board of Directors and its Audit Committee consults regularly with us and meets periodically with the independent auditors and other auditors to review the scope and results of their work. The independent auditors have direct access to the Board of Directors, which is composed solely of directors who are not officers or employees of the Association.

The undersigned certify we have reviewed the Association's Annual Report, which has been prepared in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Dane Coomer
Chairman of the Board
Farm Credit Midsouth, ACA

James McJunkins
President and Chief Executive Officer
Farm Credit Midsouth, ACA

Diane Steiling
Executive Vice President of Finance, Chief Financial Officer
Farm Credit Midsouth, ACA

March 12, 2021

REPORT OF AUDIT COMMITTEE

Farm Credit Midsouth, ACA

The Consolidated Financial Statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of a subset of the Board of Directors of Farm Credit Midsouth, ACA (the Association). The Audit Committee oversees the scope of the Association's internal audit program, the approval, and independence of PricewaterhouseCoopers LLP (PwC) as independent auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's actions with respect to recommendations arising from those auditing activities. The Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

Management is responsible for internal controls and the preparation of the Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the Consolidated Financial Statements in accordance with auditing standards generally accepted in the United States of America and to issue their report based on their audit. The Audit Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Audit Committee reviewed and discussed the audited Consolidated Financial Statements for the year ended December 31, 2020, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards AU-C 260, *The Auditor's Communication with Those Charged with Governance*, and both PwC and the internal auditors directly provided reports on any significant matters to the Audit Committee.

The Audit Committee had discussions with and received written disclosures from PwC confirming its independence. The Audit Committee also reviewed the non-audit services provided by PwC, if any, and concluded these services were not incompatible with maintaining PwC's independence. The Audit Committee discussed with management and PwC any other matters and received any assurances from them as the Audit Committee deemed appropriate.

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended that the Board of Directors include the audited Consolidated Financial Statements in the Annual Report for the year ended December 31, 2020.

Chris Roberts
Chairman of the Audit Committee
Farm Credit Midsouth, ACA

Members of the Audit Committee:
Franklin Fogleman, Jr.
Matt Knight
Gary Sitzer

March 12, 2021

Report of Independent Auditors

To the Board of Directors of Farm Credit Midsouth, ACA,

We have audited the accompanying Consolidated Financial Statements of Farm Credit Midsouth, ACA and its subsidiaries (the Association), which comprise the consolidated statements of condition 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.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Association's preparation and fair presentation of the Consolidated Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of Farm Credit Midsouth, ACA and its subsidiaries as of December 31, 2020, 2019, and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 12, 2021

PricewaterhouseCoopers LLP, 45 South Seventh Street, Suite 3400, Minneapolis, MN 55402
T: (612) 596 6000, www.pwc.com/us

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Midsouth, ACA

(in thousands)

As of December 31		2020		2019		2018
ASSETS						
Loans	**$**	**1,042,156**	$	936,733	$	901,382
Allowance for loan losses		**4,158**		2,682		3,682
Net loans		**1,037,998**		934,051		897,700
Investment in AgriBank, FCB		**23,354**		20,696		18,794
Accrued interest receivable		**18,972**		22,412		21,209
Deferred tax assets, net		**432**		--		520
Other assets		**14,997**		13,730		12,569
Total assets	**$**	**1,095,753**	$	990,889	$	950,792
LIABILITIES						
Note payable to AgriBank, FCB	**$**	**840,062**	$	742,342	$	714,589
Accrued interest payable		**3,333**		5,365		5,178
Deferred tax liabilities, net		**--**		46		--
Patronage distribution payable		**6,700**		6,600		6,500
Other liabilities		**4,267**		3,522		4,103
Total liabilities		**854,362**		757,875		730,370
Contingencies and commitments (Note 10)						
MEMBERS' EQUITY						
Capital stock and participation certificates		**1,945**		1,896		1,895
Unallocated surplus		**239,709**		231,240		218,714
Accumulated other comprehensive loss		**(263)**		(122)		(187)
Total members' equity		**241,391**		233,014		220,422
Total liabilities and members' equity	**$**	**1,095,753**	$	990,889	$	950,792

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Farm Credit Midsouth, ACA

(in thousands)

For the year ended December 31	**2020**	2019	2018
Interest income	**$ 42,309**	$ 48,353	$ 44,003
Interest expense	**15,051**	20,664	18,146
Net interest income	**27,258**	27,689	25,857
Provision for (reversal of) loan losses	**4,635**	(913)	977
Net interest income after provision for (reversal of) loan losses	**22,623**	28,602	24,880
Non-interest income			
Patronage income	**5,082**	4,422	4,254
Financially related services income	**540**	602	570
Fee income	**2,067**	731	532
Allocated Insurance Reserve Accounts distribution	**194**	210	519
Other non-interest income (loss), net	**297**	(82)	2,101
Total non-interest income	**8,180**	5,883	7,976
Non-interest expense			
Salaries and employee benefits	**10,402**	9,425	9,079
Other operating expense	**5,671**	5,450	5,077
Other non-interest expense	**10**	--	--
Total non-interest expense	**16,083**	14,875	14,156
Income before income taxes	**14,720**	19,610	18,700
(Benefit from) provision for income taxes	**(448)**	484	202
Net income	**$ 15,168**	$ 19,126	$ 18,498
Other comprehensive (loss) income			
Employee benefit plans activity	**$ (141)**	$ 65	$ 99
Total other comprehensive (loss) income	**(141)**	65	99
Comprehensive income	**$ 15,027**	$ 19,191	$ 18,597

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Midsouth, ACA

(in thousands)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance as of December 31, 2017	$ 2	$ 1,904	$ 206,715	$ (286)	$ 208,335
Net income	--	--	18,498	--	18,498
Other comprehensive income	--	--	--	99	99
Unallocated surplus designated for patronage distributions	--	--	(6,499)	--	(6,499)
Capital stock and participation certificates issued	--	129	--	--	129
Capital stock and participation certificates retired	(2)	(138)	--	--	(140)
Balance as of December 31, 2018	--	1,895	218,714	(187)	220,422
Net income	--	--	19,126	--	19,126
Other comprehensive income	--	--	--	65	65
Unallocated surplus designated for patronage distributions	--	--	(6,600)	--	(6,600)
Capital stock and participation certificates issued	--	137	--	--	137
Capital stock and participation certificates retired	--	(136)	--	--	(136)
Balance as of December 31, 2019	--	1,896	231,240	(122)	233,014
Net income	**--**	**--**	**15,168**	**--**	**15,168**
Other comprehensive loss	**--**	**--**	**--**	**(141)**	**(141)**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(6,699)**	**--**	**(6,699)**
Capital stock and participation certificates issued	**--**	**213**	**--**	**--**	**213**
Capital stock and participation certificates retired	**--**	**(164)**	**--**	**--**	**(164)**
Balance as of December 31, 2020	**$ --**	**$ 1,945**	**$ 239,709**	**$ (263)**	**$ 241,391**

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Farm Credit Midsouth, ACA

(in thousands)

For the year ended December 31	2020	2019	2018
Cash flows from operating activities			
Net income	**$ 15,168**	$ 19,126	$ 18,498
Depreciation on premises and equipment	**384**	344	279
Gain on sale of premises and equipment, net	**(123)**	--	(6)
Provision for (reversal of) loan losses	**4,635**	(913)	977
Stock patronage received from AgriBank, FCB	**--**	(1,902)	--
Loss on other property owned, net	**--**	190	--
Changes in operating assets and liabilities:			
Decrease (increase) in accrued interest receivable	**3,415**	(1,268)	(4,414)
(Increase) decrease in other assets	**(1,767)**	780	(1,285)
(Decrease) increase in accrued interest payable	**(2,032)**	187	1,295
Increase (decrease) in other liabilities	**458**	(470)	(1,725)
Net cash provided by operating activities	**20,138**	16,074	13,619
Cash flows from investing activities			
Increase in loans, net	**(108,425)**	(35,093)	(43,314)
Purchases of investment in AgriBank, FCB, net	**(2,658)**	(1)	--
Purchases of investment in other Farm Credit Institutions, net	**(125)**	--	--
Proceeds from sales of other property owned	**--**	149	--
Sales (purchases) of premises and equipment, net	**33**	(2,298)	(2,199)
Net cash used in investing activities	**(111,175)**	(37,243)	(45,513)
Cash flows from financing activities			
Increase in note payable to AgriBank, FCB, net	**97,720**	27,753	37,367
Patronage distributions paid	**(6,599)**	(6,500)	(5,399)
Capital stock and participation certificates retired, net	**(84)**	(84)	(74)
Net cash provided by financing activities	**91,037**	21,169	31,894
Net change in cash	**--**	--	--
Cash at beginning of year	**--**	--	--
Cash at end of year	**$ --**	$ --	$ --
Supplemental information			
Interest paid	**$ 17,083**	$ 20,477	$ 16,851
Taxes paid, net	**--**	40	4

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Farm Credit Midsouth, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

Farm Credit System and District

The Farm Credit System (System) is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations, established by Congress to meet the credit needs of American agriculture. As of January 1, 2021, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 67 borrower-owned cooperative lending institutions (associations). AgriBank, FCB (AgriBank), a System Farm Credit Bank, and its District associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). At January 1, 2021, the District consisted of 14 Agricultural Credit Associations (ACA) that each have wholly-owned Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries.

FLCAs are authorized to originate long-term real estate mortgage loans. PCAs are authorized to originate short-term and intermediate-term loans. ACAs are authorized to originate long-term real estate mortgage loans and short-term and intermediate-term loans either directly or through their subsidiaries. Associations are authorized to provide lease financing options for agricultural purposes and are also authorized to purchase and hold certain types of investments. AgriBank provides funding to all associations chartered within the District.

Associations are authorized to provide, either directly or in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers may include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related service businesses. In addition, associations can participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a System lending institution, but have operations that are functionally similar to the activities of eligible borrowers.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System banks and associations. We are examined by the FCA and certain association actions are subject to the prior approval of the FCA and/or AgriBank.

The Farm Credit System Insurance Corporation (FCSIC) administers the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used to ensure the timely payment of principal and interest on Farm Credit Systemwide debt obligations, to ensure the retirement of protected borrower capital at par or stated value, and for other specified purposes.

