
AgChoice Farm Credit, ACA

THIRD QUARTER 2020

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2020 quarterly report of *AgChoice Farm Credit, ACA*, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

/s/ Darrell L. Curtis
Chief Executive Officer

/s/ Terry A. Davis
Chief Financial Officer

/s/ Shawn D. Wolfinger
Chairman of the Board

November 6, 2020

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 affected 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 September 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 September 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 weaknesses in the internal control over financial reporting as of September 30, 2020.

/s/ Darrell L. Curtis
Chief Executive Officer

/s/ Terry A. Davis
Chief Financial Officer

November 6, 2020

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 AgChoice Farm Credit ACA, (Association) for the period ended September 30, 2020. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements, and the 2019 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. Information in any part of this Quarterly Report may be incorporated by reference in answer or partial answer to any other item of the Quarterly Report.

Impacts of the COVID-19 Global Pandemic

The novel coronavirus ("COVID-19") pandemic is creating extensive disruptions to the global economy and to the lives of individuals throughout the world. Governments, businesses, and the public are taking unprecedented actions to contain the spread of COVID-19 and to mitigate its effects, including quarantines, travel bans and restrictions, shelter in place orders, closures of businesses and schools, fiscal stimulus, and legislation designed to deliver monetary aid and other relief. The scope, duration and full effects of COVID-19 are rapidly evolving and still not fully known, but it is clear that the pandemic and related efforts to contain it have disrupted global economic activity, adversely affected the functioning of financial markets, significantly increased unemployment levels and economic and market uncertainty, and disrupted trade and supply chains.

The Association recognizes that the COVID-19 pandemic may create 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 Bank's primary responsibilities is to maintain sufficient liquidity to fund the lending operations of the District Associations, in addition to its own needs. 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 Bank and 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 business of America. On March 5, 2020, the Association activated its business continuity plan and has been operating uninterrupted since then. Currently, approximately 50 percent of its employees are working at Association offices while the remainder are working remotely from their homes. Because the technology in employees' homes may not be as robust as in the Association's offices and could cause the networks, information systems, applications and other tools available to employees to be more limited or less reliable than the Association's in-office technology, the continuation of these work-from-home measures 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 developing measures being 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 continued 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 impact, 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 in more detail 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, 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 \$9.6 billion of funding targeted to livestock and dairy producers, \$3.9 billion for row crop producers, \$2.1 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 fit within the revenue-based sized standard are eligible for PPP loans.

Loan applicants who are eligible to receive financing under the Farm Credit Act and FCA regulations are able to borrow from the Association. The CARES Act provides for loan forgiveness if an employer uses 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 PPP and Health Care Enhancement Act that provides \$484 billion in additional funding to replenish and supplement key programs under the CARES Act. The Act provides an additional \$310 billion for PPP, \$60 billion for small business disaster loans and grants, \$75 billion for hospital and health care providers and \$25 billion for testing.

On August 8, 2020, the PPP was closed and the SBA ceased to accept applications from participating lenders. The Associations was approved as a PPP lender and made \$44.4 million in loans under the program.

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, including dairy, livestock, poultry, forest products, and various crops, and also includes part-time farm and rural home loans. 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, impacts the level of dependency on a given commodity.

Loans at September 30, 2020 totaled \$2,267,292 compared to \$2,146,536 at December 31, 2019, an increase of \$120,756 (5.6 percent). Allowance for loan losses of \$15,823 increased \$404 (2.6 percent) during the first nine months of 2020 resulting in net loans (loans less allowance for loan losses) of \$2,251,469 and \$2,131,117 at September 30, 2020 and December 31, 2019, respectively. Nonaccrual loans decreased \$2,442 (20.0 percent) from \$12,218 at December 31, 2019 to \$9,776 at September 30, 2020. The Association held no other property owned at September 30, 2020.

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. Credit administration remains satisfactory and the overall credit quality of the Association's loan portfolio has remained acceptable. The Allowance for loan losses represented 0.70 and 0.72 percent of loans at September 30, 2020 and December 31, 2019, respectively, and 161.86 and 126.20 percent of nonaccrual loans at September 30, 2020 and December 31, 2019, respectively. See also Note 2, *Loans and Allowance for Loan Losses*, in the Notes to the Consolidated Financial Statements.

