Farm Credit of Central Florida, ACA

SECOND QUARTER 2021

TABLE OF CONTENTS

CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2021 quarterly report of Farm Credit of Central Florida, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Reginald T. Holt
Chief Executive Officer

Anne M. Sullivan
Chief Financial Officer

David A. Mereness
Chairman of the Audit committee

August 6, 2021

Farm Credit of Central Florida, ACA

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of June 30, 2021. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of June 30, 2021, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of June 30, 2021.

Reginald T. Holt
Chief Executive Officer

Anne M. Sullivan
Chief Financial Officer

August 6, 2021

Farm Credit of Central Florida, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Farm Credit of Central Florida, ACA, (Association) for the period ended June 30, 2021. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2020 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

COVID-19 OVERVIEW

In response to the COVID-19 pandemic, and without disruption to operations, the Association transitioned the vast majority of its employees to working remotely in mid-March 2020. The priority was, and continues to be, to ensure the health and safety of employees, while continuing to serve the mission of providing support for rural America and agriculture. Effective August 3, 2021, the Association reactivated it's business continuity plan, with several employees operating in a remote working environment and limited staff in the Association's administrative and branch offices.

During the first half of 2021, significant progress has been made in the fight against COVID-19 with the distribution of vaccines. However, the highly contagious Delta variant has raised doubts about how quickly the world will return to "pre-pandemic" norms. Uncertainty remains as to the ability to vaccinate those unvaccinated nationwide and globally and when the restrictions that were imposed to slow the spread of the pandemic will be lifted entirely or if those restrictions that were previously lifted will be reinstated. In this regard, the Association will adjust its business continuity plan to maintain the most effective and efficient business operations while safeguarding the health and safety of employees. In addition, the Association continues to work with borrowers to offer appropriate solutions to meet their operating and liquidity needs.

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

COVID-19 Support Programs

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

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

The previously enacted Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was amended by subsequent legislation, included the Paycheck Protection Program (PPP). The PPP provides support to small businesses to cover payroll and certain other expenses. Loans made under the PPP are fully guaranteed by the Small Business Administration (SBA), whose guarantee is backed by the full faith and credit of the United States. As of June 30, 2021, the Association had $13.3 million of loans outstanding to approximately 67 borrowers. In addition, through June 30, 2021, the volume of loans that have received forgiveness from the SBA since the start of the program was $18.1 million.

For a detailed discussion of programs enacted in 2020, see pages 9 and 10 of the 2020 Annual Report.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including horticulture, fruits/vegetables, citrus, and cattle. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, reduces the level of dependency on a given commodity.

June 30, 2021 compared to December 31, 2020

Loan volume of the Association as of June 30, 2021, was $634,995, a decrease of $23,103 as compared to $658,098 at December 31, 2020. Net loans outstanding at June 30, 2021, were $632,027 as compared to $654,815 at December 31, 2020. The short-term portfolio, which is heavily influenced by operating loans, normally reaches a peak balance between October and December and declines between January and June as strawberry and other winter vegetable growers pay down their loans using proceeds from the sale of their crops. The result of this normal seasonal lending activity causes net loan volume to decrease on revolving credit lines.

The Association has investment securities that are classified as held to maturity in the amount of $3,408 at June 30, 2021, as compared to $3,966 at December 31, 2020. Net loans and investment securities accounted for 96.64 percent of total assets at June 30, 2021, as compared to 95.57 percent of total assets at December 31, 2020.

The Association's total servicing portfolio has increased to $1,116,117 as compared to $1,077,362 at December 31, 2020, due to new money closings exceeding run-off and liquidations during the year.

June 30, 2021 compared to June 30, 2020

Loan volume of the Association as of June 30, 2021, was $634,995, an increase of $40,445 as compared to $594,550 at June 30, 2020. Net loans outstanding at June 30, 2021, were $632,027 as compared to $591,301 at June 30, 2020. The Association has investment securities that are classified as held to maturity in the amount of $3,408 at June 30, 2021, as compared to $4,642 at June 30, 2020. Net loans and investment securities accounted for 96.64 percent of total assets at June 30, 2021, as compared to 96.37 percent of total assets at June 30, 2020.

The Association's total servicing portfolio has increased to $1,116,117 as compared to $1,056,209 at June 30, 2020, due to new money closings exceeding run-off and liquidations over the past twelve months.

ASSET QUALITY AND LOAN LOSS RESERVES

There is an inherent risk in the extension of any type of credit. Portfolio credit quality has slightly improved from year end and June 30, 2020, as a result of a decrease in substandard assets. Acceptable and OAEM credit quality as a percentage of total loan portfolio was 99.50% as of June 30, 2021, compared to 99.45% at December 31, 2020 and 98.76% at June 30, 2020. Substandard credit quality was 0.50% as of June 30, 2021, compared to 0.55% at December 31, 2020 and 1.24% at June 30, 2020. The actual substandard asset volume has decreased by $401 from year-end December 31, 2020. Nonaccrual loan volume was $5,166 at June 30, 2021, compared to $5,464 at December 31, 2020 and $6,328 at June 30, 2020, decreases of $298 and $1,162, respectively. The majority of the loan assets in nonaccrual are in the blueberry industry.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at June 30, 2021, was $2,968 or 0.47% of total loans compared to $3,283 or 0.50% of total loans at December 31, 2020, and $3,249 or 0.55% of total loans at June 30, 2020, and is considered by management to be adequate to cover possible losses. The allowance for loan loss is broken down between specific reserves assigned to an individual loan and general reserves which are available for the possible losses within the entire portfolio. The current allowance for loan loss at June 30, 2021, contains $975 in specific reserves and $1,993 in general reserves, of which $196 is allocated to the citrus portfolio and $1,446 is allocated to the nonfarm income and nursery portfolio. The following outlines the allowance for loan loss activity as of June 30, 2021.