At the discretion of the FCSIC, the Insurance Fund is also available to provide assistance to certain troubled System institutions and for the operating expenses of the FCSIC. Each System bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2.0% of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. This percentage of aggregate obligations can be changed by the FCSIC, at its sole discretion, to a percentage it determines to be actuarially sound. The basis for assessing premiums is debt outstanding with adjustments made for nonaccrual loans and impaired investment securities which are assessed a surcharge while guaranteed loans and investment securities are deductions from the premium base. AgriBank, in turn, assesses premiums to District associations each year based on similar factors.

Association

Farm Credit Midsouth, ACA (the Association) and its subsidiaries, Farm Credit Midsouth, FLCA and Farm Credit Midsouth, PCA (subsidiaries) are lending institutions of the System. We are a customer-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Clay, Craighead, Crittenden, Cross, Desha (northeast of the White River), Greene, Lee, Mississippi, Phillips, Poinsett, and St. Francis in the state of Arkansas; Carter, Ripley, and Wayne in the state of Missouri; and Shelby, Tipton, and Lauderdale (west of the channel of the Mississippi River) in the state of Tennessee.

We borrow from AgriBank and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries.

We offer credit life, term life, credit disability, crop hail, and multi-peril crop insurance to borrowers and those eligible to borrow. We also offer fee appraisals to our members.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Reporting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. Preparing financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Principles of Consolidation

The Consolidated Financial Statements present the consolidated financial results of Farm Credit Midsouth, ACA and its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

Loans: Loans are carried at their principal amount outstanding net of any unearned income, cumulative charge-offs, unamortized deferred fees and costs on originated loans. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Origination fees, net of related costs, are deferred and recognized over the life of the loan as an adjustment to net interest income. The net amount of loan fees and related origination costs are not material to the Consolidated Financial Statements taken as a whole.

Generally we place loans in nonaccrual status when principal or interest is delinquent for 90 days or more (unless the loan is adequately secured and in the process of collection) or circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status, we reverse current year accrued interest to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment of the loan, unless the net realizable value is less than the recorded investment in the loan, then it is charged-off against the allowance for loan losses. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and certain other criteria are met. In these circumstances interest is credited to income when cash is received. Loans are charged-off at the time they are determined to be uncollectible. Nonaccrual loans may be returned to accrual status after remaining current as to principal and interest for a sustained period or have a recent repayment pattern demonstrating future repayment capacity to make on-time payments.

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a formally restructured loan for regulatory purposes. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as troubled debt restructurings are considered risk loans (as defined below). There may be modifications made related to the COVID-19 pandemic or in the normal course of business that would not be considered troubled debt restructurings (TDRs).

Loans that are sold as participations are transferred as entire financial assets, groups of entire financial assets, or participating interests in the loans. The transfers of such assets or participating interests are structured such that control over the transferred assets, or participating interests have been surrendered and that all of the conditions have been met to be accounted for as a sale.

Allowance for Loan Losses: The allowance for loan losses is our best estimate of the amount of losses on loans inherent in our portfolio as of the date of the financial statements. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Loans in our portfolio that are considered impaired are analyzed individually to establish a specific allowance. A loan is impaired when it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. We generally measure impairment based on the net realizable value of the collateral. Risk loans include nonaccrual loans, accruing restructured loans, and accruing loans 90 days or more past due. All risk loans are considered to be impaired loans.

We record a specific allowance to reduce the carrying amount of the risk loan by the amount the recorded investment exceeds the net realizable value of collateral. When we deem a loan to be uncollectible, we charge the loan principal and prior year(s) accrued interest against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses.

An allowance is recorded for probable and estimable credit losses as of the financial statement date for loans that are not individually assessed as impaired. We use a two-dimensional loan risk rating model that incorporates a 14-point rating scale to identify and track the probability of borrower default and a separate 6-point scale addressing the loss severity. The combination of estimated default probability and loss severity is the primary basis for recognition and measurement of loan collectability of these pools of loans. These estimated losses may be adjusted for relevant current environmental factors.

Changes in the allowance for loan losses consist of provision activity, recorded in "Provision for (reversal of) loan losses" in the Consolidated Statements of Comprehensive Income, recoveries, and charge-offs.

Investment in AgriBank: Our stock investment in AgriBank is on a cost plus allocated equities basis.

Other Property Owned: Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at the fair value less estimated selling costs upon acquisition and is included in "Other assets" in the Consolidated Statements of Condition. 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 costs 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. Related income, expenses, and gains or losses from operations and carrying value adjustments are included in "Other non-interest income in the Consolidated Statements of Comprehensive Income.

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation and is included in "Other assets" in the Consolidated Statements of Condition. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets. Gains or losses on disposition are included in "Other non-interest income" or "Other non-interest expense" in the Consolidated Statements of Comprehensive Income. Depreciation and maintenance and repair expenses are included in "Other operating expense" in the Consolidated Statements of Comprehensive Income and improvements are generally capitalized.

Post-Employment Benefit Plans: The District has various post-employment benefit plans in which our employees participate. Expenses related to these plans, except for the AgriBank District Pension Restoration Plan, are included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income.

Certain employees participate in the AgriBank District Retirement Plan. The plan is comprised of two benefit formulas. At their option, employees hired prior to October 1, 2001, are on the cash balance formula or on the final average pay formula. Benefits eligible employees hired between October 1, 2001, and December 31, 2006, are on the cash balance formula. Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. The AgriBank District Retirement Plan utilizes the "Projected Unit Credit" actuarial method for financial reporting and funding purposes.

Certain employees also participate in the AgriBank District Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits. The pension liability attributable to the Pension Restoration Plan at the Association and the related accumulated other comprehensive loss are included in the Consolidated Statements of Condition. The components of the net periodic cost other than the service cost component, are included in the line item “Other operating expense” on the Consolidated Statements of Comprehensive Income. Service costs are included in the line item “Salaries and employee benefits” on the Consolidated Statements of Comprehensive Income.

We also provide certain health insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated cost of these benefits is accrued during the employees’ active service period.

The defined contribution plan allows eligible employees to save for their retirement either pre-tax, post-tax, or both, with an employer match on a percentage of the employee’s contributions. We provide benefits under this plan for those employees that do not participate in the AgriBank District Retirement Plan in the form of a fixed percentage of salary contribution in addition to the employer match. Employer contributions are expensed when incurred.

Income Taxes: The ACA and PCA accrue federal and state income taxes. Deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance. The expected future tax consequences of uncertain income tax positions are accrued.

The FLCA is exempt from federal and other taxes to the extent provided in the Farm Credit Act.

Patronage Program: We accrue patronage distributions according to a prescribed formula approved by the Board of Directors. Generally, we pay the accrued patronage during the first quarter after year end.

Off-Balance Sheet Credit Exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. Any reserve for unfunded lending commitments and unexercised letters of credit is based on management’s best estimate of losses inherent in these instruments, but the commitments have not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement are utilized in determining a reserve, if needed. Based on our assessment, any reserve would be recorded in “Other liabilities” in the Consolidated Statements of Condition and a corresponding loss would be recorded in “Provision for credit losses” in the Consolidated Statements of Comprehensive Income. However, no such reserve was necessary as of December 31, 2020, 2019, or 2018.

Cash: For purposes of reporting cash flow, cash includes cash on hand.

Fair Value Measurement: The accounting guidance describes three levels of inputs that may be used to measure fair value.

Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, quoted prices that are not current, or principal market information that is not released publicly
- Inputs that are observable such as interest rates and yield curves, prepayment speeds, credit risks, and default rates
- Inputs derived principally from or corroborated by observable market data by correlation or other means

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity’s own judgments about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business. While we are a nonpublic entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements in alignment with other System institutions.

Standard and effective date	Description	Adoption status and financial statement impact
In March 2020, the FASB issued guidance, Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The optional amendments are effective for all entities as of March 12, 2020, through December 31, 2022.	The guidance provides optional expedients and exceptions for applying GAAP to contracts and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contract terms related to the replacement of the reference rate.	We are currently evaluating the impact of this guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.
In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13 “Financial Instruments - Credit Losses." The guidance was originally effective for non-U.S. Securities Exchange Commission filers for our first quarter of 2021. In November 2019, the FASB issued ASU 2019-10 which amends the mandatory effective date for this guidance for certain institutions. We have determined we qualify for the deferral of the mandatory effective date. As a result of the change, the standard is effective for our first quarter of 2023 and early adoption is permitted.	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	We expect to adopt the standard as of January 1, 2023. We are currently assessing the impact this guidance will have on our financial statements upon adoption, which will be impacted by the composition of our portfolio and asset quality at the adoption date, as well as economic conditions and forecasts at the time of adoption. We have reviewed the accounting standard, selected and substantially completed development and testing of our system, and are in the process of drafting disclosures. Significant implementation matters yet to be addressed include drafting of accounting policies and designing processes and controls. We are currently unable to estimate the impact on our financial statements.

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)	**2020**			2019			2018		
As of December 31		Amount	%		Amount	%		Amount	%
Real estate mortgage	**$**	**564,388**	**54.2%**	$	508,522	54.3%	$	502,091	55.7%
Production and intermediate-term		**403,091**	**38.7%**		367,809	39.3%		341,894	37.9%
Agribusiness		**72,511**	**7.0%**		58,107	6.2%		56,084	6.2%
Other		**2,166**	**0.1%**		2,295	0.2%		1,313	0.2%
Total	**$**	**1,042,156**	**100.0%**	$	936,733	100.0%	$	901,382	100.0%

The other category is composed of rural residential real estate loans.

Portfolio Concentrations

Concentrations exist when there are amounts loaned to multiple borrowers engaged in similar activities, which could cause them to be similarly impacted by economic conditions. We lend primarily within agricultural industries.

As of December 31, 2020, volume plus commitments to our ten largest borrowers totaled an amount equal to 10.5% of total loans and commitments.

Total loans plus any unfunded commitments represent a proportionate maximum potential credit risk. However, substantial portions of our lending activities are collateralized. Accordingly, the credit risk associated with lending activities is less than the recorded loan principal. 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 may include real estate, equipment, inventory, livestock, and income-producing property. Long-term real estate loans are secured by the first liens on the underlying real property.

Participations

We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, or comply with the limitations of the FCA Regulations or General Financing Agreement (GFA) with AgriBank.