RESULTS OF OPERATIONS

For the three months ended September 30, 2020

Net income for the three months ended September 30, 2020 totaled \$12,236, an increase of \$1,611 (15.2 percent) compared to the three months ended September 30, 2019. Major changes in the components of net income are identified as follows:

- Net interest income increased \$371 (2.6 percent) for the quarter ended September 30, 2020 compared to the same period in 2019. The increase in net interest income is primarily attributable to (a) a \$1,116 increase in net interest income on accruing loan volume and (b) a \$122 increase in net interest recognized on nonaccruing loans, offset by (c) an \$867 decrease in the Association's earnings on loanable funds.
- The risks identified in the Association's Loan portfolio required a Reversal of allowance for loan losses of \$321 in the third quarter of 2020 compared to an increase of \$458 in the Provision for loan losses in the same quarter of 2019. The Association's nonaccrual loans to total loans decreased slightly to 0.43 percent at September 30, 2020, compared to 0.57 percent at December 31, 2019 and 0.61 percent at September 30, 2019. See also Note 2, *Loans and Allowance for Loan Losses*, in the Notes to the Consolidated Financial Statements.
- Patronage refunds from other Farm Credit institutions of \$3,522 and \$3,179 were accrued during the third quarter of 2020 and 2019, respectively, and management anticipates additional income for the remaining quarters in 2020. Since this income from AgFirst Farm Credit Bank (the Bank) is reasonably estimable and because there is a history of these earnings, management is of the opinion that including this income in quarterly operations provides shareholders with a more accurate forecast of annualized net income. The increase in the accrual in 2020 is due to the impact of an increase in loan volume.
- The Noninterest income increase in the third quarter of \$603 (14.7 percent) included (a) a \$56 increase in Loan fees, (b) an increase of \$47 in Fees for financially related services, (c) a \$343 increase in Patronage refunds from other Farm Credit institutions, (d) a \$47 increase in sales of property and equipment and (e) a \$121 increase in gains on other transactions partially offset by (f) a decrease of \$11 in other noninterest income.
- Noninterest expense for the third quarter of 2020 was \$7,221, an increase of \$92 (1.3 percent) as compared to \$7,129 for the third quarter of 2019.

The increase of \$234 (5.3 percent) for Salaries and employee benefits includes an increase in salaries of \$165 (4.6 percent) due to merit increases and increased cost related to the conversion in 2020 to a Paid Time Off (PTO) program, an increase of \$113 (7.8 percent) in employee benefits, offset by an increase in deferred personnel costs of \$44 (6.9 percent). See also Note 7, *Employee Benefit Plans*, in the Notes to the Consolidated Financial Statements.

Occupancy and equipment and Other operating expenses decreased \$260 (11.1 percent) from \$2,337 in 2019 to \$2,077 in 2020, which includes decreases in travel, occupancy and equipment, public relations and directors expenses, offset by increases in other operating, purchased services, communication and data processing expenses.

Insurance fund premium expense increased \$119 (32.1 percent) due to an increase in Notes payable to the Bank. Also, premiums in 2020 were 11 basis points, compared to 9 basis points for the same period in 2019.

- The Association recorded a Provision for income taxes of \$90 and \$40 for the third quarters of 2020 and 2019, respectively.

For the nine months ended September 30, 2020

Net income for the nine months ended September 30, 2020 totaled \$35,583 an increase of \$3,386 (10.5 percent) compared to the nine months ended September 30, 2019. Major changes in the components of net income are identified as follows:

- Net interest income was up \$2,489 (6.0 percent), primarily attributable to (a) a \$2,869 increase in net interest income on accruing loan volume and (b) an increase of \$1,022 in net interest recognized on nonaccruing loans, offset by (c) a \$1,402 decrease in the Associations loanable funds credit.
- Charge-offs and risk identified in the Association's loan portfolio required a Provision for loan losses of \$403 to be recorded in the first nine months of 2020, as compared to a Provision for loan losses of \$1,102 in the first nine months of 2019.
- For the nine months ended September 30, 2020, the Association accrued estimated Patronage refunds from other Farm Credit Institutions of \$10,414, as compared to \$9,474 for the same period in 2019. The increase of \$940 (9.9 percent) is due to the increase in outstanding loan volume. Since this income from the Bank is reasonably estimable and because there is a history of these earnings, management is of the opinion that including this income in quarterly operations provides

shareholders with a more accurate forecast of annualized net income.