Allowance for Loan Losses Activity:	**YTD 2021**
Balance at beginning of period	$ 3,283
Charge-offs	(5)
Recoveries	65
Provisions/(Reversals)-General	(185)
Provisions/(Reversals)–Specifics	(190)
Balance at end of period	$ 2,968

The decrease in allowance for loan losses compared to December 2020 was a result of slightly improved credit quality as well as the liquidation of criticized assets. Chargeoffs are funded through the allowance from previous and/or current increases in the provision for loan losses.

RESULTS OF OPERATIONS

For the three months ended June 30, 2021

Net income for the three months ended June 30, 2021, totaled $3,953, as compared to $3,613 for the same period in 2020. The increase of $340 for the period is associated directly with increased net interest income, increased income from financially related services, a reversal of provisions for loan losses and gains on the sale of other property owned.

Net interest income was $3,908 for the three months ended June 30, 2021, as compared to $3,813 for the same period in 2020. The increase is due to higher loan volumes, coupled with increased loan spreads, offset by decreased loanable funds and nonaccrual earnings. Investment interest income decreased by $9 or 32.14% to $19 from the prior period's $28 due to decreased investment volume. Loan interest income was $6,726 as compared to the prior period's $6,527. The increase of $199 or 3.05% is due to higher loan volume offset by lower borrower rates. Total interest expense was $2,837 as compared to the prior period's $2,742. The increase of $95 is due to increased volume offset by decreased loanable funds rates. Due to the ability to reprice loans, the Association has been able to decrease both borrowers' rates and the cost of funds, thus increasing loan spreads. Net interest income for the three months ending June 30, 2021, is shown in the following table:

Net Interest Income	For the three months ended June 30, 2021	2020	$ change	% change
Investment Interest Income	$ 19	$ 28	$ (9)	(32.14)%
Loan Interest Income	6,726	6,527	199	3.05
Total Interest Income	6,745	6,555	190	2.90
Total Interest Expense	2,837	2,742	95	3.46
Net Interest Income	$ 3,908	$ 3,813	$ 95	2.49 %

Allowance for loan loss activity for the quarter consisted of a $160 reversal for the period compared to a $124 provision for the same period prior year. Provisions for loan losses for the three months ending June 30, 2021 are shown in the following table:

Provisions/(Reversals) for Loan Losses	For the three months ended June 30, 2021	2020	$ Change	% change
General Reserves	$ (26)	$ (432)	$ 406	(93.98)%
Specific Reserves	(134)	556	(690)	(124.10)
Total Provisions/(Reversals)	$ (160)	$ 124	$ (284)	(229.03)%

Noninterest income for the three months ended June 30, 2021, totaled $3,276, as compared to $2,949 for the same period of 2020, an increase of $327. The increase is primarily the result of increased fees for financially related services and increased patronage refunds from other Farm Credit institutions, offset by fee income. The decrease in fee income is primarily from the PPP loan program. The Association recorded $85 in PPP fee income during the 3 months ended June 30, 2021 as compared to $817 for the same period of 2020. Noninterest income for the three months ending June 30, 2021, is shown in the following table:

Noninterest Income	For the three months ended June 30, 2021	2020	$ change	% change
Loan fees	$ 151	$ 880	$ (729)	(82.84)%
Fees for financially related services	1,563	824	739	89.68
Patronage refunds from other Farm Credit Institutions	1,451	1,211	240	19.82
Gains (losses) on sales of rural home loans, net	60	46	14	30.43
Gains (losses) on other transactions	51	(12)	63	(525.00)
Total noninterest income	$ 3,276	$ 2,949	$ 327	11.09 %

Noninterest expense for the three months ended June 30, 2021, increased $366 compared to the same period of 2020, primarily due to increased salaries and employee benefits and increased Insurance Fund premiums. The increase in salaries and benefits is primarily due to increases in pension costs for 2021. The slight decrease in other operating expenses is primarily due to decreased travel, training and advertising and public relations due to the current conditions with the COVID-19 pandemic. Farm Credit System Insurance Corporation (FCSIC) has set the premium to 16 basis points for 2021 (compared to 8 basis points during 2020) on adjusted insured debt outstanding with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans. Noninterest expense for the three months ending June 30, 2021 is shown in the following table:

Noninterest Expense	For the three months ended June 30, 2021	2020	$ change	% change
Salary and employee benefits	$ 2,329	$ 2,055	$ 274	13.33 %
Occupancy and equipment	242	258	(16)	(6.20)
Insurance Fund Premium	209	96	113	117.71
(Gains) losses on other property owned, net	4	–	4	N/A
Other operating expenses	607	616	(9)	(1.46)
Total noninterest expense	$ 3,391	$ 3,025	$ 366	12.10 %

For the six months ended June 30, 2021

Net income for the six months ended June 30, 2021, totaled $7,069 as compared to $6,020 for the same period in 2020. The increase of $1,049 for the period is associated with increased interest and non interest income and a reversal of provisions for loan losses, offset by increased operating expenses.

Net interest income increased $156 or 2.05% for the six months ended June 30, 2021, as compared to the same period in 2020. The increase is due to higher loan volumes, coupled with increased loan spreads, offset by decreased loanable funds and nonaccrual earnings. Net interest income for the six months ending June 30, 2020 is shown in the following table:

Net Interest Income	For the six months ended June 30, 2021	2020	$ change	% change
Investment Interest Income	$ 36	$ 66	$ (30)	(45.46)%
Loan Interest Income	13,387	13,760	(373)	(2.71)
Total Interest Income	13,423	13,826	(403)	(2.91)
Total Interest Expense	5,649	6,208	(559)	(9.00)
Net Interest Income	$ 7,774	$ 7,618	$ 156	2.05 %

The effects of changes in average volume and interest rates on net interest income over the past six months are presented in the following table:

Change in Net Interest Income:	Volume	Rate	Non-accrual	Amortization	Total
	(dollars in thousands)				
Change in NII	$ 817	$ (516)	$ (154)	$ 9	$ 156

Allowance for loan loss activity consisted of a $375 reversal, as compared to a $124 provision for the same period last year. The decrease in allowance for loan losses compared to December 2020 was a result of slightly improved credit quality as well as the liquidation of criticized assets.

