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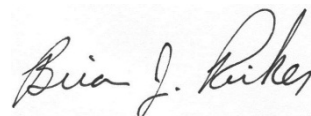
*AgCredit Agricultural Credit Association*  
**SECOND QUARTER 2020**

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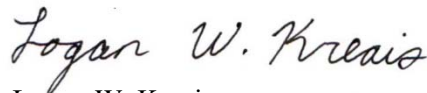
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**CERTIFICATION**

The undersigned certify that we have reviewed the June 30, 2020 quarterly report of AgCredit Agricultural Credit Association, 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.



Brian J. Ricker  
Chief Executive Officer



Logan W. Kreais  
Chief Financial Officer



Dustin Sonnenberg  
Chairman of the Board

August 7, 2020

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*AgCredit Agricultural Credit Association*

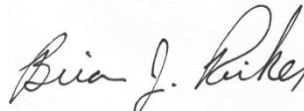
# Report on Internal Control Over Financial Reporting

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


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

The Association’s management has completed an assessment of the effectiveness of internal control over financial reporting as of June 30, 2020. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the “COSO” criteria.

Based on the assessment performed, the Association’s management concluded that as of June 30, 2020, 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 changes to or weaknesses in the internal control over financial reporting as of June 30, 2020.



Brian J. Ricker  
Chief Executive Officer



Logan W. Kreais  
Chief Financial Officer

August 7, 2020

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

The following commentary reviews the financial condition and results of operations of AgCredit Agricultural Credit Association (Association) for the six months ended June 30, 2020. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements, the Association's June 30, 2019 quarterly report and the 2019 Annual Report of the Association. The accompanying consolidated financial statements (financial statements) were prepared under the oversight of the Audit Committee of the Board of Directors, which includes Scott Schroeder, David M. Stott, Ph.D., CPA and Michael A. Thiel. The results for the six months of 2020 are not necessarily indicative of results to be expected for the year.

## *Impacts of the COVID-19 Global Pandemic*

The Association recognizes that the COVID-19 pandemic has created significant stress for agricultural and rural borrowers because of disruptions to employees, markets, transportation, processors, off-farm income and other factors important to their operations. If the effects of the COVID-19 disruptions result in widespread and sustained repayment shortfalls on loans in the Association's portfolio, the Association could incur increased nonperforming assets and credit losses, particularly if conditions cause land and asset values to deteriorate and the available collateral is insufficient to cover the Association's exposure. This could potentially have a material adverse effect on the Association's financial condition, results of operations, liquidity, or capital levels.

The Association's net effective spread and profitability could be negatively affected by volatility in interest rates caused by uncertainties stemming from COVID-19, as evidenced by the actions in March 2020 of the Federal Reserve to significantly lower the target range for the federal funds rate based on concerns about the disruption to economic activity. A prolonged period of extremely volatile and unstable market conditions would likely increase costs while negatively affecting market risk mitigation strategies.

One of the primary responsibilities of the AgFirst Farm Credit Bank (Bank), the Association's funding source, is to maintain sufficient liquidity to fund the lending operations of the District Associations. The Bank's primary source of liquidity is its ability to issue Systemwide Debt Securities through the Funding Corporation. If the effects of COVID-19 were to create market disruptions that caused the Funding Corporation to be unable to continue to issue Systemwide Debt Securities at reasonable rates

and desired terms, the Association's business, operating results, or financial condition would likely be adversely affected.

The Association relies on business processes that largely depend on people, technology, and the use of complex systems and models to manage its business, including access to information systems and models as well as information, applications, payment systems, and other services provided by third parties. In response to the challenges presented by the COVID-19 pandemic, the Association has modified its business practices to focus on protecting its employees and the public while continuing to fulfill its critical mission and maintaining its regular business operations in support of the farmers, ranchers, and agricultural businesses of America. On March 16, 2020, the Association activated its business continuity plan, which included a number of employees working remotely from their homes. As the state eased the "stay at home" restrictions, the Association has taken steps to re-open offices with 75 percent of the Association's team members working in the offices, while following standard safety protocols such as mask requirements, social distancing, enhanced cleaning, and appointment-only customer meetings. Some employees continue work-from-home arrangements which introduces additional operational risk and inefficiencies. These risks include, but are not limited to, greater cybersecurity risks, increased privacy and disclosure hazards, strain on the local technology networks for remote operations and potential impairment of the ability to perform critical functions, all of which could adversely affect the Association's business, results of operations, and financial condition. The Association continues to monitor the attempts by third parties to gain unauthorized access to its network and information systems through cyber-attacks. Despite the increased cybersecurity risks presented by a workforce that is operating remotely, the Association had not experienced any known cyber-attacks or other known privacy or data security incidents through the date of this report that negatively affected the confidentiality, integrity, or availability of the Association's information resources.

The Association relies on many third parties, including vendors that supply essential services and local and federal government agencies, offices, and courthouses, in the performance of its business operations. In light of the measures undertaken as a result of the COVID-19 pandemic, many of these entities may limit the access and availability of their services. For example, reductions in available staff in recording offices or the closing of courthouses to walk-in traffic in some counties could adversely impact the established process and turnaround times for title work and mortgage and UCC filings in those counties. If limitations in the availability of important services continue for a

prolonged period or if additional limitations or potential disruptions in the ability to provide services materialize (which may be caused by a third party's own financial or operational difficulties), it may inhibit or otherwise negatively affect the normal operations and processes for the Association's business, which could have a material adverse impact on its results of operations and financial condition.

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

### ***COVID-19 Support Programs***

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

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

On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Among other provisions, the CARES Act provided funding and authority to bolster United States Department of Agriculture (USDA) programs. On April 17, 2020, the USDA announced a \$19 billion Coronavirus Food Assistance Program (CFAP), that will provide \$16 billion of direct support based on actual losses for agricultural producers where prices and market supply chains have been impacted. The \$16 billion will include approximately \$10 billion of funding targeted to livestock and dairy producers,

\$4 billion for row crop producers, \$2 billion for specialty crop producers, and \$500 million for other specialty crops. Additionally, \$3 billion will be allocated for direct purchases of fresh produce, dairy and meat for distribution to food banks and other non-profits.