- Noninterest income was up \$761 (5.7 percent). In addition to the increase in estimated patronage receipts mentioned above, the increase is mostly attributable to (a) an increase of \$114 from Loan fees and (b) an increase of \$255 from Fees for financially related services, partially offset by (c) a decrease of \$383 in Gains on sales of premises, (d) a decrease of \$128 in Gains on other transactions and (e) a decrease of \$36 in Other noninterest income.
- The Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligation, had assets exceeding the secure base amount as defined by the Farm Credit Act. As a result of the excess, FCSIC made distributions to the Farm Credit System Banks and certain Associations; AgChoice's share was \$413 and \$414 in 2020 and 2019, respectively, and is recorded as Insurance Fund refunds within the Noninterest Income section of the Consolidated Statements of Income.
- Noninterest expense increased \$291 (1.3 percent) for the first nine months of 2020 as compared to 2019.

The year-to-date increase for Salaries and employee benefits of \$464 (3.3 percent) includes an increase of \$498 (11.5 percent) for retirement related expenses and a \$589 increase (5.3 percent) in salaries for annual compensation increases and increased cost related to the conversion in 2020 to a PTO program. This was partially offset by an increase in deferred personnel costs of \$623. See also Note 7, *Employee Benefit Plans*, in the Notes to the Consolidated Financial Statements.

Occupancy and equipment and Other operating expenses decreased \$263 (4.0 percent) from \$6,527 in 2019 to \$6,264 in 2020, which includes decreases in occupancy and equipment, travel and advertising expenses, offset by increases in communications, purchased services, data processing, Farm Credit Administration (FCA) fees, and other operating expenses.

Insurance fund premium expense increased \$111 (10.3 percent) due to an increase in Notes payable to the Bank. Also, premiums through June 2020 were 8 basis points, but increased to 11 basis points in July, compared to 9 basis points in 2019.

- The Association recorded a Provision for income taxes of \$420 and \$148, respectively, for the nine months ended September 30, 2020 and 2019.

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 Bank advances funds 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. Total Notes payable to the Bank at September 30, 2020, were \$1,842,937 as compared to \$1,731,992 at December 31, 2019. This increase of \$110,945 (6.4 percent) resulted from an increase in loan volume and patronage payments to stockholders, offset by current year cash generated from operating activities and the receipt of prior year Patronage refunds from other Farm Credit institutions.

CAPITAL RESOURCES

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating

losses. Capital is also needed for future growth and investment in new products and services.

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

Total members' equity at September 30, 2020 was \$454,620, an increase of \$35,888 (8.6 percent) compared to the December 31, 2019 total of \$418,732. The increase is primarily attributed to year-to-date earnings.

Total capital stock and participation certificates were \$8,751 on September 30, 2020, compared to \$8,444 on December 31, 2019.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain certain minimum regulatory capital ratios.

As of September 30, 2020, the Association was well above the minimum regulatory ratios for all capital adequacy ratios:

Ratio	Minimum Requirement	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of September 30, 2020
Risk-adjusted ratios:			
CET1 Capital	4.50%	7.00%	17.16%
Tier 1 Capital	6.00%	8.50%	17.16%
Total Capital	8.00%	10.50%	17.85%
Permanent Capital Ratio	7.00%	7.00%	17.28%
Non-risk-adjusted:			
Tier 1 Leverage Ratio	4.0%	5.0%	18.37%
UREE Leverage Ratio	1.5%	1.5%	18.42%

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.

REGULATORY MATTERS

On October 6, 2020, the Farm Credit Administration adopted a final rule that amends its investment regulations to allow associations to purchase and hold the portion of certain loans that non-System lenders originate and sell in the secondary market, and that the USDA unconditionally guarantees or insures as to the timely payment of principal and interest. The final rule will be effective 30 days after publication in the Federal Register.

On September 28, 2020, the Farm Credit Administration adopted a final rule governing the amortization limits for associations. This rule repeals regulatory provisions that impose amortization limits on certain loans and requires associations to address loan amortization in their credit underwriting standards and internal controls. The final rule will be effective 30 days after publication in the Federal Register.

On August 25, 2020, the Farm Credit Administration adopted a final rule that amends the criteria to reinstate nonaccrual loans. This rule clarifies the factors that System institutions should

consider when categorizing high-risk loans and placing them in nonaccrual status. The rule also revises the criteria by which loans are reinstated to accrual status, and revises the application of the criteria to certain loans in nonaccrual status to distinguish between the types of risk that cause loans to be placed in nonaccrual status. The final rule became effective on October 21, 2020.

On 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
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 complete remaining life of the financial assets. - Changes the present incurred loss impairment guidance for loans to an expected loss model. - 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. - 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: - The allowance related to loans and commitments will most likely change because it will then cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, - An allowance will be established for estimated credit losses on any debt securities, - The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. - The extent of change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts at the adoption date. - The guidance is expected to be adopted in first quarter 2023.