Participations Purchased and Sold

(in thousands)	AgriBank Participations		Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations		Total Participations	
As of December 31, 2020	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	**$ --**	**$ (7,913)**	**$ 29,774**	**$ (42,717)**	**$ --**	**$ --**	**$ 29,774**	**$ (50,630)**
Production and intermediate-term	**--**	**--**	**17,688**	**(20,077)**	**1,149**	**--**	**18,837**	**(20,077)**
Agribusiness	**--**	**(23,047)**	**19,170**	**(19,617)**	**195**	**--**	**19,365**	**(42,664)**
Other	**--**	**--**	**58**	**--**	**--**	**--**	**58**	**--**
Total	**$ --**	**$ (30,960)**	**$ 66,690**	**$ (82,411)**	**$ 1,344**	**$ --**	**$ 68,034**	**$ (113,371)**

	AgriBank Participations		Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations		Total Participations	
As of December 31, 2019	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (8,720)	$ 26,609	$ (34,809)	$ --	$ --	$ 26,609	$ (43,529)
Production and intermediate-term	--	--	21,109	(23,974)	1,237	--	22,346	(23,974)
Agribusiness	--	(21,710)	10,031	(12,515)	202	--	10,233	(34,225)
Other	--	--	63	--	--	--	63	--
Total	$ --	$ (30,430)	$ 57,812	$ (71,298)	$ 1,439	$ --	$ 59,251	$ (101,728)

	AgriBank Participations		Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations		Total Participations	
As of December 31, 2018	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (14,080)	$ 28,946	$ (36,199)	$ --	$ --	$ 28,946	$ (50,279)
Production and intermediate-term	--	--	9,882	(21,281)	1,804	--	11,686	(21,281)
Agribusiness	--	(11,446)	9,876	(4,690)	1,215	--	11,091	(16,136)
Other	--	--	--	--	--	--	--	--
Total	$ --	$ (25,526)	$ 48,704	$ (62,170)	$ 3,019	$ --	$ 51,723	$ (87,696)

Credit Quality and Delinquency

We utilize the FCA Uniform Classification System to categorize loans into five credit quality categories. The categories are:

- Acceptable – loans are non-criticized loans representing the highest quality. They are expected to be fully collectible. This category is further differentiated into various probabilities of default.
- Other assets especially mentioned (Special Mention) – loans are currently collectible but exhibit some potential weakness. These loans involve increased credit risk, but not to the point of justifying a substandard classification.
- Substandard – loans exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – loans exhibit similar weaknesses as substandard loans. Doubtful loans have additional weaknesses in existing factors, conditions, and values that make collection in full highly questionable.
- Loss – loans are considered uncollectible.

We had no loans categorized as loss at December 31, 2020, 2019, or 2018.

Credit Quality of Loans

(dollars in thousands)	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2020	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 558,428**	**97.1%**	**$ 12,611**	**2.2%**	**$ 3,789**	**0.7%**	**$ 574,828**	**100.0%**
Production and intermediate-term	**402,751**	**98.0%**	**1,090**	**0.3%**	**6,845**	**1.7%**	**410,686**	**100.0%**
Agribusiness	**73,444**	**100.0%**	**--**	**--**	**--**	**--**	**73,444**	**100.0%**
Other	**2,083**	**96.0%**	**87**	**4.0%**	**--**	**--**	**2,170**	**100.0%**
Total	**$ 1,036,706**	**97.7%**	**$ 13,788**	**1.3%**	**$ 10,634**	**1.0%**	**$ 1,061,128**	**100.0%**

As of December 31, 2019		Acceptable Amount	%		Special Mention Amount	%		Substandard/ Doubtful Amount	%		Total Amount	%
Real estate mortgage	$	502,643	96.7%	$	14,470	2.8%	$	2,621	0.5%	$	519,734	100.0%
Production and intermediate-term		369,616	97.8%		5,450	1.4%		2,936	0.8%		378,002	100.0%
Agribusiness		59,107	100.0%		--	--		--	--		59,107	100.0%
Other		2,207	95.9%		95	4.1%		--	--		2,302	100.0%
Total	$	933,573	97.3%	$	20,015	2.1%	$	5,557	0.6%	$	959,145	100.0%

As of December 31, 2018		Acceptable Amount	%		Special Mention Amount	%		Substandard/ Doubtful Amount	%		Total Amount	%
Real estate mortgage	$	486,200	94.7%	$	12,297	2.4%	$	14,920	2.9%	$	513,417	100.0%
Production and intermediate-term		324,153	92.4%		5,017	1.4%		21,588	6.2%		350,758	100.0%
Agribusiness		53,336	93.4%		--	--		3,763	6.6%		57,099	100.0%
Other		1,166	88.6%		103	7.8%		48	3.6%		1,317	100.0%
Total	$	864,855	93.7%	$	17,417	1.9%	$	40,319	4.4%	$	922,591	100.0%

Note: Accruing loans include accrued interest receivable.

Aging Analysis of Loans

(in thousands) **As of December 31, 2020**		30-89 Days Past Due		90 Days or More Past Due		Total Past Due		Not Past Due or Less Than 30 Days Past Due		Total		Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$**	**126**	**$**	**2,377**	**$**	**2,503**	**$**	**572,325**	**$**	**574,828**	**$**	**--**
Production and intermediate-term		**123**		**6,404**		**6,527**		**404,159**		**410,686**		**--**
Agribusiness		**32**		**--**		**32**		**73,412**		**73,444**		**--**
Other		**--**		**--**		**--**		**2,170**		**2,170**		**--**
Total	**$**	**281**	**$**	**8,781**	**$**	**9,062**	**$**	**1,052,066**	**$**	**1,061,128**	**$**	**--**

As of December 31, 2019		30-89 Days Past Due		90 Days or More Past Due		Total Past Due		Not Past Due or Less Than 30 Days Past Due		Total		Accruing Loans 90 Days or More Past Due
Real estate mortgage	$	--	$	--	$	--	$	519,734	$	519,734	$	--
Production and intermediate-term		52		447		499		377,503		378,002		--
Agribusiness		--		395		395		58,712		59,107		395
Other		--		--		--		2,302		2,302		--
Total	$	52	$	842	$	894	$	958,251	$	959,145	$	395

As of December 31, 2018		30-89 Days Past Due		90 Days or More Past Due		Total Past Due		Not Past Due or Less Than 30 Days Past Due		Total		Accruing Loans 90 Days or More Past Due
Real estate mortgage	$	1,428	$	1,569	$	2,997	$	510,420	$	513,417	$	--
Production and intermediate-term		4,790		3,067		7,857		342,901		350,758		--
Agribusiness		--		--		--		57,099		57,099		--
Other		--		--		--		1,317		1,317		--
Total	$	6,218	$	4,636	$	10,854	$	911,737	$	922,591	$	--

Note: Accruing loans include accrued interest receivable.

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. Interest income recognized and cash payments received on nonaccrual risk loans are applied as described in Note 2.

Risk Loan Information

(in thousands)

As of December 31	**2020**	2019	2018
Nonaccrual loans:			
Current as to principal and interest	**$ 70**	$ 101	$ 5,903
Past due	**8,781**	499	4,691
Total nonaccrual loans	**8,851**	600	10,594
Accruing restructured loans	**1**	24	510
Accruing loans 90 days or more past due	**--**	395	--
Total risk loans	**$ 8,852**	$ 1,019	$ 11,104
Volume with specific allowance	**$ 6,374**	$ 452	$ 3,172
Volume without specific allowance	**2,478**	567	7,932
Total risk loans	**$ 8,852**	$ 1,019	$ 11,104
Total specific allowance	**$ 2,086**	$ 210	$ 1,009

For the year ended December 31	**2020**	2019	2018
Income on accrual risk loans	**$ 5**	$ 55	$ 24
(Reversal) income on nonaccrual loans	**(8)**	1,030	(77)
Total income on risk loans	**$ (3)**	$ 1,085	$ (53)
Average risk loans	**$ 7,925**	$ 8,755	$ 8,976

Note: Accruing loans include accrued interest receivable.

Nonaccrual Loans by Loan Type

(in thousands)

As of December 31	**2020**	2019	2018
Real estate mortgage	**$ 2,446**	$ 77	$ 1,848
Production and intermediate-term	**6,405**	523	4,983
Agribusiness	**--**	--	3,763
Total	**$ 8,851**	$ 600	$ 10,594

Additional Impaired Loan Information by Loan Type

(in thousands)	As of December 31, 2020 Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	For the year ended December 31, 2020 Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ --	$ --	$ --	$ --	$ --
Production and intermediate-term	6,374	8,984	2,086	5,906	--
Agribusiness	--	--	--	--	--
Total	$ 6,374	$ 8,984	$ 2,086	$ 5,906	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 2,446	$ 2,455	$ --	$ 1,989	$ 16
Production and intermediate-term	32	1,391	--	30	(19)
Agribusiness	--	1,335	--	--	--
Total	$ 2,478	$ 5,181	$ --	$ 2,019	$ (3)
Total impaired loans:					
Real estate mortgage	$ 2,446	$ 2,455	$ --	$ 1,989	$ 16
Production and intermediate-term	6,406	10,375	2,086	5,936	(19)
Agribusiness	--	1,335	--	--	--
Total	$ 8,852	$ 14,165	$ 2,086	$ 7,925	$ (3)

	As of December 31, 2019 Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	For the year ended December 31, 2019 Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ --	$ --	$ --	$ --	$ --
Production and intermediate-term	452	1,276	210	3,293	--
Agribusiness	--	--	--	--	--
Total	$ 452	$ 1,276	$ 210	$ 3,293	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 77	$ 76	$ --	$ 1,733	$ 397
Production and intermediate-term	95	369	--	693	335
Agribusiness	395	1,721	--	3,036	353
Total	$ 567	$ 2,166	$ --	$ 5,462	$ 1,085
Total impaired loans:					
Real estate mortgage	$ 77	$ 76	$ --	$ 1,733	$ 397
Production and intermediate-term	547	1,645	210	3,986	335
Agribusiness	395	1,721	--	3,036	353
Total	$ 1,019	$ 3,442	$ 210	$ 8,755	$ 1,085

	As of December 31, 2018			For the year ended December 31, 2018	
	Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ --	$ --	$ --	$ --	$ --
Production and intermediate-term	3,172	3,788	1,009	3,209	--
Agribusiness	--	--	--	--	--
Total	$ 3,172	$ 3,788	$ 1,009	$ 3,209	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 1,848	$ 2,059	$ --	$ 2,020	$ 33
Production and intermediate-term	2,321	2,521	--	2,347	102
Agribusiness	3,763	5,197	--	1,400	(188)
Total	$ 7,932	$ 9,777	$ --	$ 5,767	$ (53)
Total impaired loans:					
Real estate mortgage	$ 1,848	$ 2,059	$ --	$ 2,020	$ 33
Production and intermediate-term	5,493	6,309	1,009	5,556	102
Agribusiness	3,763	5,197	--	1,400	(188)
Total	$ 11,104	$ 13,565	$ 1,009	$ 8,976	$ (53)

[1]The recorded investment is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment.