Provisions for loan losses for the six months ending June 30, 2021 are shown in the following table:

Provisions for Loan Losses	For the six months ended June 30, 2021	2020	$ change	% change
General Reserves	$ (190)	$ 590	$ (780)	(132.20)%
Specific Reserves	(185)	(466)	281	(60.30)
Total Provisions/(Reversals)	$ (375)	$ 124	$ (499)	(402.42)%

Noninterest income for the six months ended June 30, 2021, totaled $5,122, as compared to $4,427 for the same period of 2020, an increase of $695. The increase is primarily a result of increased fees from financially related services, increased patronage refunds from other Farm Credit institutions, increased gains on sales of premises and equipment and gains on other transactions, offset by lower gains on sales of rural home loans and a lower refund from the Farm Credit System Insurance Corporation. During the first and second quarter of 2021, the Association as recorded $1,532 in crop insurance income as opposed to $822 during the same period of 2020. The Association recorded a total $379 of fees from PPP loans in the first two quarters of 2021 as compared to $817 during 2020. These payments are nonrecurring and were generated from the guaranteed loan program (PPP) that was part of the CARES Act. During the first quarter of 2020, the Association recorded $107 of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the system's debt obligations, as opposed to no refund in 2021. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act. Noninterest income for the six months ending June 30, 2021 is shown in the following table:

Noninterest Income	For the six months ended June 30, 2021	2020	$ change	% change
Loan fees	$ 515	$ 936	$ (421)	(44.98)%
Fees for financially related services	1,560	829	731	88.18
Patronage refunds from other Farm Credit institutions	2,821	2,469	352	14.26
Gains (losses) on sales of rural home loans, net	92	122	(30)	(24.59)
Gains (losses) on sales of premises and equipment, net	38	–	38	–
Gains (losses) on other Transactions	92	(37)	129	(348.65)
Insurance Fund refund	–	107	(107)	(100.00)
Other noninterest income	4	1	3	300.00
Total noninterest income	$ 5,122	$ 4,427	$ 695	15.70 %

Noninterest expense for the six months ended June 30, 2021 increased $301 compared to the same period of 2020. The increase is related to increases in salaries and employee benefits, occupancy and equipment and insurance fund premiums. Salaries and employee benefits increased $262 or 6.79% during the period due to increased employee head count and pension expenses. The primary reason for the increase occupancy and equipment expense is increased expense on the lease of the new administrative building. The Association Insurance Fund premiums are $232 more than prior year. This is because the Farm Credit System Insurance Corporation (FCSIC) has set the premium to 16 basis points for 2021 (compared to 8 basis points for 2020) on adjusted insured debt outstanding with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans for the past two years. The Association sold two properties during the first six months of 2021 for a total gain of $160 as compared to no properties sold and no gain or loss during the first six months of 2020. Noninterest expense for the six months ending June 30, 2021 is shown in the following table:

Noninterest Expense	For the six months ended June 30, 2021	2020	$ change	% change
Salary and employee benefits	$ 4,119	$ 3,857	$ 262	6.79 %
Occupancy and equipment	488	460	28	6.09
Insurance Fund Premium	418	186	232	124.73
(Gains) losses on other property owned, net	(160)	–	(160)	–
Other operating expenses	1,337	1,398	(61)	(4.36)
Total noninterest expense	$ 6,202	$ 5,901	$ 301	5.10 %

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at June 30, 2021, was $518,991 as compared to $548,714 at December 31, 2020. The decrease is attributable to paydowns on loans being greater than borrowings to fund new loans in the normal course of business.

CAPITAL RESOURCES

Total members' equity at June 30, 2021, increased to $125,937 from the December 31, 2020, total of $118,693. The increase is primarily attributed to the increase in unallocated surplus resulting from net income. Total capital stock and participation certificates were $1,076 on June 30, 2021, compared to $1,008 on December 31, 2020. This increase is attributed to the issuance of stock and participation certificates in the normal course of business.

FCA sets minimum regulatory capital requirements with a capital conservation buffer for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios.

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of June 30, 2021
Risk-adjusted ratios:				
CET1 Capital	4.5%	2.50%	7.00%	17.86%
Tier 1 Capital	6.0%	2.50%	8.50%	17.86%
Total Capital	8.0%	2.50%	10.50%	18.33%
Permanent Capital Ratio	7.0%	0.0%	7.0%	17.94%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	17.68%
UREE Leverage Ratio	1.5%	0.0%	1.5%	15.30%

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

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

REGULATORY MATTERS

On July 8, 2021, the FCA approved a proposed rule to revise its regulatory capital requirements to define and establish risk-weightings for High Volatility Commercial Real Estate (HVCRE) by assigning a 150 percent risk-weighting to such exposures, instead of the current 100 percent. The proposed rule would ensure that the FCA's rule remains comparable with the capital rule of other federal banking regulatory agencies and recognizes the increased risk posed by HVCRE exposures. Once the proposed rule is published in the Federal Register, the 90-day public comment period will commence.

On September 10, 2020, the FCA issued a proposed rule that would amend certain sections of the FCA's regulations to provide technical corrections, amendments, and clarification to certain provisions in the FCA's tier 1/tier 2 capital framework for the Farm Credit System. The proposed rule incorporates guidance previously provided by the FCA related to its tier 1/tier 2 capital framework as well as ensures that the FCA's capital requirements continue to be comparable to the standardized approach that the other federal banking regulatory agencies have adopted. The public comment period ended on November 9, 2020.