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

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

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

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

### **LOAN PORTFOLIO**

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans through numerous product types. The Association's loan portfolio consists predominantly of grains (primarily soybeans, corn and wheat), livestock and landlords which constitute 81 percent of the entire portfolio as of June 30, 2020. The

Association recognizes the commodity concentration risk exceeds normally accepted industry standards. This risk, along with the risk associated with large loans, is reduced by members' off-farm income, utilization of crop insurance, and the use of FSA, USDA, Business and Industry, SBA and Farmer Mac loan guarantees. As of June 30, 2020, the Association had \$523,907 of guaranteed loan volume, which is 25.82 percent of loans as compared to \$494,852 of guaranteed volume or 25.80 percent of the portfolio at June 30, 2019. Loan guarantees reduce the potential of loss in the Association's loan portfolio and help to leverage the Association's capital.

Gross loan volume of the Association as of June 30, 2020 was \$2,028,929 an increase of \$61,165 or 3.11 percent when compared to \$1,967,764 at December 31, 2019. The increase in loan volume primarily relates to increases in real estate mortgage, processing and marketing, communications, rural residential real estate and other loan volume partially offset by decreases in production and intermediate (IT) and farm related service business volume.

From June 30, 2019 to June 30, 2020, volume increased by \$110,835 or 5.78 percent. The increase in loan volume primarily relates to increases in real estate mortgage, production and IT, processing and marketing, communications, rural residential real estate, and other loan volume partially offset by decreases in energy and farm related services business volume.

Net loans outstanding at June 30, 2020 were \$2,015,501 as compared to \$1,956,475 at December 31, 2019. Net loans accounted for 96.22 percent of total assets at June 30, 2020 as compared to 95.11 percent at December 31, 2019.

The following table summarizes the Association's risk assets (accruing volume includes accrued interest receivable):

	<u>6/30/2020</u>	<u>12/31/19</u>
Nonaccrual loans	\$ 11,958	\$ 13,377
Accruing restructured loans	5,157	5,894
Accruing loans 90 days or more past due	575	-
Total high-risk loans	17,690	19,271
Other property owned	-	-
Total high-risk assets	<u>\$ 17,690</u>	<u>\$ 19,271</u>
Ratios:		
Nonaccrual loans to total loans	0.59%	0.68%
High-risk assets to total assets	0.84%	0.94%

High risk assets decreased during the first six months of 2020 primarily as a result of decreased nonaccrual loans and accruing restructured loans partially offset by an increase in accruing loans 90 days or more past due.

There is an inherent risk in the extension of any type of credit, and accordingly, the Association maintains an allowance for loan losses consistent with the risk measured in the portfolio.

General portfolio credit quality declined slightly for the first six months of 2020 when compared to December 31, 2019, and remains at an acceptable level.

Credit administration is satisfactory.

During the first six months of 2020 the Association recorded no charge-offs, recoveries of \$193 and a provision for loan losses of \$1,946. The provision is primarily a result of the restructure of several loans, loan growth and the overall risk rating mix. For the same period of 2019, the Association recorded no charge-offs, recoveries of \$145 and a reversal of allowance for loan losses (reversal) of \$590. The allowance for loan losses represented 0.66 percent and 0.57 percent of loans at June 30, 2020 and December 31, 2019, respectively.

## RESULTS OF OPERATIONS

### *For the three months ending June 30, 2020*

Net income for the three months ended June 30, 2020 (Q2 2020) was \$8,939 a decrease of \$2,874 or 24.33 percent when compared to the net income of \$11,813 for the same period in 2019 (Q2 2019). Major changes in the components of net income when comparing Q2 2020 to Q2 2019 are identified as follows:

- Net interest income decreased by \$374 or 2.79 percent. The decrease resulted primarily from decreased earnings on our own funds partially offset by higher average volume.
- Provision for loan losses increased by \$2,763.
- Noninterest income increased by \$373 or 9.92 percent for the following reasons:

Patronage refund from other Farm Credit institutions (patronage refunds) increased by \$123 primarily as a result of an increase related to the FCS captive insurance plan and higher general patronage partially offset by lower participation sold patronage. The decrease in the sold patronage relates to the lower sold volume from the payoff of a large commercial relationship.

Loan fees increased by \$365 due to increased servicing and SBA-Payment Protection Program (PPP) fees partially offset by a reduction in origination fees.

Gains (losses) on sales of premises and equipment decreased \$107 due to the disposal of a not fully depreciated building.

Gains (losses) on other transactions decreased \$22 due to lower net gains on the Association's Rabi Trust and Mission Fund.

- Noninterest expense increased by \$110 or 1.97 percent primarily due to:

Salary and benefits expense increased by \$238 or 6.52 percent due to increased expenses related to scheduled salary increases, additional employees, health insurance, pension

and employment tax costs partially offset by increased deferred origination costs.

Occupancy and equipment decreased by \$163 or 36.38 percent primarily due to lower other furniture and equipment, depreciation, and maintenance/repairs partially offset by higher lease expense and other cost of space.

Guarantee fees increased by \$122 or 49.39 percent due to an increase in new loan guarantees.

Insurance fund premiums decreased by \$20 or 7.52 percent due to reduced premium rates.

Other operating expenses decreased by \$67 or 6.92 percent due to decreased purchased services, travel, public member relations, director, and advertising. These decreases were partially offset by higher expenses for data processing due to computer hardware and software that was previously included in furniture and equipment.

#### **For the six months ending June 30, 2020**

Net income for the six months ended June 30, 2020 (YTD 2020) was \$20,773 which is a decrease of \$3,555 or 14.61 percent when compared to the net income of \$24,328 for the same period in 2019 (YTD 2019). Major changes in the components of net income when comparing YTD 2020 to YTD 2019 are identified as follows:

- Net interest income decreased by \$463 or 1.73 percent. The decrease is a result of the same reasons previously discussed.
- The risks identified in the portfolio at June 30, 2020 and June 30, 2019 resulted in a net increase in the provision for loan losses (provision) of \$2,536. The increase was due to provision for loan losses for 2020 of \$1,946 while 2019 saw a reversal of allowance for loan losses (reversal) of \$590. The provision for YTD 2020 is primarily the result of the

restructure of several loans, loan growth and the overall risk rating mix.