[2]Unpaid principal balance represents the contractual principal balance of the loan.

We had no commitments to lend additional money to borrowers whose loans were classified as risk loans at December 31, 2020.

Troubled Debt Restructurings (TDRs)

Included within our loans are TDRs. These loans have been modified by granting a concession in order to maximize the collection of amounts due when a borrower is experiencing financial difficulties. All risk loans, including TDRs, are analyzed within our allowance for loan losses.

There were no TDRs completed during the years ended December 31, 2020, 2019, and 2018.

There were no TDRs that defaulted during the years ended December 31, 2020, 2019, or 2018, in which the modification was within twelve months of the respective reporting period.

TDRs Outstanding in the Produtction and Intermediate-term Loan Category

(in thousands)

As of December 31	**2020**	2019	2018
TDRs in accrual status	**$ 1**	$ 24	$ 510
TDRs in nonaccrual status	**30**	37	400
Total TDRs	**$ 31**	$ 61	$ 910

There were no commitments to lend to borrowers whose loans have been modified in a TDR at December 31, 2020.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands)

For the year ended December 31	**2020**	2019	2018
Balance at beginning of year	**$ 2,682**	$ 3,682	$ 2,593
Provision for (reversal of) loan losses	**4,635**	(913)	977
Loan recoveries	**70**	109	112
Loan charge-offs	**(3,229)**	(196)	--
Balance at end of year	**$ 4,158**	$ 2,682	$ 3,682

Changes in Allowance for Loan Losses and Year End Recorded Investments by Loan Type

(in thousands)	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2019	**$ 522**	**$ 1,999**	**$ 157**	**$ 4**	**$ 2,682**
(Reversal of) provision for loan losses	**(97)**	**4,722**	**12**	**(2)**	**4,635**
Loan recoveries	**--**	**70**	**--**	**--**	**70**
Loan charge-offs	**--**	**(3,229)**	**--**	**--**	**(3,229)**
Balance as of December 31, 2020	**$ 425**	**$ 3,562**	**$ 169**	**$ 2**	**$ 4,158**
Ending balance: individually evaluated for impairment	**$ --**	**$ 2,086**	**$ --**	**$ --**	**$ 2,086**
Ending balance: collectively evaluated for impairment	**$ 425**	**$ 1,476**	**$ 169**	**$ 2**	**$ 2,072**
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2020	**$ 574,828**	**$ 410,686**	**$ 73,444**	**$ 2,170**	**$ 1,061,128**
Ending balance: individually evaluated for impairment	**$ 2,446**	**$ 6,406**	**$ --**	**$ --**	**$ 8,852**
Ending balance: collectively evaluated for impairment	**$ 572,382**	**$ 404,280**	**$ 73,444**	**$ 2,170**	**$ 1,052,276**

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2018	$ 845	$ 2,759	$ 69	$ 9	$ 3,682
Reversal of loan losses	(323)	(569)	(16)	(5)	(913)
Loan recoveries	--	3	106	--	109
Loan charge-offs	--	(194)	(2)	--	(196)
Balance as of December 31, 2019	$ 522	$ 1,999	$ 157	$ 4	$ 2,682
Ending balance: individually evaluated for impairment	$ --	$ 210	$ --	$ --	$ 210
Ending balance: collectively evaluated for impairment	$ 522	$ 1,789	$ 157	$ 4	$ 2,472
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2019	$ 519,734	$ 378,002	$ 59,107	$ 2,302	$ 959,145
Ending balance: individually evaluated for impairment	$ 77	$ 547	$ 395	$ --	$ 1,019
Ending balance: collectively evaluated for impairment	$ 519,657	$ 377,455	$ 58,712	$ 2,302	$ 958,126

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2017	$ 484	$ 1,976	$ 132	$ 1	$ 2,593
Provision for (reversal of) loan losses	361	758	(150)	8	977
Loan recoveries	--	25	87	--	112
Loan charge-offs	--	--	--	--	--
Balance as of December 31, 2018	$ 845	$ 2,759	$ 69	$ 9	$ 3,682
Ending balance: individually evaluated for impairment	$ --	$ 1,009	$ --	$ --	$ 1,009
Ending balance: collectively evaluated for impairment	$ 845	$ 1,750	$ 69	$ 9	$ 2,673
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2018	$ 513,417	$ 350,758	$ 57,099	$ 1,317	$ 922,591
Ending balance: individually evaluated for impairment	$ 1,848	$ 5,493	$ 3,763	$ --	$ 11,104
Ending balance: collectively evaluated for impairment	$ 511,569	$ 345,265	$ 53,336	$ 1,317	$ 911,487

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

NOTE 4: INVESTMENT IN AGRIBANK

As of December 31, 2020, we were required by AgriBank to maintain an investment equal to 2.5% of the average quarterly balance of our note payable, with an additional amount required on association growth in excess of a targeted growth rate, if the District is also growing above a targeted growth rate.

We are also required to hold AgriBank stock related to our participation in a pool program. The required investment amount varies by pool program and is generally a percentage of the loan balance in the pool.

AgriBank's capital plan provides for annual retirement of AgriBank stock and optimizes capital at the Bank by distributing all available Bank earnings in the form of patronage, either in cash or stock. The plan is designed to maintain capital adequacy such that sufficient earnings will be retained in the form of allocated retained earnings and allocated stock to meet the leverage ratio target and other regulatory or policy constraints prior to any cash patronage distributions.

NOTE 5: NOTE PAYABLE TO AGRIBANK

Our note payable to AgriBank represents borrowings, in the form of a line of credit, to fund our loan portfolio. The line of credit is governed by a GFA and substantially all of our assets serve as collateral.

Note Payable Information

(dollars in thousands) As of December 31	**2020**	2019	2018
Line of credit	**$ 1,000,000**	$ 1,000,000	$ 950,000
Outstanding principal under the line of credit	**840,062**	742,342	714,589
Interest rate	**1.5%**	2.7%	2.7%

Our note payable is scheduled to mature on April 30, 2022. We intend to renegotiate the note payable no later than the maturity date.

The GFA provides for limitations on our ability to borrow funds based on specified factors or formulas relating primarily to outstanding balances, credit quality, and financial condition. Additionally, we have requirements to maintain an effective program of internal controls over financial reporting. At December 31, 2020, and throughout the year, we were not declared in default under any GFA covenants or provisions.

NOTE 6: MEMBERS' EQUITY

Capitalization Requirements

In accordance with the Farm Credit Act, each borrower is required to invest in us as a condition of obtaining a loan. As authorized by the Agricultural Credit Act and our capital bylaws, the Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2.0% of the customer's total loan(s) or one thousand dollars, whichever is less. The purchase of one participation certificate is required of all customers who purchase financial services and are not a stockholder. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The borrower acquires ownership of the capital stock at the time the loan is made. The aggregate par value of the stock is added to the principal amount of the related obligation. We retain a first lien on the stock or participation certificates owned by customers.

Protection Mechanisms

Under the Farm Credit Act, certain borrower equity is protected. We are required to retire protected borrower equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock and participation certificates that were outstanding as of January 6, 1988, or were issued prior to October 6, 1988, as a requirement for obtaining a loan. If we were to be unable to retire protected borrower equity at par value or stated value, the FCSIC would provide the amounts needed to retire this equity.

Regulatory Capitalization Requirements

Regulatory Capital Requirements and Ratios

As of December 31	**2020**	2019	2018	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:						
Common equity tier 1 ratio	**18.6%**	19.9%	19.8%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**18.6%**	19.9%	19.8%	6.0%	2.5%	8.5%
Total capital ratio	**18.9%**	20.2%	20.1%	8.0%	2.5%	10.5%
Permanent capital ratio	**18.7%**	20.0%	19.8%	7.0%	N/A	7.0%
Non-risk-adjusted:						
Tier 1 leverage ratio	**20.0%**	21.5%	21.0%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**20.4%**	21.7%	21.2%	1.5%	N/A	1.5%

Risk-adjusted assets have been defined by the FCA Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets.

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the inclusion of the allowance for loan losses as a deduction to risk-adjusted assets for the permanent capital ratio.

These ratios are based on a three-month average daily balance in accordance with the FCA Regulations and are calculated as follows (not all items below may be applicable to our Association):

- Common equity tier 1 ratio is statutory minimum purchased member stock, other required member stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to retirement, unallocated retained earnings as regulatorily prescribed, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required member stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt, and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for credit losses subject to certain limitations, less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings as regulatorily prescribed, paid-in capital, subordinated debt, and preferred stock subject to certain limitations, less certain allocated and purchased investments in other System institutions divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- Unallocated retained earnings and equivalents leverage ratio is unallocated retained earnings as regulatorily prescribed, paid-in capital, allocated surplus not subject to retirement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

If the capital ratios fall below the total 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.

Description of Equities

The following represents information regarding classes and number of shares of stock and participation certificates outstanding. All shares and participation certificates are stated at a $5.00 par value.

	Number of Shares		
As of December 31	**2020**	2019	2018
Class A common stock (protected)	**46**	46	46
Class B common stock (at-risk)	**1,095**	1,295	1,295
Class C common stock (at-risk)	**379,964**	370,396	371,147
Series 2 participation certificates (at-risk)	**7,918**	7,518	6,518

Under our bylaws, we are also authorized to issue Class D common stock, Class E common stock, and Class F preferred stock. Each of these classes of common stock is at-risk and nonvoting with a $5.00 par value per share. Currently, no stock of these classes has been issued.