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 1-800-349-3568, ext. 6008 or writing Terry Davis, AgChoice Farm Credit, ACA, 300 Winding Creek Blvd., Mechanicsburg, PA, 17050, or accessing the website www.agchoice.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.

AgChoice Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2020 <i>(unaudited)</i>	December 31, 2019 <i>(audited)</i>
Assets		
Cash	\$ 58	\$ 42
Loans	2,267,292	2,146,536
Allowance for loan losses	(15,823)	(15,419)
Net loans	2,251,469	2,131,117
Accrued interest receivable	10,500	8,224
Equity investments in other Farm Credit institutions	23,308	23,238
Premises and equipment, net	15,527	15,220
Accounts receivable	10,594	22,691
Other assets	1,657	1,282
Total assets	\$ 2,313,113	\$ 2,201,814
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,842,937	\$ 1,731,992
Accrued interest payable	3,618	4,547
Patronage refunds payable	132	34,210
Accounts payable	2,526	2,531
Other liabilities	9,280	9,802
Total liabilities	1,858,493	1,783,082
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	8,751	8,444
Retained earnings		
Allocated	161,489	161,489
Unallocated	284,463	248,884
Accumulated other comprehensive income (loss)	(83)	(85)
Total members' equity	454,620	418,732
Total liabilities and members' equity	\$ 2,313,113	\$ 2,201,814

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

AgChoice Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
<i>(dollars in thousands)</i>				
Interest Income				
Loans	\$ 25,580	\$ 28,157	\$ 79,859	\$ 82,964
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	11,063	14,011	35,632	41,226
Net interest income	14,517	14,146	44,227	41,738
Provision for (reversal of allowance for) loan losses	(321)	458	403	1,102
Net interest income after provision for (reversal of allowance for) loan losses	14,838	13,688	43,824	40,636
Noninterest Income				
Loan fees	456	400	1,094	980
Fees for financially related services	557	510	2,009	1,754
Patronage refunds from other Farm Credit institutions	3,522	3,179	10,414	9,474
Gains (losses) on sales of premises and equipment, net	83	36	143	526
Gains (losses) on other transactions	91	(30)	4	132
Insurance Fund refunds	—	—	413	414
Other noninterest income	—	11	1	37
Total noninterest income	4,709	4,106	14,078	13,317
Noninterest Expense				
Salaries and employee benefits	4,654	4,420	14,444	13,980
Occupancy and equipment	380	471	919	1,207
Insurance Fund premiums	490	371	1,191	1,080
(Gains) losses on other property owned, net	—	1	—	21
Other operating expenses	1,697	1,866	5,345	5,320
Total noninterest expense	7,221	7,129	21,899	21,608
Income before income taxes	12,326	10,665	36,003	32,345
Provision for income taxes	90	40	420	148
Net income	12,236	10,625	35,583	32,197
Other comprehensive income net of tax				
Employee benefit plans adjustments	—	—	2	1
Comprehensive income	\$ 12,236	\$ 10,625	\$ 35,583	\$ 32,197

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

AgChoice Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2018	\$ 8,223	\$ 161,489	\$ 236,910	\$ (57)	\$ 406,565
Cumulative effect of change in accounting principle			2		2
Comprehensive income			32,197	1	32,198
Capital stock/participation certificates issued/(retired), net	149				149
Patronage distribution					
Cash			(6,900)		(6,900)
Patronage distribution adjustment			(5)		(5)
Balance at September 30, 2019	\$ 8,372	\$ 161,489	\$ 262,204	\$ (56)	\$ 432,009
Balance at December 31, 2019	\$ 8,444	\$ 161,489	\$ 248,884	\$ (85)	\$ 418,732
Comprehensive income			35,583	2	35,585
Capital stock/participation certificates issued/(retired), net	307				307
Patronage distribution adjustment			(4)		(4)
Balance at September 30, 2020	\$ 8,751	\$ 161,489	\$ 284,463	\$ (83)	\$ 454,620

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 AgChoice Farm Credit, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 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 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 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 30, 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:

	September 30, 2020	December 31, 2019
Real estate mortgage	\$ 1,132,479	\$ 1,067,624
Production and intermediate-term	688,727	665,289
Loans to cooperatives	58,495	46,159
Processing and marketing	179,192	159,324
Farm-related business	47,686	44,639
Communication	98,518	100,024
Power and water/waste disposal	16,471	18,737
Rural residential real estate	22,863	21,746
International	18,454	18,461
Lease receivables	4,407	4,533
Total loans	\$ 2,267,292	\$ 2,146,536