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

Future of LIBOR

In 2017, the United Kingdom's Financial Conduct Authority (UK FCA), which regulates LIBOR, announced its intention to stop persuading or compelling the group of major banks that sustains LIBOR to submit rate quotations after 2021.

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

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

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

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

The Association has established and is in the process of implementing LIBOR transition plans, including implementing fallback language into variable-rate financial instruments which provides the ability to move these instruments to another index if the LIBOR market is no longer viable, and continues to analyze potential risks associated with the LIBOR transition, including, but not limited to, financial, market, accounting, operational, legal, tax, reputational, and compliance risks.

At this time, it is not known when LIBOR will completely cease to be available or will become unrepresentative, or which benchmark will replace LIBOR. However, in light of the announcements by the UK FCA, the IBA and U.S. prudential regulators noted above, U.S. dollar LIBOR, except in very limited circumstances, will be discontinued or declared unrepresentative (depending on the tenor) as of either immediately after December 31, 2021 or June 30, 2023. Because the Bank and Associations engage in transactions involving financial instruments that reference LIBOR, these developments could have a material impact on financial results, borrowers, investors, and counterparties.

For example, on April 6, 2021, the New York Governor signed into law the New York State Legislature's Senate Bill 297B/Assembly Bill 164B (the New York LIBOR Legislation). The New York LIBOR Legislation amends the New York General Obligations Law by adding new Article 18-c and mirrors a legislative proposal drafted by the Alternative Reference Rates Committee (the ARRC) aimed at ensuring legal clarity for legacy instruments governed by New York law during the US dollar LIBOR transition. The ARRC is an industry-working group convened by the Federal Reserve Board and the New York Fed to lead the LIBOR transition, which, among other work, has developed industry-specific fallback language that may be used by market participants to address the cessation of US dollar LIBOR. The New York LIBOR Legislation applies to US dollar LIBOR-based contracts, securities, and instruments governed under New York law that (i) do not have any US dollar LIBOR fallback provisions in place, (ii) have US dollar LIBOR fallback provisions that result in replacement rates that are in some way based on US dollar LIBOR, or (iii) have US dollar LIBOR fallback provisions that allow or require one of the parties or an outsider to select a replacement rate for US dollar LIBOR. The New York LIBOR Legislation (a) provides in respect of (i) and (ii) above, upon the occurrence of a "LIBOR Discontinuance Event" and the related "LIBOR Replacement Date" (each as defined in the New York LIBOR Legislation), that the then-current US dollar LIBOR based benchmark, by operation of law, be replaced by a "Recommended Benchmark Replacement" (as defined in the New York LIBOR Legislation) based on the Secured Overnight Financing Rate (SOFR), or, (b) in respect of (iii), encourages the replacement of LIBOR with the "Recommended Benchmark Replacement" by providing a safe harbor from legal challenges under New York law.

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

At present, there is no specific federal law akin to the New York LIBOR Legislation addressing the US dollar LIBOR transition. However, United States Congress began working on a draft version of federal legislation in October of 2020 that would provide a statutory substitute benchmark rate for contracts that use US dollar LIBOR as a benchmark and that do not have any sufficient fallback clauses in place. The current version of the legislation, the Adjustable Interest Rate (LIBOR) Act of 2021, was formally introduced in the House of Representatives on July 22, 2021. The bill has been assigned to the House Financial Services, Ways & Means, and Education & Labor Committees. On July 29, 2021, The House Financial Services Committee voted to positively report the bill out of committee and send it to the full House. Consideration by the full House is not expected to take place before September of this year. While similar to the New York LIBOR Legislation, including inclusion of a safe harbor for use of recommended LIBOR fallbacks that are based on SOFR, are differences in the current draft of the federal legislation, including, perhaps most significantly, that the draft bill specifically provides for the preemption of state law, which would include the New York LIBOR Legislation. At this time, it is uncertain as to whether, when and in what form such federal legislation would be adopted.

In light of the proliferation of alternatives to LIBOR and the slower than expected transition away from LIBOR, regulators, the ARRC and market participants have more aggressively taken steps to speed up this transition. In addition to the recent public positions taken by members of the Financial Stability Oversight Council (FSOC), including from the U.S. prudential regulators and the Securities and Exchange Commission and the Commodity Futures Trading Commission (CFTC), the CFTC (through its Market Risk Advisory Committee (MRAC)), the ARRC and the IBA have also made statements and taken action to move the markets to transition away from LIBOR using SOFR.

In addition, on July 13, the MRAC adopted a market best practice known as "SOFR First". SOFR First is designed to help market participants decrease reliance on USD LIBOR in light of statements from the Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO) on the LIBOR transition which reinforce U.S prudential regulators' guidance that banks should cease entering new contracts that reference USD LIBOR post December 31, 2021. SOFR First recommends a phased approach to be completed by December 31, 2021. The first phase, completed on July 26, implemented the MRAC recommendation that interdealer brokers would replace their trading of LIBOR linear swaps with trading of SOFR linear swaps. In light of the successful implementation of this first phase of SOFR First and the ARRC's assessment of whether a forward looking term rate based on SOFR published by the CME Group (Term SOFR) were being met, the ARRC formally announced that Term SOFR was an appropriate fallback to LIBOR to be used for certain types of currently outstanding loans, floating rate notes (which would include certain outstanding Systemwide Debt Securities) and derivatives based on LIBOR when the LIBOR was discontinued or deemed unrepresentative, and, in more limited circumstances, for new loans, notes and other transactions, including derivatives. The successful implementation of SOFR First and the ARRC's support of Term SOFR are expected to increase the volume of transactions quoted in SOFR, supporting the implementation of the transition away from LIBOR.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