Noninterest income increased by \$55 or 0.68 percent primarily due to a \$443 increase in loan fees and a \$48 increase in patronage dividends partially offset by a \$310 reduction in gains (losses) on other transactions, \$119 reduction in gains (losses) on sales of premises and equipment and a \$21 reduction in insurance fund refunds.

- Noninterest expense increased by \$611 or 5.52 percent primarily due to a \$510 increase in expenses for salary and benefits, a \$199 increase in guarantee fees and a \$176 increase in other operating expenses partially offset by reductions of \$225 in occupancy and equipment and \$49 in insurance fund premiums. These occurred for reasons previously stated.

The following table shows the key results of operations ratios for the six months ended June 30, 2020 and June 30, 2019, respectively.

	<u>6/30/20</u>	<u>6/30/19</u>
Return on average assets	2.06%	2.46%
Return on average equity	11.58%	13.70%
Net interest margin	2.67%	2.79%
Members' equity to assets	17.6%	18.53%
Debt to members' equity (:1)	4.68	4.40

#### **CAPITAL RESOURCES**

Total members' equity was \$368,726 at June 30, 2020 as compared to \$347,633 at December 31, 2019 for an increase of \$21,093 or 6.07 percent. The increase is due primarily to 2020 year-to-date earnings and an increase in stock outstanding.

The Association's capital ratios as of June 30 along with FCA minimum requirements, are included in the following regulatory matters section.

#### **Regulatory Capital Ratios**

The Association's regulatory ratios are shown in the following table:

	<b>Regulatory Minimum, Including Buffer*</b>	<b>6/30/2020</b>	<b>12/31/2019</b>	<b>6/30/2019</b>
Permanent Capital Ratio	7.00%	20.57%	21.33%	21.16%
Common Equity Tier 1 (CET1) Capital Ratio	8.50%	19.85%	20.57%	19.75%
Tier 1 Capital Ratio	10.50%	19.85%	20.57%	19.75%
Total Capital Ratio	7.00%	20.50%	21.31%	21.04%
Tier 1 Leverage Ratio	5.00%	16.25%	16.86%	16.16%
Unallocated Retained Earnings (URE) and URE Equivalents Leverage Ratio	1.50%	16.83%	17.42%	16.72%

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

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The FCA sets minimum regulatory capital adequacy requirements for System banks and associations. The requirements are based on regulatory ratios as defined by the FCA and include common equity tier 1 (CET1), tier 1, total capital, permanent capital, tier 1 leverage, and unallocated retained earnings (URE) and URE equivalents leverage ratios.

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

For all periods presented, AgCredit exceeded minimum regulatory standards for all of the ratios. The Association's capital ratios decreased at June 30, 2020 compared to December 31, 2019. Compared to June 30, 2019, the Association's permanent capital ratio declined while the other capital ratios increased due to the permanent capital ratio including the allocated surplus that was revolved in 2019 where the other ratios do not. See Regulatory Matters section below for further discussion of capital ratios.

## REGULATORY MATTERS

On April 9, 2020, the Farm Credit Administration voted to delay publication of certain rules in the Federal Register that were previously approved until at least June 8, 2020 to allow both the Farm Credit Administration and the System to focus their efforts on responding to the COVID-19 pandemic. On June 1, 2020, the Farm Credit Administration extended the regulatory pause until at least July 10 and on July 16, it was determined that some regulatory activities would resume. Accordingly, the Farm Credit Administration will seek to publish its final rule on criteria to reinstate nonaccrual loans this summer. This rule clarifies the factors that System institutions should consider when categorizing high-risk loans and placing them in nonaccrual status. The rule also revises the criteria by which loans are reinstated to accrual status, and revises the application of the criteria to certain loans in nonaccrual status to distinguish between the types of risk that cause loans to be placed in nonaccrual status.

The Farm Credit Administration will also seek to publish final rules to: (1) amend the investment rule to allow System institutions to invest in certain USDA loan guarantees, (2) update the amortization rule and (3) amend regulations governing how the banks present association financial information in their annual report to shareholders.

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

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2019 Annual Report to Shareholders for recently issued accounting pronouncements. Additional information is provided in the following table.

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
<b><i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i></b>	
<ul style="list-style-type: none"> <li>• 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 complete remaining life of the financial assets.</li> <li>• Changes the present incurred loss impairment guidance for loans to an expected loss model.</li> <li>• The Update also 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.</li> <li>• Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets.</li> <li>• Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.</li> <li>• Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted.</li> </ul>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• The new guidance is expected to result in a change in allowance for credit losses due to several factors, including:               <ol style="list-style-type: none"> <li>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,</li> <li>2. An allowance will be established for estimated credit losses on any debt securities,</li> <li>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.</li> </ol> </li> <li>• The extent of 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.</li> <li>• The guidance is expected to be adopted in first quarter 2023.</li> </ul>

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

Copies of the Association’s Quarterly and Annual Reports are available on the Association’s website, [www.agcredit.net](http://www.agcredit.net), or may be obtained upon request free of charge by calling 1-800-837-3678, extension 1048, or writing Logan Kreais, Chief Financial Officer, AgCredit, ACA, 610 W Lytle Street, Fostoria, OH 44830. The Association prepares an electronic version of the Quarterly Report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.