Only holders of Class C common stock have voting rights. Our bylaws do not prohibit us from paying dividends on any classes of stock. However, no dividends have been declared to date.

Our bylaws generally permit stock and participation certificates to be retired at the discretion of our Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2020, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

In the event of our liquidation or dissolution, according to our bylaws, any remaining assets after payment or retirement of all liabilities will be distributed in the following order of priority:

- First, to holders of preferred stock
- Second, pro rata to holders of all classes of common stock and participation certificates

In the event of stock impairment, losses will be absorbed by concurrent impairment of all classes of common stock and participation certificates, then by holders of preferred stock. However, protected stock will be retired at par value regardless of impairment.

All classes of stock are transferable to other customers who are eligible to hold such class as long as we meet the regulatory minimum capital requirements.

Patronage Distributions

We accrued patronage distributions of $6.7 million, $6.6 million, and $6.5 million at December 31, 2020, 2019, and 2018, respectively. Generally, the patronage distributions are paid in cash during the first quarter after year end. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements. In December 2020, the Board adopted a Distribution Resolution to pay patronage based on 2020 earnings. The patronage will be paid in first quarter 2021.

If the capital ratios fall below the total 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.

NOTE 7: INCOME TAXES

(Benefit from) Provision for Income Taxes

(Benefit from) Provision for Income Taxes

(dollars in thousands) For the year ended December 31	**2020**	2019	2018
Current:			
Federal	**$ 22**	$ (88)	$ 75
State	**8**	6	27
Total current	**$ 30**	$ (82)	$ 102
Deferred:			
Federal	**$ (359)**	$ 426	$ 75
State	**(119)**	140	25
Total deferred	**(478)**	566	100
(Benefit from) provision for income taxes	**$ (448)**	$ 484	$ 202
Effective tax rate	**(3.0%)**	2.5%	1.1%

Reconciliation of Taxes at Federal Statutory Rate to (Benefit from) Provision for Income Taxes

(in thousands) For the year ended December 31	**2020**	2019	2018
Federal tax at statutory rates	**$ 3,091**	$ 4,118	$ 3,927
State tax, net	**(78)**	60	40
Patronage distributions	**(303)**	(1,218)	(1,251)
Effect of non-taxable entity	**(3,108)**	(2,655)	(2,513)
Other	**(50)**	179	(1)
(Benefit from) provision for income taxes	**$ (448)**	$ 484	$ 202

Deferred Income Taxes

Tax laws require certain items to be included in our tax returns at different times than the items are reflected on our Consolidated Statements of Comprehensive Income. Some of these items are temporary differences that will reverse over time. We record the tax effect of temporary differences as deferred tax assets and liabilities netted on our Consolidated Statements of Condition.

Deferred Tax Assets and Liabilities

(in thousands) As of December 31	**2020**	2019	2018
Allowance for loan losses	**$ 1,064**	$ 600	$ 864
Postretirement benefit accrual	**92**	97	103
Judgement reserve	**--**	18	74
Accrued incentive	**370**	237	224
Accrued patronage income not received	**(202)**	(173)	--
AgriBank 2002 allocated stock	**(223)**	(223)	(223)
Accrued pension asset	**(735)**	(612)	(499)
Other assets	**88**	10	5
Other liabilities	**(22)**	--	(28)
Deferred tax assets (liabilities), net	**$ 432**	$ (46)	$ 520
Gross deferred tax assets	**$ 1,614**	$ 962	$ 1,270
Gross deferred tax liabilities	**$ (1,182)**	$ (1,008)	$ (750)

A valuation allowance for the deferred tax assets was not necessary at December 31, 2020, 2019, or 2018.

We have not provided for deferred income taxes on patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. Our total permanent investment in AgriBank is $11.3 million. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $179.6 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.
Our income tax returns are subject to review by various United States taxing authorities. We record accruals for items that we believe may be challenged by these taxing authorities. However, we had no uncertain income tax positions at December 31, 2020. In addition, we believe we are no longer subject to income tax examinations for years prior to 2017.

NOTE 8: EMPLOYEE BENEFIT PLANS

Pension and Post-Employment Benefit Plans

Complete financial information for the pension and post-employment benefit plans may be found in the AgriBank 2020 Annual Report.

The Farm Credit Foundations Plan Sponsor and Trust Committees provide oversight of the benefit plans. These governance committees are comprised of elected or appointed representatives (senior leadership and/or Board of Director members) from the participating organizations. The Plan Sponsor Committee is responsible for employer decisions regarding all benefit plans including retirement benefits. These decisions could include plan design changes, vendor changes, determination of employer subsidies (if any), and termination of specific benefit plans. Any action to change or terminate the retirement plan can only occur at the direction of the AgriBank District participating employers. The Trust Committee is responsible for fiduciary and plan administrative functions.

Pension Plan: Certain employees participate in the AgriBank District Retirement Plan, a District-wide multi-employer defined benefit retirement plan. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan's termination is contingent on the sufficiency of the plan's net assets to provide benefits at that time. This plan is noncontributory and covers certain eligible District employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if we choose to stop participating in the plan, we may be required to pay an amount based on the underfunded status of the plan. Because of the nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee transfers to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

AgriBank District Retirement Plan Information

(in thousands) As of December 31	**2020**	2019	2018
Unfunded liability	**$ 169,640**	$ 220,794	$ 274,450
Projected benefit obligation	**1,563,421**	1,421,126	1,272,063
Fair value of plan assets	**1,393,781**	1,200,332	997,613
Accumulated benefit obligation	**1,426,270**	1,298,942	1,125,682

For the year ended December 31	**2020**	2019	2018
Total plan expense	**$ 42,785**	$ 36,636	$ 51,900
Our allocated share of plan expenses	**771**	681	902
Contributions by participating employers	**90,000**	90,000	90,000
Our allocated share of contributions	**1,673**	1,670	1,582

The unfunded liability reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these Consolidated Financial Statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The accumulated benefit obligation is the actuarial present value of the benefits attributed to employee service rendered before the measurement date and based on current employee service and compensation. The funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. We recognize our proportional share of expense and contribute a proportional share of funding. Our allocated share of plan expenses is included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income.

Benefits paid to participants in the District were $70.9 million in 2020. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total District employer contributions expected to be paid into the pension plan during 2021 is $90.0 million. Our allocated share of these pension contributions is expected to be $1.7 million. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the District financial statements.

Nonqualified Retirement Plan: We also participate in the District-wide nonqualified defined benefit Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits.

Pension Restoration Plan Information

(in thousands)

As of December 31		2020		2019		2018
Our unfunded liability	**$**	**614**	$	367	$	320

For the year ended December 31		2020		2019		2018
Our allocated share of plan expenses	**$**	**107**	$	111	$	114

The nonqualified plan is funded as the benefits are paid; therefore, there are no assets in the plan and the unfunded liability is equal to the projected benefit obligation. The amount of the pension benefits funding status is subject to many variables including interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their participants in the plan. Our allocated share of the components of net periodic benefit cost other than the service cost component, are included in “Other operating expense” in the Consolidated Statements of Comprehensive Income. Service costs related to the plan are included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income. The Pension Restoration Plan is unfunded and we make annual contributions to fund benefits paid to our retirees covered by the plan. Our cash contributions are equal to the benefits paid. We had no cash contributions and paid no benefits during 2020.

Retiree Medical Plans: District employers also provide certain health insurance benefits to eligible retired employees according to the terms of the benefit plans. The anticipated costs of these benefits are accrued during the period of the employee’s active status. Net periodic benefit cost is included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income. Postretirement benefit costs related to the retiree medical plans were not considered material for any of the years presented. Our cash contributions were equal to the benefits paid.

Defined Contribution Plans

We participate in a District-wide defined contribution plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2.0% and 50 cents on the dollar on the next 4.0% on both pre-tax and post-tax contributions. The maximum employer match is 4.0%. For employees hired after December 31, 2006, we contribute 3.0% of the employee’s compensation and will match employee contributions dollar for dollar up to a maximum of 6.0% on both pre-tax and post-tax contributions. The maximum employer contribution is 9.0%.

Employer contribution expenses for the defined contribution plan, included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income, were $430 thousand, $393 thousand, and $373 thousand in 2020, 2019, and 2018, respectively. These expenses were equal to our cash contributions for each year.

NOTE 9: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members, and other organizations with which such persons may be associated. Such transactions may be subject to special approval requirements contained in the FCA Regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with other persons. In our opinion, none of these loans outstanding at December 31, 2020, involved more than a normal risk of collectability.

Related Party Loans Information

(in thousands)

As of December 31		2020		2019		2018
Total related party loans	**$**	**32,815**	$	23,953	$	23,766

For the year ended December 31		2020		2019		2018
Advances to related parties	**$**	**34,542**	$	36,348	$	34,318
Repayments by related parties		**37,980**		49,838		41,978

The related parties can be different each year end primarily due to changes in the composition of the Board of Directors and the mix of organizations with which such persons may be associated. Advances and repayments on loans in the preceding chart are related to those considered related parties at each respective year end.

As discussed in Note 5, we borrow from AgriBank, in the form of a line of credit, to fund our loan portfolio. All interest expense as shown on the Consolidated Statements of Comprehensive Income was paid to AgriBank.

Total patronage received from AgriBank was $5.0 million, $4.4 million, and $4.2 million in 2020, 2019, and 2018, respectively. Patronage income for 2019 was paid in cash and AgriBank stock. Patronage income for 2020 and 2018 was paid in cash.

In addition, we received compensation from AgriBank for servicing loans of $20 thousand, $25 thousand, and $31 thousand in 2020, 2019, and 2018, respectively.

Refer to Note 3 for information on participations sold to AgriBank and Note 4 for stock investment in AgriBank information.

As of December 31, 2020, we purchased certain business services from AgriBank. Until the formation of SunStream Business Services (SunStream) on April 1, 2020, we also purchased financial and retail information technology, collateral, tax reporting, and insurance services from AgriBank. These services are now offered by SunStream. We also purchase human resource, benefit, payroll, and workforce management services from Farm Credit Foundations (Foundations). SunStream and Foundations are both System service corporations within the AgriBank District. In addition to the services we purchase from AgriBank, SunStream, and Foundations we also hold an investment in each of these institutions.