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 or syndication 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 purchased and sold loans at periods ended:

September 30, 2020								
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	\$ 31,728	\$ 10,144	\$ 8,490	\$ 13,381	\$ —	\$ —	\$ 40,218	\$ 23,525
Production and intermediate-term	34,540	4,153	65,179	7,962	—	—	99,719	12,115
Loans to cooperatives	1,547	—	57,069	—	—	—	58,616	—
Processing and marketing	45,751	5,650	43,210	3,490	29,844	—	118,805	9,140
Communication	7,588	—	91,150	—	—	—	98,738	—
Power and water/waste disposal	6,295	—	10,242	—	—	—	16,537	—
International	—	—	18,500	—	—	—	18,500	—
Lease receivables	—	—	4,410	—	—	—	4,410	—
Total	\$ 127,449	\$ 19,947	\$ 298,250	\$ 24,833	\$ 29,844	\$ —	\$ 455,543	\$ 44,780

December 31, 2019								
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	\$ 28,561	\$ 5,863	\$ 8,913	\$ 7,459	\$ —	\$ —	\$ 37,474	\$ 13,322
Production and intermediate-term	33,176	4,431	51,410	8,227	—	—	84,586	12,658
Loans to cooperatives	—	—	46,250	—	—	—	46,250	—
Processing and marketing	40,933	5,497	38,814	—	17,114	—	96,861	5,497
Communication	7,626	—	92,585	—	—	—	100,211	—
Power and water/waste disposal	6,638	—	12,162	—	—	—	18,800	—
International	—	—	18,500	—	—	—	18,500	—
Lease receivables	—	—	4,533	—	—	—	4,533	—
Total	\$ 116,934	\$ 15,791	\$ 273,167	\$ 15,686	\$ 17,114	\$ —	\$ 407,215	\$ 31,477

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:

	September 30, 2020	December 31, 2019		September 30, 2020	December 31, 2019
Real estate mortgage:			Power and water/waste disposal:		
Acceptable	94.37%	93.42%	Acceptable	67.69%	58.56%
OAEM	2.90	3.17	OAEM	—	26.29
Substandard/doubtful/loss	2.73	3.41	Substandard/doubtful/loss	32.31	15.15
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Rural residential real estate:		
Acceptable	93.81%	93.53%	Acceptable	95.15%	93.43%
OAEM	3.08	2.97	OAEM	2.23	3.39
Substandard/doubtful/loss	3.11	3.50	Substandard/doubtful/loss	2.62	3.18
	100.00%	100.00%		100.00%	100.00%
Loans to cooperatives:			International:		
Acceptable	100.00%	100.00%	Acceptable	100.00%	100.00%
OAEM	—	—	OAEM	—	—
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
Processing and marketing:			Lease receivables:		
Acceptable	92.15%	91.99%	Acceptable	98.66%	100.00%
OAEM	6.87	6.68	OAEM	—	—
Substandard/doubtful/loss	0.98	1.33	Substandard/doubtful/loss	1.34	—
	100.00%	100.00%		100.00%	100.00%
Farm-related business:			Total loans:		
Acceptable	97.17%	98.31%	Acceptable	94.34%	93.67%
OAEM	2.58	1.27	OAEM	3.01	3.28
Substandard/doubtful/loss	0.25	0.42	Substandard/doubtful/loss	2.65	3.05
	100.00%	100.00%		100.00%	100.00%
Communication:					
Acceptable	100.00%	100.00%			
OAEM	—	—			
Substandard/doubtful/loss	—	—			
	100.00%	100.00%			

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

	September 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 and Accrued Interest
Real estate mortgage	\$ 1,065	\$ 1,599	\$ 2,664	\$ 1,135,988	\$ 1,138,652
Production and intermediate-term	1,010	1,041	2,051	689,929	691,980
Loans to cooperatives	—	—	—	58,495	58,495
Processing and marketing	—	—	—	179,807	179,807
Farm-related business	—	5	5	47,954	47,959
Communication	—	—	—	98,539	98,539
Power and water/waste disposal	—	—	—	16,487	16,487
Rural residential real estate	16	37	53	22,897	22,950
International	—	—	—	18,499	18,499
Lease receivables	—	—	—	4,424	4,424
Total	\$ 2,091	\$ 2,682	\$ 4,773	\$ 2,273,019	\$ 2,277,792