# AgCredit Agricultural Credit Association

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	<b>June 30, 2020</b> <i>(unaudited)</i>	<b>December 31, 2019</b> <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 105	\$ 3,917
Investments in debt securities:		
Held to maturity (fair value of \$10,990 and \$10,390, respectively)	9,719	9,774
Loans	2,028,929	1,967,764
Allowance for loan losses	(13,428)	(11,289)
Net loans	2,015,501	1,956,475
Other investments	1,039	1,039
Accrued interest receivable	28,425	29,338
Equity investments in other Farm Credit institutions	23,303	23,243
Premises and equipment, net	8,380	8,714
Accounts receivable	7,027	23,398
Other assets	1,147	1,092
Total assets	<b>\$ 2,094,646</b>	<b>\$ 2,056,990</b>
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 1,706,264	\$ 1,654,570
Accrued interest payable	3,360	4,133
Patronage refunds payable	78	42,280
Accounts payable	1,136	1,446
Advanced conditional payments	7,003	1,033
Other liabilities	8,079	5,895
Total liabilities	<b>1,725,920</b>	<b>1,709,357</b>
Commitments and contingencies (Note 7)		
<b>Members' Equity</b>		
Capital stock and participation certificates	17,411	17,262
Retained earnings		
Allocated	239,083	239,120
Unallocated	112,232	91,251
Total members' equity	<b>368,726</b>	<b>347,633</b>
Total liabilities and members' equity	<b>\$ 2,094,646</b>	<b>\$ 2,056,990</b>

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

**AgCredit Agricultural Credit Association**  
**Consolidated Statements of**  
**Comprehensive Income**

*(unaudited)*

<i>(dollars in thousands)</i>	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
<b>Interest Income</b>				
Loans	\$ 22,997	\$ 26,357	\$ 47,892	\$ 52,478
Investments	150	144	302	291
Total interest income	<b>23,147</b>	26,501	<b>48,194</b>	52,769
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	<b>10,137</b>	13,117	<b>21,899</b>	26,011
Net interest income	<b>13,010</b>	13,384	<b>26,295</b>	26,758
Provision for (reversal of allowance for) loan losses	<b>2,512</b>	(251)	<b>1,946</b>	(590)
Net interest income after provision for (reversal of allowance for) loan losses	<b>10,498</b>	13,635	<b>24,349</b>	27,348
<b>Noninterest Income</b>				
Loan fees	544	179	770	327
Fees for financially related services	11	19	31	27
Lease income	50	30	98	91
Patronage refunds from other Farm Credit institutions	3,609	3,486	6,994	6,946
Gains (losses) on sales of premises and equipment, net	(107)	—	(118)	1
Gains (losses) on other transactions	14	36	14	324
Insurance Fund refunds	—	—	302	323
Other noninterest income	11	9	21	18
Total noninterest income	<b>4,132</b>	3,759	<b>8,112</b>	8,057
<b>Noninterest Expense</b>				
Salaries and employee benefits	3,890	3,652	7,889	7,379
Occupancy and equipment	285	448	618	843
Insurance Fund premiums	246	266	482	531
Guarantee fees	369	247	611	412
Other operating expenses	901	968	2,088	1,912
Total noninterest expense	<b>5,691</b>	5,581	<b>11,688</b>	11,077
<b>Net income</b>	<b>\$ 8,939</b>	\$ 11,813	<b>\$ 20,773</b>	\$ 24,328
<b>Other comprehensive income</b>	—	—	—	—
<b>Comprehensive income</b>	<b>\$ 8,939</b>	\$ 11,813	<b>\$ 20,773</b>	\$ 24,328

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

**AgCredit Agricultural Credit Association**  
**Consolidated Statements of Changes in**  
**Members' Equity**

*(unaudited)*

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
		Allocated	Unallocated	
Balance at December 31, 2018	\$ 18,672	\$ 241,680	\$ 85,974	\$ 346,326
Cumulative effect of change in accounting principle			(7)	(7)
Comprehensive income			24,328	24,328
Capital stock/participation certificates issued/(retired), net	(1,413)			(1,413)
Dividends declared/paid			(80)	(80)
Retained earnings retired		(2)		(2)
Patronage distribution adjustment		(176)	176	—
Balance at June 30, 2019	\$ 17,259	\$ 241,502	\$ 110,391	\$ 369,152
<b>Balance at December 31, 2019</b>	<b>\$ 17,262</b>	<b>\$ 239,120</b>	<b>\$ 91,251</b>	<b>\$ 347,633</b>
<b>Comprehensive income</b>			<b>20,773</b>	<b>20,773</b>
<b>Capital stock/participation certificates issued/(retired), net</b>	<b>149</b>			<b>149</b>
<b>Dividends declared/paid</b>			<b>(48)</b>	<b>(48)</b>
<b>Patronage distribution adjustment</b>		<b>(37)</b>	<b>256</b>	<b>219</b>
<b>Balance at June 30, 2020</b>	<b>\$ 17,411</b>	<b>\$ 239,083</b>	<b>\$ 112,232</b>	<b>\$ 368,726</b>

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

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*AgCredit Agricultural Credit Association*

# 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 AgCredit Agricultural Credit Association 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, 2019, are contained in the 2019 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 5, *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 Effective in Future Periods**

The following ASU was issued by the Financial Accounting Standards Board (FASB) since the most recent year end:

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

### **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 December 2019, the FASB issued ASU 2019-12 Income Taxes (Topic 740): Simplifying the Accounting

for Income Taxes. The amendments simplify the accounting for income taxes by removing the following exceptions:

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

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

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

For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

- In November 2019, the FASB issued ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842). On the basis of feedback obtained from outreach with stakeholders and monitoring of implementation, the Board has gained a greater understanding about the implementation challenges encountered by all types of entities when adopting a major Update. The challenges are often magnified for private companies, smaller public companies, and not-for-profit organizations. In response to those issues and requests to defer certain major Updates not yet effective for all entities, the Board developed a philosophy to extend and simplify how effective dates are staggered between larger public companies (bucket one) and all other entities (bucket two). Credit Losses guidance in ASU 2016-13 will be effective for all bucket two entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.
- 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. Financial institutions and other organizations will use forward-looking information to estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early adoption is permitted. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

#### *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 March 2020, the FASB issued ASU 2020-04 Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. In response to concerns about structural risks of interbank offered rates (IBORs), and, particularly, the risk of cessation of the London Interbank Offered Rate (LIBOR), regulators around the world have undertaken reference rate reform initiatives to identify alternative reference rates that are more observable or transaction-based and less susceptible to manipulation. The amendments in this Update provide optional guidance for a limited time to ease the potential burden in accounting for (or recognizing

the effects of) reference rate reform on financial reporting. The amendments provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The guidance applies only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. The expedients and exceptions do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022. The amendments are elective and were effective upon issuance for all entities. Adoption of this guidance had no impact on the statements of financial condition and results of operations.