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

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-533-2773, or writing Anne M. Sullivan, CFO, Farm Credit of Central Florida, ACA, P.O. Box 8009, Lakeland, FL 33802, or accessing the website, *www.farmcreditcfl.com.* The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Farm Credit Of Central Florida, ACA

Consolidated Balance Sheets

(dollars in thousands)	June 30, 2021 (unaudited)	December 31, 2020 (audited)
Assets		
Cash	**$ 11**	$ 12
Investments in debt securities:		
Held to maturity (fair value of $3,375 and $3,924, respectively)	**3,408**	3,966
Loans	**634,995**	658,098
Allowance for loan losses	**(2,968)**	(3,283)
Net loans	**632,027**	654,815
Accrued interest receivable	**2,399**	2,671
Equity investments in other Farm Credit institutions	**6,755**	6,636
Premises and equipment, net	**4,958**	4,936
Other property owned	**—**	227
Accounts receivable	**3,001**	11,030
Other assets	**4,951**	5,032
Total assets	**$ 657,510**	$ 689,325
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 518,991**	$ 548,714
Accrued interest payable	**921**	950
Patronage refunds payable	**172**	9,757
Accounts payable	**719**	793
Other liabilities	**10,770**	10,418
Total liabilities	**531,573**	570,632
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	**1,076**	1,008
Retained earnings		
Allocated	**20,380**	20,380
Unallocated	**105,198**	98,129
Accumulated other comprehensive income (loss)	**(717)**	(824)
Total members' equity	**125,937**	118,693
Total liabilities and members' equity	**$ 657,510**	$ 689,325

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

Farm Credit Of Central Florida, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended June 30, 2021	For the Three Months Ended June 30, 2020	For the Six Months Ended June 30, 2021	For the Six Months Ended June 30, 2020
Interest Income				
Loans	**$ 6,726**	$ 6,527	**$ 13,387**	$ 13,760
Investments	**19**	28	**36**	66
Total interest income	**6,745**	6,555	**13,423**	13,826
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**2,837**	2,742	**5,649**	6,208
Net interest income	**3,908**	3,813	**7,774**	7,618
Provision for (reversal of allowance for) loan losses	**(160)**	124	**(375)**	124
Net interest income after provision for (reversal of allowance for) loan losses	**4,068**	3,689	**8,149**	7,494
Noninterest Income				
Loan fees	**151**	880	**515**	936
Fees for financially related services	**1,563**	824	**1,560**	829
Patronage refunds from other Farm Credit institutions	**1,451**	1,211	**2,821**	2,469
Gains (losses) on sales of rural home loans, net	**60**	46	**92**	122
Gains (losses) on sales of premises and equipment, net	**—**	—	**38**	—
Gains (losses) on other transactions	**51**	(12)	**92**	(37)
Insurance Fund refunds	**—**	—	**—**	107
Other noninterest income	**—**	—	**4**	1
Total noninterest income	**3,276**	2,949	**5,122**	4,427
Noninterest Expense				
Salaries and employee benefits	**2,329**	2,055	**4,119**	3,857
Occupancy and equipment	**242**	258	**488**	460
Insurance Fund premiums	**209**	96	**418**	186
(Gains) losses on other property owned, net	**4**	—	**(160)**	—
Other operating expenses	**607**	616	**1,337**	1,398
Total noninterest expense	**3,391**	3,025	**6,202**	5,901
Net income	**$ 3,953**	$ 3,613	**$ 7,069**	$ 6,020
Other comprehensive income net of tax				
Employee benefit plans adjustments	**54**	32	**107**	64
Comprehensive income	**$ 4,007**	$ 3,645	**$ 7,176**	$ 6,084

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

Farm Credit Of Central Florida, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings: Allocated	Retained Earnings: Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2019	$ 942	$ 21,637	$ 91,532	$ (664)	$ 113,447
Comprehensive income			6,020	64	6,084
Capital stock/participation certificates issued/(retired), net	20				20
Balance at June 30, 2020	$ 962	$ 21,637	$ 97,552	$ (600)	$ 119,551
Balance at December 31, 2020	**$ 1,008**	**$ 20,380**	**$ 98,129**	**$ (824)**	**$ 118,693**
Comprehensive income			**7,069**	**107**	**7,176**
Capital stock/participation certificates issued/(retired), net	**68**				**68**
Balance at June 30, 2021	**$ 1,076**	**$ 20,380**	**$ 105,198**	**$ (717)**	**$ 125,937**

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

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

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

Accounting Standards Updates (ASUs) Issued During the Period and Applicable to the Association
There were no applicable Updates issued by the Financial Accounting Standards Board (FASB) during the period.

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

Potential effects of ASUs issued in previous periods:

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

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

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

- In October 2020, the FASB issued ASU 2020-10 Codification Improvements. The amendments represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The Update moves or references several disclosure requirements from Section 45 - Other Presentation Matters to Section 50 - Disclosures. It also includes minor changes to other guidance such as Cash Balance Plans, Unusual or Infrequent Items, Transfers and Servicing, Guarantees, Income Taxes, Foreign Currency, Imputation of Interest, Not For Profits and Real Estate Projects. The amendments had no impact on the statements of financial condition and results of operations.

- In January 2020, the FASB issued ASU 2020-01 Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815. The amendments clarify certain interactions between the guidance on accounting for certain equity securities under Topic 321, the guidance on accounting for investments under the equity method in Topic 323, and the guidance in Topic 815. The Update could change how an entity accounts for an equity security under the measurement alternative or a forward contract or purchased option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method of accounting or the fair value option in accordance with Topic 825, Financial Instruments. The amendments are intended to improve current GAAP by reducing diversity in practice and increasing comparability of the accounting for these interactions. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Adoption of this guidance had no effect on the statements of financial condition and results of operations.