Additional Related Party Information

(in thousands)

As of December 31	**2020**	2019	2018
Investment in AgriBank	**$ 23,354**	$ 20,696	$ 18,794
Investment in SunStream	**225**	--	--
Investment in Foundations	**14**	14	14
For the year ended December 31	**2020**	2019	2018
AgriBank District purchased services	**$ 867**	$ 845	$ 847

NOTE 10: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. In 2009, we were named as a counter-defendant based on various lender liability type of theories in an on-going foreclosure lawsuit. On October 26, 2015, the case was heard by a jury, and on November 3, 2015, a verdict was rendered against the Association. We appealed the verdict, and on April 4, 2018, the Arkansas Court of Appeals substantially reversed all of the verdict. The decision of the Arkansas Court of Appeals was subsequently upheld by the Arkansas Supreme Court on June 21, 2018, when the Court denied the defendants' Petition for Review. This decision effectively ends the lender liability portion of the litigation. We had previously recorded a $2.3 million liability for this lawsuit, of which $2.0 million has been overturned and therefore reversed. The difference is included in "Other liabilities" in the Consolidated Statements of Condition. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk that may be 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 loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2020, we had commitments to extend credit and unexercised commitments related to standby letters of credit $251.6 million. Additionally, we had $147 thousand of issued standby letters of credit as of December 31, 2020.

Commitments to extend credit and letters of credit generally have fixed expiration dates or other termination clauses and we may require payment of a fee. If commitments to extend credit and letters of credit remain unfulfilled or have not expired, they may have credit risk not recognized in the financial statements. Many of the commitments to extend credit and letters of credit will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Certain letters of credit may have recourse provisions that would enable us to recover from third parties amounts paid under guarantees, thereby limiting our maximum potential exposure. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers and we apply the same credit policies. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on management’s credit evaluation of the borrower.

NOTE 11: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at December 31, 2020, 2019, or 2018.

Non-Recurring

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

Assets Measured at Fair Value on a Non-Recurring Basis

(in thousands)

As of December 31, 2020	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	**$ --**	**$ --**	**$ 4,503**	**$ 4,503**
Other property owned	**--**	**--**	**--**	**--**

As of December 31, 2019	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ --	$ 255	$ 255
Other property owned	--	--	--	--

As of December 31, 2018	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ --	$ 2,272	$ 2,272
Other property owned	--	--	555	555

Valuation Techniques

Impaired Loans: Represents the carrying amount of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as Level 3.

Other Property Owned: Represents the fair value of foreclosed assets measured based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the property and other matters, they are classified as Level 3.

NOTE 12: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 12, 2021, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our 2020 Consolidated Financial Statements or disclosure in the Notes to Consolidated Financial Statements.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

Farm Credit Midsouth, ACA
(Unaudited)

Description of Business

General information regarding the business is incorporated herein by reference from Note 1 to the Consolidated Financial Statements in this Annual Report.

The description of significant business developments, if any, is incorporated herein by reference from the Management's Discussion and Analysis section of this Annual Report.

Description of Property

Property Information

Location	Description	Usage
Jonesboro	Owned	Headquarters/Branch
Barton	Owned	Branch
Corning	Owned	Branch
Osceola	Owned	Branch
Paragould	Owned	Central Office/Branch
Marion	Owned	Branch
Wynne	Owned	Branch

Legal Proceedings

Information regarding legal proceedings is discussed in Note 10 to the Consolidated Financial Statements in this Annual Report. We were not subject to any enforcement actions as of December 31, 2020.

Additional Regulatory Capital Disclosure

Regulatory Capital Ratios Pursuant to FCA Regulation 620.5

As of December 31	2015	2014	2013	2012
Permanent capital ratio	18.2%	17.7%	17.2%	16.2%
Total surplus ratio	18.0%	17.5%	17.0%	15.9%
Core surplus ratio	18.0%	17.5%	17.0%	15.9%

Refer to the Consolidated Five-Year Summary of Selected Financial Data at the beginning of this Annual Report for capital ratio calculations for the past five years.

Description of Capital Structure

Information regarding our capital structure is discussed in Note 6 to the Consolidated Financial Statements in this Annual Report.

Description of Liabilities

Information regarding liabilities is discussed in Notes 5, 6, 7, 8, and 10 to the Consolidated Financial Statements in this Annual Report. All debt and other liabilities in the financial statements are uninsured.

Selected Financial Data

The Consolidated Five-Year Summary of Selected Financial Data is presented at the beginning of this Annual Report.

Management's Discussion and Analysis

Information regarding any material aspects of our financial condition, changes in financial condition, and results of operations are discussed in the Management's Discussion and Analysis section of this Annual Report.

Board of Directors

Information regarding our board committees as well as directors who served as of December 31, 2020, including business experience in the last five years and any other business interest where a director serves on the board of directors or as a senior officer can be found in the Board of Directors section at the beginning of this report.

Pursuant to our bylaws, directors are paid a reasonable amount for attendance at board meetings, committee meetings, or other special assignments. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or assignments. The Board of Directors have adopted a rate of $600 per day honorarium and a per diem rate of $150 per conference call. Board members will also receive a $6,000 annual retainer fee, except for certain positions. The board chairperson receives a $10,000 annual retainer fee, the board vice chairperson receives an $8,500 annual retainer fee, the audit committee chairperson receives an $8,000 annual retainer, and executive committee members, not falling into one of the before mentioned categories, receive a $7,000 annual retainer fee. The retainer fee is equally paid at the end of each quarter.

Information regarding compensation paid to each director who served during 2020 follows:

Name	Number of Days Served: Board Meetings	Number of Days Served: Other Official Activities	Compensation Paid for Service on a Board Committee	Name of Committee	Total Compensation Paid in 2020
Fred Cathcart[1]	2.0	0.5	$ 300	Compensation	$ 3,250
Dane Coomer	8.0	7.0	900	Executive	21,150
Marion Fletcher	8.0	11.0	900	Compensation	20,250
Franklin Fogleman, Jr.	8.0	2.0	1,500	Audit	14,400
Dustin Henson	8.0	4.0	150	Compensation	12,900
Matt Knight	8.0	2.5	1,650	Audit	12,000
Carl Loewer	8.0	7.5	150	Compensation	15,333
			300	Audit	
			600	Executive	
Chris Roberts	8.0	18.5	900	Executive	27,083
			1,650	Audit	
Gary Sitzer	8.0	8.5	900	Executive	16,600
			1,350	Audit	
Ramey Stiles	8.0	3.0	900	Executive	14,550
			750	Compensation	
Mike Sullivan	8.0	4.0	--	YBS/Scholarship	12,750
Michael S. Taylor, Jr.	8.0	7.0	--	YBS/Scholarship	14,550
Keith Thomas[1]	2.0	0.0	--	YBS/Scholarship	3,200
Bradley Wallace[2]	6.0	2.5	--	YBS/Scholarship	9,650
					$ 197,666

[1]Term expired in February 2020

[2]Elected in February 2020

Senior Officers

The senior officers as of December 31, 2020, and the date each began his/her position include:

James McJunkins, President and Chief Executive Officer (March 2012)
Shari J. Wilson, Executive Vice President of Finance, Chief Financial Officer (September 2008)
Ralph D. Stewart, Executive Vice President, Chief Credit Officer (October 2019)
Diane Steiling, Senior Vice President, Chief Accounting Officer (October 2020)
Mike Williams, Senior Vice President of Branch Operations, Chief Services Officer (April 2018)
Michael Clayman, Senior Vice President of Branch Operations, Chief Marketing Officer (April 2018)

In October 2020, Diane Steiling was promoted to Senior Vice President, Chief Accounting Officer in preparation for our current CFO's, Shari Wilson, upcoming retirement. Prior to this she served as Controller from October 2016 to October 2020. Prior to this, she served as CFO of Heritage Bank, a commercial bank, for 15 years. Effective January 1, 2021, Ms. Steiling became Executive Vice President, Chief Financial Officer and Ms. Wilson's title changed to Executive Advisor.

In July 2019, Ralph Stewart was hired in preparation for our previous Chief Credit Officer (CCO) Davy Crockett's retirement in February 2020. Mr. Stewart officially started as CCO on October 1, 2019. Prior to Mr. Stewart's hire, he served as Chief Credit Officer and Executive Vice President at Alabama Farm Credit from September 2009 to July 2019.

Mike Williams was promoted to Senior Vice President of Branch Operations, Chief Services Officer in April 2018. Prior to this, he served as the Vice President, Jonesboro Branch Manager from March 2012 to March 2018.

Michael Clayman was promoted to Senior Vice President of Branch Operations, Chief Marketing Officer in April 2018. Prior to this, he served as the Vice President, Marion Branch Manager from September 2014 to March 2018.

Other interests where a senior officer served as a director or senior officer include:

James McJunkins serves on the Board of Directors for Arkansas LEADAR, a rural leadership program under the University of Arkansas. He also served on the Farm Credit Foundations Board of Directors, term expired December 31, 2020.

Senior Officer Compensation

Compensation Risk Management: We believe the design and governance of our Chief Executive Officer (CEO), senior officer, and highly compensated individuals compensation program is consistent with the highest standards of risk management and provides total compensation that promotes our mission to enhance our diverse agricultural and rural economy. Our compensation philosophy aims to provide a competitive total rewards package that will enable us to attract and retain highly qualified officers with the requisite expertise and skills while achieving desired business results aligned with the best interests of our members. The design of our CEO, senior officer, and highly compensated individuals compensation program supports our risk management goals through a set of checks and balances, including (1) a balanced mix of base and variable pay, (2) a balanced use of performance measures that are risk-adjusted where appropriate, and (3) a pay-for-performance process that allocates individual awards based on both results and how those results were achieved.

Elements of Compensation: The CEO, senior officers, and highly compensated individuals are compensated with a mixture of salary, incentives, and retirement plans generally available to all employees within the organization.

Base Salary: The CEO, senior officers, and highly compensated individuals base salaries reflect their experience and level of responsibility. The compensation plan is subject to review and approval by the Compensation Committee of the Board of Directors.