- In March 2020, the FASB issued ASU 2020-03 Codification Improvements to Financial Instruments. The amendments represent changes to clarify or improve the Codification that were not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments addressing issues one through five, related to Topics 320, 470 and 820, are effective for 2020. The adoption of the guidance had no impact on the statements of financial condition and results of operations. The amendments addressing issues six and seven will be adopted and evaluated for impact along with ASU 2016-13 as discussed above.
- In August 2018, the FASB issued ASU 2018-15 Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this Update. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The amendments were applied prospectively to all implementation costs incurred after the date of adoption. Adoption of this guidance had no impact on the statements of financial condition and results of operations.

### ***Recent Accounting Policy Elections***

The Association made certain accounting policy elections related to the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and recent guidance and clarifications from the FASB, federal banking regulators and SEC.

As provided for in the CARES Act, the Association elected to suspend the requirements under GAAP for (1) loan

modifications related to the COVID–19 pandemic that would otherwise be categorized as troubled debt restructurings and (2) any determination of loans modified as a result of the effects of the COVID–19 pandemic as being a troubled debt restructuring, including impairment for accounting purposes. The election is only for loans that were not more than 30 days past due as of December 31, 2019. This applies for the period beginning on March 1, 2020 and ending on the earlier of December 31, 2020, or the date that is 60 days after the date on which the national emergency concerning the COVID–19 outbreak declared by the President on March 13, 2020 under the National Emergencies Act is terminated.

The Association elected the practical expedients from the Interagency Statement on Loan Modifications and Reporting for Financial Institutions - Working with Customers Affected by the Coronavirus (Revised) issued on April 7, 2020 which provides that a lender can conclude that a borrower is not experiencing financial difficulty if either (1) short-term modifications are made in response to COVID-19, such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant related to loans in which the borrower is less than 30 days past due on its contractual payments at the time a modification program is implemented, or (2) the modification or deferral program is mandated by the federal government or a state government. Accordingly, any loan modification made in response to the COVID-19 pandemic that meets either of these practical expedients would not be considered a TDR because the borrower is not experiencing financial difficulty. The Association’s modification program began on March 23, 2020.

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

### **Note 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, 2020	December 31, 2019
Real estate mortgage	\$ 1,243,351	\$ 1,204,151
Production and intermediate-term	561,229	563,068
Loans to cooperatives	4,036	3,596
Processing and marketing	69,672	53,088
Farm-related business	15,511	17,040
Communication	5,032	-
Power and water/waste disposal	2,813	2,811
Rural residential real estate	118,758	117,075
Lease receivables	435	340
Other (including Mission Related)	8,092	6,595
Total loans	<u>\$ 2,028,929</u>	<u>\$ 1,967,764</u>

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, 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	\$ 24,227	\$ 39,956	\$ -	\$ 5,992	\$ 43,049	\$ -	\$ 67,276	\$ 45,948
Production and intermediate-term	16,908	137,304	279	885	13,972	-	31,159	138,189
Loans to cooperatives	4,059	-	-	-	-	-	4,059	-
Processing and marketing	49,673	16,475	-	10,339	651	-	50,324	26,814
Farm-related business	-	162	-	-	206	-	206	162
Communication	5,110	-	-	-	-	-	5,110	-
Power and water/waste disposal	2,827	-	-	-	-	-	2,827	-
Lease receivables	-	-	-	-	195	-	195	-
Other (including Mission Related)	-	-	-	-	7,183	-	7,183	-
Total	<u>\$ 102,804</u>	<u>\$ 193,897</u>	<u>\$ 279</u>	<u>\$ 17,216</u>	<u>\$ 65,256</u>	<u>\$ -</u>	<u>\$ 168,339</u>	<u>\$ 211,113</u>

	December 31, 2019							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 21,178	\$ 50,409	\$ -	\$ 6,249	\$ 31,635	\$ -	\$ 52,813	\$ 56,658
Production and intermediate-term	22,353	172,946	217	446	4,748	-	27,318	173,392
Loans to cooperatives	3,611	-	-	-	-	-	3,611	-
Processing and marketing	36,111	4,847	-	10,345	657	-	36,768	15,192
Power and water/waste disposal	2,827	-	-	-	-	-	2,827	-
Other (including Mission Related)	-	-	-	-	5,840	-	5,840	-
Total	<u>\$ 86,080</u>	<u>\$ 228,202</u>	<u>\$ 217</u>	<u>\$ 17,040</u>	<u>\$ 42,880</u>	<u>\$ -</u>	<u>\$ 129,177</u>	<u>\$ 245,242</u>

A significant source of liquidity for the Association is the repayments of loans. The following table presents the contractual maturity distribution of loans by loan type at the latest period end:

	June 30, 2020			
	Due Less Than 1 Year	Due 1 Through 5 Years	Due After 5 Years	Total
Real estate mortgage	\$ 2,643	\$ 81,313	\$ 1,159,395	\$ 1,243,351
Production and intermediate-term	202,973	257,930	100,326	561,229
Loans to cooperatives	-	3,654	382	4,036
Processing and marketing	7,071	29,769	32,832	69,672
Farm-related business	3,843	2,583	9,085	15,511
Communication	-	5,032	-	5,032
Power and water/waste disposal	-	2,813	-	2,813
Rural residential real estate	298	3,816	114,644	118,758
Lease receivables	11	291	133	435
Other (including Mission Related)	-	276	7,816	8,092
Total loans	<u>\$ 216,839</u>	<u>\$ 387,477</u>	<u>\$ 1,424,613</u>	<u>\$ 2,028,929</u>
Percentage	<u>10.69%</u>	<u>19.10%</u>	<u>70.21%</u>	<u>100.00%</u>