	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 and Accrued Interest
Real estate mortgage	\$ 3,727	\$ 1,109	\$ 4,836	\$ 1,066,751	\$ 1,071,587
Production and intermediate-term	2,528	1,848	4,376	663,887	668,263
Loans to cooperatives	—	—	—	46,253	46,253
Processing and marketing	—	—	—	159,898	159,898
Farm-related business	4	—	4	44,916	44,920
Communication	—	—	—	100,091	100,091
Power and water/waste disposal	—	—	—	18,790	18,790
Rural residential real estate	161	102	263	21,555	21,818
International	—	—	—	18,589	18,589
Lease receivables	—	—	—	4,551	4,551
Total	\$ 6,420	\$ 3,059	\$ 9,479	\$ 2,145,281	\$ 2,154,760

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

	September 30, 2020	December 31, 2019
Nonaccrual loans:		
Real estate mortgage	\$ 5,526	\$ 8,094
Production and intermediate-term	3,730	3,901
Farm-related business	5	14
Power and water/waste disposal	389	—
Rural residential real estate	126	209
Total	\$ 9,776	\$ 12,218
Accruing restructured loans:		
Real estate mortgage	\$ 19	\$ 39
Total	\$ 19	\$ 39
Accruing loans 90 days or more past due:		
Total	\$ —	\$ —
Total nonperforming loans	\$ 9,795	\$ 12,257
Other property owned	—	—
Total nonperforming assets	\$ 9,795	\$ 12,257
Nonaccrual loans as a percentage of total loans	0.43%	0.57%
Nonperforming assets as a percentage of total loans and other property owned	0.43%	0.57%
Nonperforming assets as a percentage of capital	2.15%	2.93%

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.

	September 30, 2020	December 31, 2019
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 6,913	\$ 7,398
Past due	2,863	4,820
Total	\$ 9,776	\$ 12,218
Impaired accrual loans:		
Restructured	\$ 19	\$ 39
90 days or more past due	—	—
Total	\$ 19	\$ 39
Total impaired loans	\$ 9,795	\$ 12,257
Additional commitments to lend	\$ 9	\$ 500

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

	September 30, 2020			Three Months Ended September 30, 2020		Nine Months Ended September 30, 2020	
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:							
Production and intermediate-term	\$ 179	\$ 177	\$ 154	\$ 179	\$ 8	\$ 203	\$ 30
Power and water/waste disposal	389	399	150	390	16	441	66
Total	\$ 568	\$ 576	\$ 304	\$ 569	\$ 24	\$ 644	\$ 96
With no related allowance for credit losses:							
Real estate mortgage	\$ 5,545	\$ 6,805	\$ —	\$ 5,560	\$ 231	\$ 6,288	\$ 938
Production and intermediate-term	3,551	4,824	—	3,562	147	4,027	601
Farm-related business	5	4	—	5	—	5	1
Rural residential real estate	126	174	—	126	5	143	21
Total	\$ 9,227	\$ 11,807	\$ —	\$ 9,253	\$ 383	\$ 10,463	\$ 1,561
Total impaired loans:							
Real estate mortgage	\$ 5,545	\$ 6,805	\$ —	\$ 5,560	\$ 231	\$ 6,288	\$ 938
Production and intermediate-term	3,730	5,001	154	3,741	155	4,230	631
Farm-related business	5	4	—	5	—	5	1
Power and water/waste disposal	389	399	150	390	16	441	66
Rural residential real estate	126	174	—	126	5	143	21
Total	\$ 9,795	\$ 12,383	\$ 304	\$ 9,822	\$ 407	\$ 11,107	\$ 1,657

	December 31, 2019			Year Ended December 31, 2019	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans:					
With a related allowance for credit losses:					
Production and intermediate-term	\$ 178	\$ 179	\$ 149	\$ 171	\$ 14
Total	\$ 178	\$ 179	\$ 149	\$ 171	\$ 14
With no related allowance for credit losses:					
Real estate mortgage	\$ 8,133	\$ 9,879	\$ —	\$ 7,809	\$ 629
Production and intermediate-term	3,723	5,448	—	3,575	288
Farm-related business	14	17	—	13	1
Rural residential real estate	209	245	—	200	16
Total	\$ 12,079	\$ 15,589	\$ —	\$ 11,597	\$ 934
Total impaired loans:					
Real estate mortgage	\$ 8,133	\$ 9,879	\$ —	\$ 7,809	\$ 629
Production and intermediate-term	3,901	5,627	149	3,746	302
Farm-related business	14	17	—	13	1
Rural residential real estate	209	245	—	200	16
Total	\$ 12,257	\$ 15,768	\$ 149	\$ 11,768	\$ 948