Short-term Incentives: The incentive plan is designed to reward excellent performance for desired business results. The business plan sets the direction for the organization for the future. The Board believes that setting incentive goals relating to that plan will ensure the viability of the organization over time. The incentive plan establishes results based on the business plan objectives and increases rewards as the results exceed plan. The highly compensated individuals' incentive plan is based on the Association, branch, and individual business results. The senior officer incentive plan is based on the Association and individual business results. The CEO incentive plan is based upon a model designed by the AgriBank District for similar roles and adopted by the Board of Directors. This plan is based entirely on the operating results of the organization and the goals are established based on the business plan objectives. All individuals must meet their individual performance objectives before being able to participate in an incentive program. The Board believes utilizing this strategy aligns the organization to exceed shareholder expectations. The criteria related to the overall Association performance include return on assets, operating efficiency, and contractual interbank performance agreement (CIPA). The branch performance goals include loan growth, non-interest income growth, and risk score. Additionally, performance criteria impacting senior officer and highly compensated individuals incentives, excluding the CEO, related to personal performance include attainment of personal objectives and performance ratings. We calculate the incentives after the end of the plan year (the plan year is the calendar year). The CEO, senior officer, and highly compensated individuals incentives are paid annually and within 90 days of year end.

Retirement Plans: We have various post-employment benefit plans which are generally available to all Association employees, including the CEO and senior officers, based on dates of service to the Association and are not otherwise differentiated by position, unless specifically stated. Information regarding the post-employment benefit plans is included in Notes 2 and 8 to the Consolidated Financial Statements in this Annual Report.

Other Components of Compensation: Additionally, compensation associated with any company-paid vehicles, company-paid cellphones, wellness and healthy return incentives, group term life insurance premiums, disability insurance premiums, or other taxable reimbursements may be made available to the CEO, senior officers, and highly compensated individuals based on job criteria or similar plans available to all employees.

Compensation to the CEO, Senior Officers, and Highly Compensated Individuals

(in thousands) Name	Year	Salary	Bonus	Deferred/ Perquisites	Other	Total
James McJunkins, CEO	**2020**	**$ 326**	**$ 125**	**$ 4**	**$ 727**	**$ 1,182**
James McJunkins, CEO	2019	310	154	3	810	1,277
James McJunkins, CEO	2018	287	142	3	39	471
Aggregate Number of Senior Officers and Highly Compensated Individuals, excluding CEO						
Seven(1)	**2020**	**$ 1,047**	**$ 225**	**$ 6**	**$ 1,038**	**$ 2,089**
Five(2)	2019	798	165	5	981	1,949
Five(3)	2018	746	174	5	297	1,222

(1)Includes compensation for one senior officer who retired in February 2020. Also includes compensation for the entire year for one individual promoted to senior officer in October 2020.

(2)Includes compensation for one senior officer hired in July 2019 to replace retiring CCO.

(3)Includes compensation for one senior officer who retired June 30, 2018. Also includes compensation for the entire year for two individuals promoted to senior officers effective April 1, 2018.

Members may request information on the compensation to the individuals included in the preceding table during 2020.

The amount in the "Other" category in the preceding table primarily includes:

- Employer match on defined contribution plans available to all employees.
- Changes in the value of pension benefits. The change in value of the pension benefits is defined as the change in the vested portion of the present value of the accumulated benefit obligation from December 31 of the prior year to December 31 of the most recent year for the District-wide

Pension Plan and the Pension Restoration Plan, as applicable, as disclosed in Note 8 to the Consolidated Financial Statements in this Annual Report. This change in value does not represent cash payments made by the Association during the year, but rather is an estimate of the change in the Association's future obligations under the pension plans. The change in the value of the pension benefits is highly sensitive to discount rates used to value the plan liabilities to participants.

- Amounts paid in 2018 related to one senior officer's retirement and one senior officer's retention bonus.
- Amounts paid in 2020 and 2019 related to senior officers' sign-on and retention bonuses outside of the incentive plan.

No tax reimbursements are made to the CEO, senior officers, or highly compensated individuals**.**

The value of the pension benefits increased from December 31, 2019, to December 31, 2020, primarily due to the decrease in interest rates year over year. The value of the pension benefits was also impacted to a lesser extent by the accumulation of an additional year of credited service by plan participants and updates to actuarial assumptions.

Pension Benefits Attributable to the CEO, Senior Officers, and Highly Compensated Individuals

(dollars in thousands) **2020** Name	Plan	Years of Credited Service	Present Value of Accumulated Benefits	Payments Made During the Reporting Period
James McJunkins, CEO	AgriBank District Retirement Plan	**39.6**	**$ 3,642**	**$ --**
	AgriBank District Pension Restoration Plan	**39.6**	**541**	**--**
Aggregate Number of Senior Officers and Highly Compensated Individuals, excluding CEO				
Three[1]	AgriBank District Retirement Plan	**27.9**	**$ 3,672**	**$ 88**

[1]Includes one senior officer who retired in February 2020.

The change in composition of the aggregate senior officers can have a significant impact on the calculation of the accumulated pension benefits.

Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. Therefore, any employee starting employment with the AgriBank District after that date is not eligible to be in the plan.

The AgriBank District Pension Restoration Plan restores retirement benefits to certain highly compensated employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits. Not all senior officers or highly compensated employees are eligible to participate in this plan.

Transactions with Senior Officers and Directors

Information regarding related party transactions is discussed in Note 9 to the Consolidated Financial Statements in this Annual Report.

Travel, Subsistence, and Other Related Expenses

Directors and senior officers are reimbursed for reasonable travel, subsistence, and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at:

3000 Prosperity Drive
Jonesboro, AR 72404
(870) 932-2288
www.FCMidsouth.com

The total directors' travel, subsistence, and other related expenses were $75 thousand, $133 thousand, and $122 thousand in 2020, 2019, and 2018, respectively.

Involvement in Certain Legal Proceedings

No events occurred during the past five years that are material to evaluating the ability or integrity of any person who served as a director or senior officer on January 1, 2021, or at any time during 2020.

Member Privacy

The FCA Regulations protect members' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our Association or our members not normally contained in published reports or press releases.

Relationship with Qualified Public Accountant

There were no changes in independent auditors since the last Annual Report to members and we are in agreement with the opinion expressed by the independent auditors. The total financial statement audit fees paid during 2020 were $63 thousand. Our engagement letter commits to reimbursing the external auditor for reasonable out-of-pocket expenses as incurred for travel.

Financial Statements

The Report of Management, Report of Audit Committee, Report of Independent Auditors, Consolidated Financial Statements, and Notes to Consolidated Financial Statements are presented prior to this portion of the Consolidated Financial Statements in this Annual Report.

Young, Beginning, and Small Farmers and Ranchers

Information regarding credit and services to young, beginning, and small farmers and ranchers, and producers or harvesters of aquatic products is discussed in an addendum to this Annual Report.

YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

Farm Credit Midsouth, ACA

(Unaudited)

We have specific programs in place to serve the credit and related services needs of young, beginning and small (YBS) farmers and ranchers (Farmers) in our Local Service Area (LSA).

Definitions

Farm Credit Administration (FCA) Regulations define young, beginning, and small farmers, ranchers or producer or harvester of aquatic products as those meeting any of the following criteria:

- **Young**: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the date the loan was originally made.
- **Beginning:** A farmer, rancher, or producer or harvester of aquatic products who had 10 years or less farming or ranching experience as of the date the loan was originally made.
- **Small**: A farmer, rancher, or producer or harvester of aquatic products who normally generated less than $250,000 in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

Demographics

Our LSA area includes 10 counties in eastern Arkansas and 3 counties in southern Missouri. We have used the 2017 USDA Ag-Census as our source of demographic data for the counties in our LSA. There are several differences in the methods by which the demographic and YBS Farmer data is resented. Young farmers are defined by the FCA as 35 years old or less. The USDA Ag-Census demographic stratification breaks at 34 years, which as used to compare to FCA's definition. Beginning farmers are defined by the FCA as having 10 years or less farming experience. There is no measurement matching this definition in the USDA Ag-Census; however, the census does identify farmers on their current farm less than 10 years. That statistic may include beginning farmers, but may also include experienced farmers who have recently changed farmsteads. As with the case with the young information the Beginning information in the USDA Ag-Census is not an exact comparison to the FCA definition, but will be utilized as the best comparison available. The FCA Small definition matches with the USDA Census delineation of farm entities with sales of less than $250,000. Other data differences:

- The farmers experience is as of the date of the USDA Ag-Census, while Midsouth's data is compiled as to the date the loan was made.
- Small farmers is by each individual farm entity from the USDA Ag-Census data, while Midsouth's data is compiled as of the date of the loan and the total value of sales of closely related entities rather than individual entities.
- The USDA Ag-Census data reflects all farms whether they use debt or not (the census reflects only 41.9% of farms have debt).

While the statistical results of the USDA Ag-Census do not match the FCA definitions exactly and there are timing issues, they do provide a consistent source of measurement with which to assess association targets and goals.

The following data compares Farm Credit Midsouth's YBS membership as of December 31, 2020 to the 2017 USDA Ag-Census data in our Loan Servicing Area:

Category	Number	Percent
2017 USDA Ag-Census Data:		
Farmers 34 and Younger	758	30.1%
Farmers on Current Farm Less than 10 Years	1,967	17.6%
Farmers with Less than $250,000 Farm Sales	4,721	76.4%
Total Farmers	6,178	
2020 Farm Credit Midsouth, ACA Data:		
Members that were ≤ 35 years of age when their loan was originally made	503	23.4%
Members that had been farming ≤ 10 years when their loan was originally made	697	32.4%
Members that had < $250,000 in gross sales of agricultural products when their loan was originally made	731	34.0%
Total Members in the LSA	2,150	

Mission Statement

Enhance our diverse economy through an Outreach Program that will focus on young, beginning, and small farmers with specific outreach toward diversity and inclusion.