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, 2020	December 31, 2019		June 30, 2020	December 31, 2019
<b>Real estate mortgage:</b>			<b>Communication:</b>		
Acceptable	92.71%	93.70%	Acceptable	100.00%	-
OAEM	2.89	2.82	OAEM	-	-
Substandard/doubtful/loss	4.40	3.48	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>-%</u>
<b>Production and intermediate-term:</b>			<b>Power and water/waste disposal:</b>		
Acceptable	87.39%	87.61%	Acceptable	-	-
OAEM	7.66	5.78	OAEM	-	100.00
Substandard/doubtful/loss	4.95	6.61	Substandard/doubtful/loss	100.00	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Loans to cooperatives:</b>			<b>Rural residential real estate:</b>		
Acceptable	99.92%	100.00%	Acceptable	95.78%	95.28%
OAEM	-	-	OAEM	2.98	3.60
Substandard/doubtful/loss	0.08	-	Substandard/doubtful/loss	1.24	1.12
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Processing and marketing:</b>			<b>Lease receivables:</b>		
Acceptable	97.23%	96.36%	Acceptable	100.00%	100.00%
OAEM	-	-	OAEM	-	-
Substandard/doubtful/loss	2.77	3.64	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Farm-related business:</b>			<b>Other (including Mission Related)</b>		
Acceptable	86.41%	85.36%	Acceptable	100.00%	100.00%
OAEM	0.10	2.50	OAEM	-	-
Substandard/doubtful/loss	13.49	12.14	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
			<b>Total loans:</b>		
			Acceptable	91.45%	91.95%
			OAEM	4.07	3.76
			Substandard/doubtful/loss	4.48	4.29
				<u>100.00%</u>	<u>100.00%</u>



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

June 30, 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	\$ 3,226	\$ 4,667	\$ 7,893	\$ 1,254,639	\$ 1,262,532
Production and intermediate-term	3,592	1,350	4,942	564,574	569,516
Loans to cooperatives	-	-	-	4,036	4,036
Processing and marketing	-	2,981	2,981	66,809	69,790
Farm-related business	39	-	39	15,653	15,692
Communication	-	-	-	5,033	5,033
Power and water/waste disposal	-	-	-	2,815	2,815
Rural residential real estate	619	5	624	118,507	119,131
Lease receivables	-	-	-	436	436
Other (including Mission Related)	-	-	-	8,163	8,163
Total	\$ 7,476	\$ 9,003	\$ 16,479	\$ 2,040,665	\$ 2,057,144

December 31, 2019					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	\$ 12,578	\$ 2,522	\$ 15,100	\$ 1,207,863	\$ 1,222,963
Production and intermediate-term	2,176	1,309	3,485	569,405	572,890
Loans to cooperatives	-	-	-	3,598	3,598
Processing and marketing	-	2,984	2,984	50,202	53,186
Farm-related business	150	-	150	17,020	17,170
Power and water/waste disposal	-	-	-	2,814	2,814
Rural residential real estate	530	189	719	116,704	117,423
Lease receivables	-	-	-	339	339
Other (including Mission Related)	-	-	-	6,618	6,618
Total	\$ 15,434	\$ 7,004	\$ 22,438	\$ 1,974,563	\$ 1,997,001

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

	June 30, 2020	December 31, 2019
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 7,391	\$ 7,959
Production and intermediate-term	1,288	2,140
Processing and marketing	2,981	2,984
Rural residential real estate	298	294
Total	\$ 11,958	\$ 13,377
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ -	\$ (10)
Production and intermediate-term	5,157	5,904
Total	\$ 5,157	\$ 5,894
<b>Accruing loans 90 days or more past due:</b>		
Real estate mortgage	\$ 126	\$ -
Production and intermediate-term	449	-
Total	\$ 575	\$ -
Total nonperforming loans	\$ 17,690	\$ 19,271
Other property owned	-	-
Total nonperforming assets	\$ 17,690	\$ 19,271
Nonaccrual loans as a percentage of total loans	0.59%	0.68%
Nonperforming assets as a percentage of total loans and other property owned	0.87%	0.98%
Nonperforming assets as a percentage of capital	4.80%	5.54%

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, 2020	December 31, 2019
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 3,316	\$ 5,776
Past due	8,642	7,601
Total	\$ 11,958	\$ 13,377
<b>Impaired accrual loans:</b>		
Restructured	\$ 5,157	\$ 5,894
90 days or more past due	575	-
Total	\$ 5,732	\$ 5,894
Total impaired loans	\$ 17,690	\$ 19,271
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.

Impaired loans:	June 30, 2020			Three Months Ended June 30, 2020		Six Months Ended June 30, 2020	
	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
<b>With a related allowance for credit losses:</b>							
Real estate mortgage	\$ 425	\$ 453	\$ 2	\$ 469	\$ 5	\$ 481	\$ 12
Production and intermediate-term	386	395	287	426	5	437	11
Total	\$ 811	\$ 848	\$ 289	\$ 895	\$ 10	\$ 918	\$ 23
<b>With no related allowance for credit losses:</b>							
Real estate mortgage	\$ 7,092	\$ 7,622	\$ -	\$ 7,824	\$ 87	\$ 8,027	\$ 202
Production and intermediate-term	6,508	16,248	-	7,181	79	7,367	186
Processing and marketing	2,981	5,201	-	3,289	36	3,374	85
Rural residential real estate	298	325	-	329	4	337	8
Total	\$ 16,879	\$ 29,396	\$ -	\$ 18,623	\$ 206	\$ 19,105	\$ 481
<b>Total impaired loans:</b>							
Real estate mortgage	\$ 7,517	\$ 8,075	\$ 2	\$ 8,293	\$ 92	\$ 8,508	\$ 214
Production and intermediate-term	6,894	16,643	287	7,607	84	7,804	197
Processing and marketing	2,981	5,201	-	3,289	36	3,374	85
Rural residential real estate	298	325	-	329	4	337	8
Total	\$ 17,690	\$ 30,244	\$ 289	\$ 19,518	\$ 216	\$ 20,023	\$ 504