- In December 2019, the FASB issued ASU 2019-12 Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The amendments simplify the accounting for income taxes by removing the following exceptions:
  - Exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items (for example, discontinued operations or other comprehensive income),
  - Exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment,
  - Exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary, and
  - Exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year.

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

  For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Adoption of this guidance did not have a material impact on the statements of financial condition and results of operations.

Note 2 — Loans and Allowance for Loan Losses

The Association maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified. See Note 3, *Loans and Allowance for Loan Losses*, from the latest Annual Report for further discussion.

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

A summary of loans outstanding at period end follows:

	June 30, 2021	December 31, 2020
Real estate mortgage	$ 391,068	$ 389,241
Production and intermediate-term	125,050	148,613
Loans to cooperatives	8,478	8,865
Processing and marketing	63,720	74,678
Farm-related business	16,773	6,241
Communication	11,096	14,446
Rural residential real estate	12,371	9,576
International	6,439	6,438
Total loans	$ 634,995	$ 658,098

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

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

	June 30, 2021							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 27,510	$ 45,138	$ –	$ 33,521	$ –	$ –	$ 27,510	$ 78,659
Production and intermediate-term	25,145	49,536	1,811	1,575	–	–	26,956	51,111
Loans to cooperatives	8,500	–	–	–	–	–	8,500	–
Processing and marketing	37,520	25,643	309	22,500	–	–	37,829	48,143
Farm-related business	685	674	464	–	–	–	1,149	674
Communication	11,120	–	–	–	–	–	11,120	–
International	6,446	–	–	–	–	–	6,446	–
Total	$ 116,926	$ 120,991	$ 2,584	$ 57,596	$ –	$ –	$ 119,510	$ 178,587

	December 31, 2020							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 30,183	$ 45,595	$ 4,000	$ 33,843	$ –	$ –	$ 34,183	$ 79,438
Production and intermediate-term	30,752	59,135	1,585	1,575	–	–	32,337	60,710
Loans to cooperatives	8,890	–	–	–	–	–	8,890	–
Processing and marketing	47,691	31,723	–	18,300	–	–	47,691	50,023
Farm-related business	685	1,049	–	–	–	–	685	1,049
Communication	14,483	–	–	–	–	–	14,483	–
International	6,446	–	–	–	–	–	6,446	–
Total	$ 139,130	$ 137,502	$ 5,585	$ 53,718	$ –	$ –	$ 144,715	$ 191,220

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

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

	June 30, 2021	December 31, 2020
Real estate mortgage:		
Acceptable	99.75%	99.70%
OAEM	0.11	0.15
Substandard/doubtful/loss	0.14	0.15
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	94.67%	95.12%
OAEM	3.29	3.07
Substandard/doubtful/loss	2.04	1.81
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	June 30, 2021	December 31, 2020
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	98.52%	95.70%
OAEM	0.67	0.94
Substandard/doubtful/loss	0.81	3.36
	100.00%	100.00%
International:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	98.77%	98.66%
OAEM	0.73	0.79
Substandard/doubtful/loss	0.50	0.55
	100.00%	100.00%

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

June 30, 2021	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 23	$ 449	$ 472	$ 392,297	$ 392,769
Production and intermediate-term	7	742	749	124,717	125,466
Loans to cooperatives	–	–	–	8,481	8,481
Processing and marketing	–	–	–	63,846	63,846
Farm-related business	–	–	–	16,822	16,822
Communication	–	–	–	11,097	11,097
Rural residential real estate	58	19	77	12,364	12,441
International	–	–	–	6,452	6,452
Total	$ 88	$ 1,210	$ 1,298	$ 636,076	$ 637,374

December 31, 2020	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ –	$ 504	$ 504	$ 390,769	$ 391,273
Production and intermediate-term	681	1,000	1,681	147,306	148,987
Loans to cooperatives	–	–	–	8,869	8,869
Processing and marketing	–	–	–	74,847	74,847
Farm-related business	–	–	–	6,253	6,253
Communication	–	–	–	14,447	14,447
Rural residential real estate	132	24	156	9,463	9,619
International	–	–	–	6,451	6,451
Total	$ 813	$ 1,528	$ 2,341	$ 658,405	$ 660,746

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

	June 30, 2021	December 31, 2020
Nonaccrual loans:		
Real estate mortgage	$ 2,560	$ 2,666
Production and intermediate-term	2,589	2,691
Rural residential real estate	17	107
Total	$ 5,166	$ 5,464
Accruing restructured loans:		
Real estate mortgage	$ 774	$ 824
Production and intermediate-term	1,866	1,997
Rural residential real estate	216	230
Total	$ 2,856	$ 3,051
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 8,022	$ 8,515
Other property owned	–	227
Total nonperforming assets	$ 8,022	$ 8,742
Nonaccrual loans as a percentage of total loans	0.81%	0.83%
Nonperforming assets as a percentage of total loans and other property owned	1.26%	1.33%
Nonperforming assets as a percentage of capital	6.37%	7.37%

The following table presents information related to the recorded investment of impaired loans at period end. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

	June 30, 2021	December 31, 2020
Impaired nonaccrual loans:		
Current as to principal and interest	$ 3,957	$ 3,339
Past due	1,209	2,125
Total	$ 5,166	$ 5,464
Impaired accrual loans:		
Restructured	$ 2,856	$ 3,051
90 days or more past due	–	–
Total	$ 2,856	$ 3,051
Total impaired loans	$ 8,022	$ 8,815
Additional commitments to lend	$ –	$ –