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivables	Total
Activity related to the allowance for credit losses:									
Balance at June 30, 2020	\$ 3,817	\$ 5,691	\$ 3,587	\$ 1,151	\$ 1,417	\$ 83	\$ 177	\$ 221	\$ 16,144
Charge-offs	—	—	—	—	—	—	—	—	—
Recoveries	—	—	—	—	—	—	—	—	—
Provision for loan losses	184	179	171	(331)	(522)	(8)	3	3	(321)
Balance at September 30, 2020	\$ 4,001	\$ 5,870	\$ 3,758	\$ 820	\$ 895	\$ 75	\$ 180	\$ 224	\$ 15,823
Balance at December 31, 2019	\$ 3,563	\$ 5,854	\$ 3,705	\$ 1,014	\$ 764	\$ 82	\$ 187	\$ 250	\$ 15,419
Charge-offs	—	—	—	—	—	—	—	—	—
Recoveries	—	1	—	—	—	—	—	—	1
Provision for loan losses	438	15	53	(194)	131	(7)	(7)	(26)	403
Balance at September 30, 2020	\$ 4,001	\$ 5,870	\$ 3,758	\$ 820	\$ 895	\$ 75	\$ 180	\$ 224	\$ 15,823
Balance at June 30, 2019	\$ 3,362	\$ 5,791	\$ 3,496	\$ 1,018	\$ 727	\$ 87	\$ 184	\$ 262	\$ 14,927
Charge-offs	—	—	—	—	—	—	—	—	—
Recoveries	—	—	—	—	—	(1)	—	—	(1)
Provision for loan losses	334	41	(72)	68	97	(4)	1	(7)	458
Balance at September 30, 2019	\$ 3,696	\$ 5,832	\$ 3,424	\$ 1,086	\$ 824	\$ 82	\$ 185	\$ 255	\$ 15,384
Balance at December 31, 2018	\$ 3,193	\$ 5,325	\$ 3,680	\$ 1,257	\$ 232	\$ 92	\$ 276	\$ 276	\$ 14,331
Charge-offs	—	(80)	—	—	—	—	—	—	(80)
Recoveries	—	23	—	—	—	8	—	—	31
Provision for loan losses	503	564	(256)	(171)	592	(18)	(91)	(21)	1,102
Balance at September 30, 2019	\$ 3,696	\$ 5,832	\$ 3,424	\$ 1,086	\$ 824	\$ 82	\$ 185	\$ 255	\$ 15,384
Allowance on loans evaluated for impairment:									
Individually	\$ —	\$ 154	\$ —	\$ —	\$ 150	\$ —	\$ —	\$ —	\$ 304
Collectively	4,001	5,716	3,758	820	745	75	180	224	15,519
Balance at September 30, 2020	\$ 4,001	\$ 5,870	\$ 3,758	\$ 820	\$ 895	\$ 75	\$ 180	\$ 224	\$ 15,823
Individually	\$ —	\$ 149	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 149
Collectively	3,563	5,705	3,705	1,014	764	82	187	250	15,270
Balance at December 31, 2019	\$ 3,563	\$ 5,854	\$ 3,705	\$ 1,014	\$ 764	\$ 82	\$ 187	\$ 250	\$ 15,419
Recorded investment in loans evaluated for impairment:									
Individually	\$ 3,399	\$ 2,068	\$ —	\$ —	\$ 389	\$ —	\$ —	\$ —	\$ 5,856
Collectively	1,135,253	689,912	286,261	98,539	16,098	22,950	18,499	4,424	2,271,936
Balance at September 30, 2020	\$ 1,138,652	\$ 691,980	\$ 286,261	\$ 98,539	\$ 16,487	\$ 22,950	\$ 18,499	\$ 4,424	\$ 2,277,792
Individually	\$ 4,468	\$ 1,926	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6,394
Collectively	1,067,119	666,337	251,071	100,091	18,790	21,818	18,589	4,551	2,148,366
Balance at December 31, 2019	\$ 1,071,587	\$ 668,263	\$ 251,071	\$ 100,091	\$ 18,790	\$ 21,818	\$ 18,589	\$ 4,551	\$ 2,154,760