Impaired loans:	December 31, 2019			Year Ended December 31, 2019	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 2,082	\$ 2,253	\$ 231	\$ 2,198	\$ 133
Production and intermediate-term	375	382	317	396	24
Total	\$ 2,457	\$ 2,635	\$ 548	\$ 2,594	\$ 157
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 5,867	\$ 6,070	\$ -	\$ 6,196	\$ 375
Production and intermediate-term	7,669	17,488	-	8,097	490
Processing and marketing	2,984	5,205	-	3,151	191
Rural residential real estate	294	305	-	310	19
Total	\$ 16,814	\$ 29,068	\$ -	\$ 17,754	\$ 1,075
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 7,949	\$ 8,323	\$ 231	\$ 8,394	\$ 508
Production and intermediate-term	8,044	17,870	317	8,493	514
Processing and marketing	2,984	5,205	-	3,151	191
Rural residential real estate	294	305	-	310	19
Total	\$ 19,271	\$ 31,703	\$ 548	\$ 20,348	\$ 1,232

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

	Real Estate Mortgage	Production and Intermediate- term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	Lease Receivables	Other (including Mission Related)	Total
<b>Activity related to the allowance for credit losses:</b>									
Balance at March 31, 2020	\$ 2,332	\$ 6,986	\$ 847	\$ –	\$ 42	\$ 535	\$ 1	\$ –	\$ 10,743
Charge-offs	–	–	–	–	–	–	–	–	–
Recoveries	–	173	1	–	–	–	(1)	–	173
Provision for loan losses	1,440	769	219	49	42	(13)	6	–	2,512
Balance at June 30, 2020	\$ 3,772	\$ 7,928	\$ 1,067	\$ 49	\$ 84	\$ 522	\$ 6	\$ –	\$ 13,428
Balance at December 31, 2019	\$ 2,679	\$ 7,210	\$ 819	\$ –	\$ 42	\$ 538	\$ 1	\$ –	\$ 11,289
Charge-offs	–	–	–	–	–	–	–	–	–
Recoveries	–	193	1	–	–	–	(1)	–	193
Provision for loan losses	1,093	525	247	49	42	(16)	6	–	1,946
Balance at June 30, 2020	\$ 3,772	\$ 7,928	\$ 1,067	\$ 49	\$ 84	\$ 522	\$ 6	\$ –	\$ 13,428
Balance at March 31, 2019	\$ 2,750	\$ 6,295	\$ 1,102	\$ –	\$ 21	\$ 550	\$ 1	\$ –	\$ 10,719
Charge-offs	–	–	–	–	–	–	–	–	–
Recoveries	–	145	–	–	–	–	–	–	145
Provision for loan losses	(177)	(124)	60	–	–	(10)	–	–	(251)
Balance at June 30, 2019	\$ 2,573	\$ 6,316	\$ 1,162	\$ –	\$ 21	\$ 540	\$ 1	\$ –	\$ 10,613
Balance at December 31, 2018	\$ 2,743	\$ 6,851	\$ 887	\$ –	\$ 21	\$ 555	\$ 1	\$ –	\$ 11,058
Charge-offs	–	–	–	–	–	–	–	–	–
Recoveries	–	145	–	–	–	–	–	–	145
Provision for loan losses	(170)	(680)	275	–	–	(15)	–	–	(590)
Balance at June 30, 2019	\$ 2,573	\$ 6,316	\$ 1,162	\$ –	\$ 21	\$ 540	\$ 1	\$ –	\$ 10,613
<b>Allowance on loans evaluated for impairment:</b>									
Individually	\$ 2	\$ 287	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 289
Collectively	3,770	7,641	1,067	49	84	522	6	–	13,139
Balance at June 30, 2020	\$ 3,772	\$ 7,928	\$ 1,067	\$ 49	\$ 84	\$ 522	\$ 6	\$ –	\$ 13,428
Individually	\$ 231	\$ 317	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 548
Collectively	2,448	6,893	819	–	42	538	1	–	10,741
Balance at December 31, 2019	\$ 2,679	\$ 7,210	\$ 819	\$ –	\$ 42	\$ 538	\$ 1	\$ –	\$ 11,289
<b>Recorded investment in loans evaluated for impairment:</b>									
Individually	\$ 7,517	\$ 6,894	\$ 2,981	\$ –	\$ –	\$ 298	\$ –	\$ –	\$ 17,690
Collectively	1,255,015	562,622	86,537	5,033	2,815	118,833	436	8,163	2,039,454
Balance at June 30, 2020	\$ 1,262,532	\$ 569,516	\$ 89,518	\$ 5,033	\$ 2,815	\$ 119,131	\$ 436	\$ 8,163	\$ 2,057,144
Individually	\$ 7,949	\$ 8,044	\$ 2,984	\$ –	\$ –	\$ 294	\$ –	\$ –	\$ 19,271
Collectively	1,215,014	564,846	70,970	–	2,814	117,129	339	6,618	1,977,730
Balance at December 31, 2019	\$ 1,222,963	\$ 572,890	\$ 73,954	\$ –	\$ 2,814	\$ 117,423	\$ 339	\$ 6,618	\$ 1,997,001

\*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 or six month periods ended June 30, 2020 or June 30, 2019.

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, 2020	December 31, 2019	June 30, 2020	December 31, 2019
Real estate mortgage	\$ –	\$ 101	\$ –	\$ 111
Production and intermediate-term	5,158	5,947	1	43
Total loans	\$ 5,158	\$ 6,048	\$ 1	\$ 154
Additional commitments to lend	\$ –	\$ –		

The following table presents information as of period end:

	June 30, 2020
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ —
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ 86

### Note 3 — Investments

#### Investments in Debt Securities

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point probability of default scale used to also grade loans, falls below 9. The FCA requires System institutions to provide notification to FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have different eligibility requirements. At June 30, 2020, the Association held two RABs with a fair value of \$291 whose credit quality had deteriorated beyond the program limits.