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

	June 30, 2021			Three Months Ended June 30, 2021		Six Months Ended June 30, 2021	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:							
Real estate mortgage	$ 2,203	$ 2,302	$ 55	$ 2,278	$ 30	$ 2,309	$ 48
Production and intermediate-term	3,705	3,255	920	3,830	50	3,884	80
Rural residential real estate	214	215	–	222	3	225	5
Total	$ 6,122	$ 5,772	$ 975	$ 6,330	$ 83	$ 6,418	$ 133
With no related allowance for credit losses:							
Real estate mortgage	$ 1,131	$ 1,484	$ –	$ 1,169	$ 15	$ 1,186	$ 24
Production and intermediate-term	750	1,480	–	776	10	786	17
Rural residential real estate	19	111	–	19	–	19	–
Total	$ 1,900	$ 3,075	$ –	$ 1,964	$ 25	$ 1,991	$ 41
Total impaired loans:							
Real estate mortgage	$ 3,334	$ 3,786	$ 55	$ 3,447	$ 45	$ 3,495	$ 72
Production and intermediate-term	4,455	4,735	920	4,606	60	4,670	97
Rural residential real estate	233	326	–	241	3	244	5
Total	$ 8,022	$ 8,847	$ 975	$ 8,294	$ 108	$ 8,409	$ 174

Impaired loans:	December 31, 2020 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2020 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 2,520	$ 2,721	$ 71	$ 3,644	$ 216
Production and intermediate-term	3,941	3,457	1,035	5,700	338
Rural residential real estate	230	229	–	332	20
Total	$ 6,691	$ 6,407	$ 1,106	$ 9,676	$ 574
With no related allowance for credit losses:					
Real estate mortgage	$ 970	$ 1,165	$ –	$ 1,405	$ 84
Production and intermediate-term	747	1,490	–	1,079	64
Rural residential real estate	107	215	–	154	9
Total	$ 1,824	$ 2,870	$ –	$ 2,638	$ 157
Total impaired loans:					
Real estate mortgage	$ 3,490	$ 3,886	$ 71	$ 5,049	$ 300
Production and intermediate-term	4,688	4,947	1,035	6,779	402
Rural residential real estate	337	444	–	486	29
Total	$ 8,515	$ 9,277	$ 1,106	$ 12,314	$ 731

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:								
Balance at March 31, 2021	$ 1,104	$ 1,697	$ 248	$ 9	$ –	$ 11	$ 2	$ 3,071
Charge-offs	–	–	–	–	–	–	–	–
Recoveries	12	39	–	–	–	6	–	57
Provision for loan losses	(30)	(99)	(20)	(3)	–	(7)	(1)	(160)
Balance at June 30, 2021	$ 1,086	$ 1,637	$ 228	$ 6	$ –	$ 10	$ 1	$ 2,968
Balance at December 31, 2020	$ 1,195	$ 1,775	$ 258	$ 20	$ –	$ 33	$ 2	$ 3,283
Charge-offs	–	(5)	–	–	–	–	–	(5)
Recoveries	18	39	–	–	–	8	–	65
Provision for loan losses	(127)	(172)	(30)	(14)	–	(31)	(1)	(375)
Balance at June 30, 2021	$ 1,086	$ 1,637	$ 228	$ 6	$ –	$ 10	$ 1	$ 2,968
Balance at March 31, 2020	$ 1,411	$ 1,361	$ 152	$ 19	$ 17	$ 151	$ 2	$ 3,113
Charge-offs	–	–	–	–	–	–	–	–
Recoveries	–	–	–	–	–	12	–	12
Provision for loan losses	(268)	293	59	7	48	(15)	–	124
Balance at June 30, 2020	$ 1,143	$ 1,654	$ 211	$ 26	$ 65	$ 148	$ 2	$ 3,249
Balance at December 31, 2019	$ 1,468	$ 1,390	$ 107	$ 19	$ 17	$ 110	$ 2	$ 3,113
Charge-offs	–	(3)	–	–	–	–	–	(3)
Recoveries	1	–	–	–	–	14	–	15
Provision for loan losses	(326)	267	104	7	48	24	–	124
Balance at June 30, 2020	$ 1,143	$ 1,654	$ 211	$ 26	$ 65	$ 148	$ 2	$ 3,249
Allowance on loans evaluated for impairment:								
Individually	$ 55	$ 920	$ –	$ –	$ –	$ –	$ –	$ 975
Collectively	1,031	717	228	6	–	10	1	1,993
Balance at June 30, 2021	$ 1,086	$ 1,637	$ 228	$ 6	$ –	$ 10	$ 1	$ 2,968
Individually	$ 71	$ 1,035	$ –	$ –	$ –	$ –	$ –	$ 1,106
Collectively	1,124	740	258	20	–	33	2	2,177
Balance at December 31, 2020	$ 1,195	$ 1,775	$ 258	$ 20	$ –	$ 33	$ 2	$ 3,283
Recorded investment in loans evaluated for impairment:								
Individually	$ 3,334	$ 4,508	$ –	$ –	$ –	$ 233	$ –	$ 8,075
Collectively	389,435	120,958	89,149	11,097	–	12,208	6,452	629,299
Balance at June 30, 2021	$ 392,769	$ 125,466	$ 89,149	$ 11,097	$ –	$ 12,441	$ 6,452	$ 637,374
Individually	$ 3,490	$ 4,744	$ –	$ –	$ –	$ 337	$ –	$ 8,571
Collectively	387,783	144,243	89,969	14,447	–	9,282	6,451	652,175
Balance at December 31, 2020	$ 391,273	$ 148,987	$ 89,969	$ 14,447	$ –	$ 9,619	$ 6,451	$ 660,746

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. There were no new TDRs that occurred during the three and six month periods ended June 30, 2021 and June 30, 2020.