*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 nine month periods ended September 30, 2020 and September 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	
	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
Real estate mortgage	\$ 755	\$ 1,067	\$ 736	\$ 1,028
Production and intermediate-term	636	1,093	636	1,093
Total loans	\$ 1,391	\$ 2,160	\$ 1,372	\$ 2,121
Additional commitments to lend	\$ —	\$ —		

The following table presents information as of period end:

	September 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	\$ 346

Note 3 — Investments

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 7.86 percent of the issued stock of the Bank as of September 30, 2020 net of any reciprocal investment. As of that date, the Bank's assets totaled \$35.8 billion and shareholders' equity totaled \$2.8 billion. The Bank's earnings were \$275 million for the first nine months of 2020. In addition, the Association held investments of \$1,074 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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Employee Benefit Plans:				
Balance at beginning of period	\$ (83)	\$ (56)	\$ (85)	\$ (57)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	—	—	2	1
Net current period other comprehensive income	—	—	2	1
Balance at end of period	\$ (83)	\$ (56)	\$ (83)	\$ (56)

	Reclassifications Out of Accumulated Other Comprehensive Income (b)				
	Three Months Ended September 30,		Nine Months Ended September 30,		Income Statement Line Item
	2020	2019	2020	2019	
Defined Benefit Pension Plans:					
Periodic pension costs	\$ —	\$ —	\$ (2)	\$ (1)	See Note 7.
Net amounts reclassified	\$ —	\$ —	\$ (2)	\$ (1)	

(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.

		September 30, 2020				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements						
Assets:						
Assets held in trust funds	\$	326	\$ 326	\$ –	\$ –	\$ 326
Recurring Assets	\$	326	\$ 326	\$ –	\$ –	\$ 326
Liabilities:						
Recurring Liabilities	\$	–	\$ –	\$ –	\$ –	\$ –
Nonrecurring Measurements						
Assets:						
Impaired loans	\$	264	\$ –	\$ –	\$ 264	\$ 264
Other property owned		–	–	–	–	–
Nonrecurring Assets	\$	264	\$ –	\$ –	\$ 264	\$ 264
Other Financial Instruments						
Assets:						
Cash	\$	58	\$ 58	\$ –	\$ –	\$ 58
Loans		2,251,205	–	–	2,275,584	2,275,584
Other Financial Assets	\$	2,251,263	\$ 58	\$ –	\$ 2,275,584	\$ 2,275,642
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	1,842,937	\$ –	\$ –	\$ 1,862,777	\$ 1,862,777
Other Financial Liabilities	\$	1,842,937	\$ –	\$ –	\$ 1,862,777	\$ 1,862,777

		December 31, 2019				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements						
Assets:						
Assets held in trust funds	\$	498	\$ 498	\$ –	\$ –	\$ 498
Recurring Assets	\$	498	\$ 498	\$ –	\$ –	\$ 498
Liabilities:						
Recurring Liabilities	\$	–	\$ –	\$ –	\$ –	\$ –
Nonrecurring Measurements						
Assets:						
Impaired loans	\$	29	\$ –	\$ –	\$ 29	\$ 29
Other property owned		–	–	–	–	–
Nonrecurring Assets	\$	29	\$ –	\$ –	\$ 29	\$ 29
Other Financial Instruments						
Assets:						
Cash	\$	42	\$ 42	\$ –	\$ –	\$ 42
Loans		2,131,088	–	–	2,132,504	2,132,504
Other Financial Assets	\$	2,131,130	\$ 42	\$ –	\$ 2,132,504	\$ 2,132,546
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	1,731,992	\$ –	\$ –	\$ 1,735,998	\$ 1,735,998
Other Financial Liabilities	\$	1,731,992	\$ –	\$ –	\$ 1,735,998	\$ 1,735,998

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	\$ 264	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
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

Note 7 — Employee Benefit Plans

The following table summarizes retirement and other postretirement benefit expenses for the Association:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Pension	\$ 524	\$ 455	\$ 1,573	\$ 1,273
401(k)	256	250	818	763
Other postretirement benefits	102	105	314	318
Total	\$ 882	\$ 810	\$ 2,705	\$ 2,354

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 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 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 9 — Subsequent Events

The Association evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through November 6, 2020, which was the date the financial statements were issued.

On October 19, 2020, AgFirst's Board of Directors indicated an intention to declare, in December 2020, a special patronage distribution. The Association will receive between approximately \$15,703 and \$17,666 which will be recorded as patronage refunds from other Farm Credit institutions.