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

	June 30, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 9,719	\$ 1,387	\$ (116)	\$ 10,990	6.86%

	December 31, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 9,774	\$ 691	\$ (75)	\$ 10,390	5.44%

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

	June 30, 2020		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ 284	\$ 292	5.14%
After one year through five years	—	—	—
After five years through ten years	2,774	2,751	10.31
After ten years	6,661	7,947	5.50
Total	\$ 9,719	\$ 10,990	6.86%

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, 2020			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	\$ —	\$ —	\$ 379	\$ (116)

	December 31, 2019			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	\$ —	\$ —	\$ 1,374	\$ (75)

The recording of an impairment loss is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the 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. Factors considered in determining whether an impairment is other-than-temporary include among others: (1) the length of time and the extent to which the fair value is less than cost, (2) adverse conditions specifically related to the industry, (3) geographic area and the condition of the underlying collateral, (4) payment structure of the security, (5) ratings by rating agencies, (6) the credit worthiness of bond insurers, and (7) volatility of the fair value changes.

The Association uses the present value of cash flows expected to be collected from each debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, amount and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics, and collateral type.

Significant inputs used to estimate the amount of credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and

credit ratings. The Association may obtain assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party, or generate the assumptions internally.

Based on the results of all analyses, the Association recognized credit-related other-than-temporary impairment of \$83 in the fourth quarter of 2019. For all other impaired investments, the Association has not recognized any credit losses as the 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.

The following schedule details the activity related to cumulative credit losses on investments recognized in earnings:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
<b>Amount related to credit loss—beginning balance</b>	\$ 83	\$ —	\$ 83	\$ —
Additions for initial credit impairments	—	—	—	—
Additions for subsequent credit impairments	—	—	—	—
Reductions for increases in expected cash flows	—	—	—	—
Reductions for securities sold, settled, or matured	—	—	—	—
<b>Amount related to credit loss—ending balance</b>	\$ 83	\$ —	\$ 83	\$ —
Life to date incurred credit losses	—	—	—	—
<b>Remaining unrealized credit losses</b>	\$ 83	\$ —	\$ 83	\$ —

#### ***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 8.06 percent of the issued stock of the Bank as of June 30, 2020 net of any reciprocal investment. As of that date, the Bank's assets totaled \$35.7 billion and shareholders' equity totaled \$2.6 billion. The Bank's earnings were \$156 million for the first six months of 2020. In addition, the Association held investments of \$495 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 — 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.

	<b>June 30, 2020</b>				
	<b>Total Carrying Amount</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
<b><u>Recurring Measurements</u></b>					
<b>Assets:</b>					
Assets held in trust funds	\$ 240	\$ 240	\$ –	\$ –	\$ 240
Recurring Assets	\$ 240	\$ 240	\$ –	\$ –	\$ 240
<b>Liabilities:</b>					
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –
<b><u>Nonrecurring Measurements</u></b>					
<b>Assets:</b>					
Impaired loans	\$ 522	\$ –	\$ –	\$ 522	\$ 522
Other property owned	–	–	–	–	–
Other investments	1,039	–	–	1,039	1,039
Nonrecurring Assets	\$ 1,561	\$ –	\$ –	\$ 1,561	\$ 1,561
<b><u>Other Financial Instruments</u></b>					
<b>Assets:</b>					
Cash	\$ 105	\$ 105	\$ –	\$ –	\$ 105
Investments in debt securities, held-to-maturity	9,719	–	–	10,990	10,990
Loans	2,014,979	–	–	2,045,941	2,045,941
Other Financial Assets	\$ 2,024,803	\$ 105	\$ –	\$ 2,056,931	\$ 2,057,036
<b>Liabilities:</b>					
Notes payable to AgFirst Farm Credit Bank	\$ 1,706,264	\$ –	\$ –	\$ 1,736,016	\$ 1,736,016
Other Financial Liabilities	\$ 1,706,264	\$ –	\$ –	\$ 1,736,016	\$ 1,736,016

December 31, 2019

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Recurring Measurements</b>					
<b>Assets:</b>					
Assets held in trust funds	\$ 145	\$ 145	\$ –	\$ –	\$ 145
Recurring Assets	\$ 145	\$ 145	\$ –	\$ –	\$ 145
<b>Liabilities:</b>					
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –
<b>Nonrecurring Measurements</b>					
<b>Assets:</b>					
Impaired loans	\$ 1,909	\$ –	\$ –	\$ 1,909	\$ 1,909
Other property owned	–	–	–	–	–
Other investments	1,039	–	–	1,039	1,039
Nonrecurring Assets	\$ 2,948	\$ –	\$ –	\$ 2,948	\$ 2,948
<b>Other Financial Instruments</b>					
<b>Assets:</b>					
Cash	\$ 3,917	\$ 3,917	\$ –	\$ –	\$ 3,917
Investments in debt securities, held-to-maturity	9,774	–	–	10,390	10,390
Loans	1,954,566	–	–	1,939,713	1,939,713
Other Financial Assets	\$ 1,968,257	\$ 3,917	\$ –	\$ 1,950,103	\$ 1,954,020
<b>Liabilities:</b>					
Notes payable to AgFirst Farm Credit Bank	\$ 1,654,570	\$ –	\$ –	\$ 1,649,186	\$ 1,649,186
Other Financial Liabilities	\$ 1,654,570	\$ –	\$ –	\$ 1,649,186	\$ 1,649,186

### Uncertainty in Measurements of Fair Value

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

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

### Investments in Debt Securities

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

defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

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

### Inputs to Valuation Techniques

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

Quoted market prices are generally not available for the instruments presented. 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	\$ 522	Appraisal	Income and expense Comparable sales Replacement cost Comparability adjustments	* * * *
Other investments - RBIC	1,039	Third party evaluation	Income, expense, capital	Not applicable

\* 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 spread
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

**Note 6 — 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,	
	2020	2019	2020	2019
Pension	\$ 368	\$ 343	\$ 726	\$ 649
401(k)	210	177	417	363
Other postretirement benefits	47	50	99	99
Total	\$ 625	\$ 570	\$ 1,242	\$ 1,111

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, 2020.

Further details regarding employee benefit plans are contained in the 2019 Annual Report to Shareholders.

**Note 7 — 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 not probable that the Association will incur a loss

or the loss is not estimable, no liability has been recorded for any claims that may be pending.

**Note 8 — Subsequent Events**

The Association evaluated subsequent events and determined there were none requiring disclosure through August 7, 2020, which was the date the financial statements were issued.