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

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

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

	Total TDRs		Nonaccrual TDRs	
	June 30, 2021	December 31, 2020	June 30, 2021	December 31, 2020
Real estate mortgage	$ 774	$ 824	$ –	$ –
Production and intermediate-term	1,974	2,109	108	112
Rural residential real estate	215	229	(1)	(1)
Total loans	$ 2,963	$ 3,162	$ 107	$ 111
Additional commitments to lend	$ –	$ –		

Note 3 — Investments

Investments in Debt Securities

The Association's investments consist primarily of asset-backed securities (ABSs). These ABSs are issued through the Small Business Administration and are guaranteed by the full faith and credit of the United States government. They are held for managing short-term surplus funds and reducing interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

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

	June 30, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
ABSs	$ 3,408	$ 11	$ (44)	$ 3,375	3.03%

	December 31, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
ABSs	$ 3,966	$ 13	$ (55)	$ 3,924	2.92%

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

	June 30, 2021		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	248	248	2.88
After five years through ten years	226	220	2.36
After ten years	2,934	2,907	3.10
Total	$ 3,408	$ 3,375	3.03%

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

An investment is considered impaired if its fair value is less than its cost. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	June 30, 2021			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	$ –	$ –	$ 2,121	$ (44)

	December 31, 2020			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	$ 359	$ –	$ 2,456	$ (55)

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

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio.

The Association has not recognized any credit losses as any impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

Substantially all of these investments were in U. S. government agency securities and the Association expects these securities would not be settled at a price less than their amortized cost. All securities continue to perform at period end.

Equity Investments in Other Farm Credit System Institutions

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

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 2.22 percent of the issued stock of the Bank as of June 30, 2021 net of any reciprocal investment. As of that date, the Bank's assets totaled $37.0 billion and shareholders' equity totaled $2.7 billion. The Bank's earnings were $240 million for the first six months of 2021. In addition, the Association held investments of $772 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets. The contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

Changes in Accumulated Other Comprehensive Income by Component *(a)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Employee Benefit Plans:				
Balance at beginning of period	$ (771)	$ (632)	$ (824)	$ (664)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	54	32	107	64
Net current period other comprehensive income	54	32	107	64
Balance at end of period	$ (717)	$ (600)	$ (717)	$ (600)

Reclassifications Out of Accumulated Other Comprehensive Income *(b)*

	Three Months Ended June 30,		Six Months Ended June 30,		
	2021	2020	2021	2020	Income Statement Line Item
Defined Benefit Pension Plans:					
Periodic pension costs	$ (54)	$ (32)	$ (107)	$ (64)	See Note 7.
Net amounts reclassified	$ (54)	$ (32)	$ (107)	$ (64)	

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

Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

	June 30, 2021				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 834	$ 834	$ –	$ –	$ 834
Recurring Assets	$ 834	$ 834	$ –	$ –	$ 834
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 5,147	$ –	$ –	$ 5,147	$ 5,147
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 5,147	$ –	$ –	$ 5,147	$ 5,147
Other Financial Instruments					
Assets:					
Cash	$ 11	$ 11	$ –	$ –	$ 11
Investments in debt securities, held-to-maturity	3,408	–	3,375	–	3,375
Loans	626,880	–	–	625,488	625,488
Other Financial Assets	$ 630,299	$ 11	$ 3,375	$ 625,488	$ 628,874
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 518,991	$ –	$ –	$ 517,637	$ 517,637
Other Financial Liabilities	$ 518,991	$ –	$ –	$ 517,637	$ 517,637

	December 31, 2020				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 748	$ 748	$ –	$ –	$ 748
Recurring Assets	$ 748	$ 748	$ –	$ –	$ 748
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 5,585	$ –	$ –	$ 5,585	$ 5,585
Other property owned	227	–	–	227	227
Nonrecurring Assets	$ 5,812	$ –	$ –	$ 5,812	$ 5,812
Other Financial Instruments					
Assets:					
Cash	$ 12	$ 12	$ –	$ –	$ 12
Investments in debt securities, held-to-maturity	3,966	–	3,924	–	3,924
Loans	649,230	–	–	653,183	653,183
Other Financial Assets	$ 653,208	$ 12	$ 3,924	$ 653,183	$ 657,119
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 548,714	$ –	$ –	$ 553,499	$ 553,499
Other Financial Liabilities	$ 548,714	$ –	$ –	$ 553,499	$ 553,499

Uncertainty in Measurements of Fair Value

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

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

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 5,147	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

Note 7 — Employee Benefit Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Pension	$ 314	$ 214	$ 616	$ 452
401(k)	92	99	260	257
Other postretirement benefits	51	17	98	63
Total	$ 457	$ 330	$ 974	$ 772

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

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

Note 8 — Commitments and Contingent Liabilities

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

Note 9 — Leases

Lessee

The Association leases certain assets, consisting primarily of real estate, transportation and office equipment, under standard industry terms. The contracts are assessed at inception to determine whether a contract is, or contains, a lease.

The components of lease costs were as follows:

	Six Months Ended June 30, 2021	Year Ended December 31, 2020
Operating lease cost	$ 189	$ 717
Variable lease cost (costs excluded from lease payments)	55	–
Sublease income	–	–
Lease costs	$ 244	$ 717

Other information related to leases was as follows:

	Six Months Ended June 30, 2021	Year Ended December 31, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 197	$ 424
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ –	$ 4,289

Lease term and discount rate for the periods ended were as follows:

	June 30, 2021	December 31, 2020
Weighted average remaining lease term in years:		
Operating leases	14.50	15.00
Weighted average discount rate:		
Operating leases	3.09%	3.09%

Maturities of lease liabilities as of period end were as follows:

	Operating Leases June 30, 2021
2021	$ 197
2022	401
2023	411
2024	420
2025	430
Thereafter	4,944
Total lease payments	6,803
Less: imputed interest	1,384
Total lease liabilities	$ 5,419

Note 10 — Subsequent Events

The Association evaluated subsequent events and determined there were none requiring disclosure through August 6, 2021, which was the date the financial statements were issued.