We are accomplishing this mission by:

- Providing special loan programs and underwriting standard to meet the needs of YBS Farmers
- Offering either directly, or through external relationships, a number of financial services which will benefit the YBS Farmers in risk management
- Making full use of the Farm Service Agency guaranteed loan programs
- Establishing quantitative portfolio goals
- Continuing to participate in numerous outreach programs which benefit YBS Farmers

Quantitative Goals

Our Board of Directors desires to maintain a portfolio mix of young, beginning and small farmers and ranchers. This mix will help ensure our continued availability in future years and promote agriculture in our LSA. The Board of Directors, have decided to concentrate on new YBS business and have set five year goals to achieve the desired portfolio mix. The following are the goals and the 2020 results:

	% of Total Number of New Loans		% of Total Volume of New Loans	
Category	Goal	**2020 Results**	Goal	**2020 Results**
Young farmers	15%	**19.1%**	10%	**19.5%**
Beginning farmers	15%	**22.8%**	12%	**26.6%**
Small farmers	15%	**18.4%**	6%	**8.6%**

Qualitative Goals

Goal: Coordinate with governmental agencies and private parties to enhance credit services to YBS Farmers with use of guarantees or other risk reduction tools.

Status: Farm Credit Midsouth had 43 government guaranteed loans to YBS Farmers as of December 31, 2020, and made 9 new government guaranteed loans to YBS Farmers in 2020.

Goal: Provide educational and informational outreach programs for YBS or potential YBS Farmers.

Status: The following educational and informational outreach programs were supported that were available to YBS or potential YBS Farmers in 2020:

- Midsouth and the other Arkansas Farm Credit Associations sponsor, support, and participate in various Arkansas Grown activities which are an initiative of the Arkansas Department of Agriculture:
    - Arkansas Grown Magazine
    - Arkansas Homegrown by Heroes Scholarship
    - School Garden Contest
    - Farmers market Promotion Program
- Arkansas State University Agriculture Conference
- Women in Agriculture Conference
- Farm Management Meetings
- National Black Growers Council Annual Meeting
- Arkansas Future Farmers of America (FFA) Convention
- Arkansas Farm Family of the Year
- Farm Safety programs
- Arkansas 4-H
- Annie's Project
- Junior Livestock Auction-Buffalo Island Stock Show
- Arkansas Junior Cattlemen's Association
- Arkansas State Fair – Sale of Champions
- Sponsorship/Exhibit/Attendance
    - Mid-South Farm & Gin Show
    - Arkansas Agricultural Aviation Association
    - Arkansas Cattlemen's Conference
    - Arkansas Soybean Association Annual Meeting
    - Arkansas Rice Council/Producers Annual Meeting
    - Agricultural Council of Arkansas
    - Arkansas County Agricultural Agents Association Convention
    - Arkansas Rural Development Conference

Goal: To provide financial and in-kind support to programs that foster the development of young farmers.

Status: Fourteen one-thousand-dollar college scholarships were awarded to students majoring in agriculture or business. Donations totaling $29,700 were given to various youth organizations, including local FFA chapters and 4-H programs.

Safety and Soundness of the Program

Our YBS program has established specific lending standards and limits to ensure safety and soundness of this program.

FUNDS HELD PROGRAM

Farm Credit Midsouth, ACA

(Unaudited)

Farm Credit Midsouth, ACA (the Association) offers a Funds Held Program (Program) that provides Borrowers the ability to make uninsured advance payments on designated loans for the purpose of paying future maturities or other related charges.

Objective

The Association offers the Program for the benefit and convenience of Borrowers who desire to make advance payments.

The following terms and conditions apply to Program accounts in connection with loans from the Association, subject to any rights that the Association or Borrower may have as specified in loan documents governing designated loans.

Handling Advance Payments

- Advance payments received on a loan participating in the Program before the loan has been billed will normally be placed in the Program account (Account) as of the date received, to be applied against the next installment or other related charges on the installment due date. This is subject to any rights that the Association may have to apply such payments in a different manner as specified in the loan documents governing designated loans.
- Advance payments received on a loan participating in the Program after the loan has been billed will be directly applied to the installment due on the loan or other related charges and will not earn interest.
- Funds received in excess of the installment amount or other related charges will be placed in the Account.
- If a special prepayment of principal is desired, Borrowers must specify so at the time funds are paid in advance to the Association.
- When an installment becomes due, any accrued interest in the Account and other funds in the Account for the loan will be automatically applied toward payment of the installment or related charges on the due date. If the balance in the Account is not adequate to pay the installment or related charges in full, Borrowers are expected to pay the difference by the installment due date. Any excess funds will remain in the Account.

Even when no installment or related charges are due, the Association may, at its option, apply funds from the Account without notice to the Borrower as follows:

- **Protective Advances**. If the Borrower fails to pay when due other items as required pursuant to the mortgage, deed of trust, promissory note, or any other loan documents, the Association may apply funds in the Account to pay them.
- **Account Ceiling**. If the Account balance exceeds the unpaid balance of the loan, the Association may apply the funds in the Account to repay the entire unpaid balance and will return any excess funds. The Association allows up to two full annual installments (principal and interest) to be placed in the Account on each individual loan.
- **Transfer of Security**. If the Borrower sells, assigns, or transfers any interest in the underlying collateral, the Association may apply the funds in the Account against the remaining loan balance.
- **Deceased Borrowers**. If all Borrowers are deceased, the Association may apply the funds in the Account to the remaining loan balance.

The Association may pay interest on Account balances. Interest on Account balances (exclusive of funds applied directly to billed amounts) will normally accrue from the date of receipt of the funds until the date the funds are applied to the loan against an installment due or other related charges. The Association may change the interest rate from time to time, without written notification to the Borrower, and may provide different interest rates for different categories of loans. Subject to change as aforesaid, currently the rate paid on the Account by the Association is equal to the rate being charged to the Borrower on the individual loan less 2%.

Borrower Withdrawals from Accounts

The Association may permit Borrowers to withdraw funds from the Account according to the Association's Program. In addition, the Association may permit withdrawals for medical emergencies, natural disasters, and other purposes with a written request stating the reason for the withdrawal. All requests must be approved by the Association CEO or designee prior to withdrawal.

Liquidation

Account balances are not insured. In the event of the Association liquidation, all Borrowers having balances in these uninsured Accounts shall be notified according to FCA Regulations in effect at that time. Current applicable regulations state that the notice shall instruct that the funds ceased earning interest when the receivership was instituted and will be applied against the outstanding indebtedness of any loans of the Borrower unless, within 15 days' notice, the Borrower provides direction to the Association to apply the funds according to existing loan documents.

Termination

If the Association terminates the Program, Account balances will be applied to the loan balance, and any remaining excess funds will be refunded to the Borrower.

Barton Branch
870-572-9900
6216 Hwy 49
Poplar Grove AR 72374

Corning Branch
870-857-3541
600 W Elm
Corning AR 72422

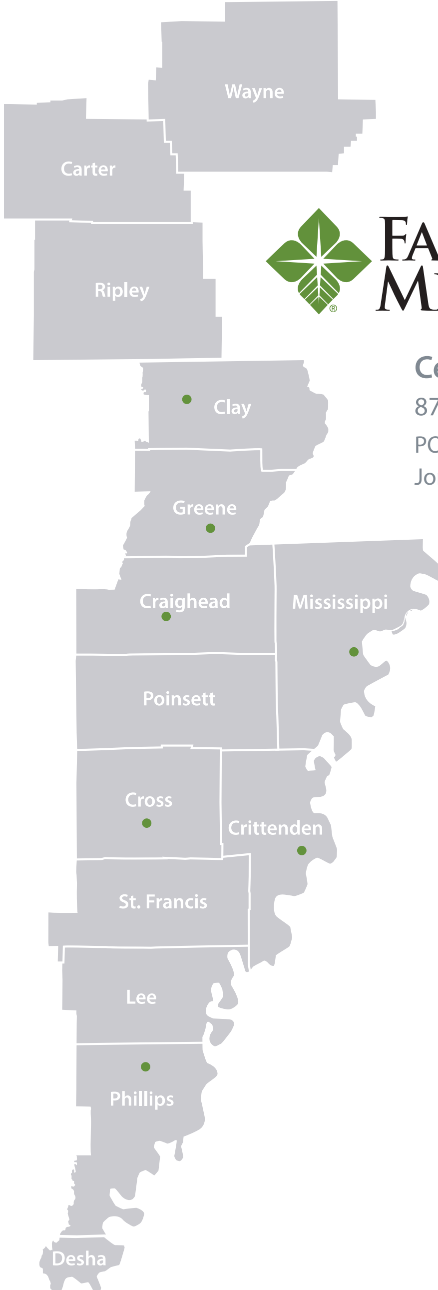
Jonesboro Branch
870-932-2817
3000 Prosperity Dr
Jonesboro AR 72404

Marion Branch
870-739-6275
151 Block St
Marion AR 72364

Osceola Branch
870-563-2676
4389 W Keiser Ave
Osceola AR 72370

Paragould Branch
870-236-8525
1312 Hwy 135 N
Paragould AR 72450

Wynne Branch
870-238-2211
1674 S Falls Blvd
Wynne AR 72396



FARM CREDIT MIDSOUTH

Central Office
870-932-2288
PO Box 16060
Jonesboro AR 72403

Crop Insurance

At Farm Credit Midsouth, we not only want to help you achieve your dreams, we want to help you protect them. That's why we provide risk management services to protect your investment and profit. As a farmer or rancher in eastern Arkansas and southeast Missouri, you know the weather can change in an instant, more often than not for the worse. With all of the uncontrollable factors associated with farming, it's important to go to every length to protect your livelihood out in the field. FCM offers crop insurance plans with affordable rates and fast, fair claims to help you do just that.

Multi-Peril Crop Insurance is production-based coverage against a yield loss. MPCI policies are a risk management tool available to agricultural producers. You'll want to consider how a policy will work in conjunction with their other risk management strategies to ensure your best possible outcome each crop year. Our insurance representatives possess years of experience and will assist you in developing a management plan that works for your operation.

Crop Hail Insurance provides value per acre protection against hail loss, vandalism, fire, transit and storage protection. Crop hail insurance is a non-subsidized crop insurance program which gives supplemental, acre-by-acre protection to reflect the actual cash value of the crop, covering the gaps that an MPCI policy does not cover. Producers can choose the crop, acreage, and guarantee level that works best for their operation. Our specialists can customize a policy to your operation.

Revenue Coverage Insurance guarantees revenue per acre with price protection. Our policies provide protection against lost revenue caused by production loss, price increase or decrease, or a combination of yield and price.

Discuss Crop Insurance with your trusted FCM Advisors today!
__Mike Montgomery__ at 870-336-5430
or __Celia Wooten__ at 870-336-5460.