
MidAtlantic 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 MidAtlantic 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 and regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Thomas H. Truitt, Jr.
Chief Executive Officer



Brian E. Rosati
Chief Financial Officer



Brian L. Boyd
Chair of the Board

November 6, 2020

MidAtlantic Farm Credit, ACA

Report on Internal Control Over Financial Reporting

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

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of 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.



Thomas H. Truitt, Jr.
Chief Executive Officer



Brian E. Rosati
Chief Financial Officer

November 6, 2020

MidAtlantic Farm Credit, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of MidAtlantic Farm Credit, ACA (Association) for the period ended September 30, 2020. The comments contained in this report should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated 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.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for the financing of short-term and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio encompasses a well-diversified range of agricultural commodities, with cash grains, poultry and dairy representing the largest segments. In addition, the Association provides loans to lessors of agricultural real estate. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the opportunities for non-farm income, impacts the level of dependency on any particular commodity.

Comparison of September 30, 2020 to December 31, 2019

Loans at September 30, 2020 totaled \$2,878,293 compared to \$2,844,993 at December 31, 2019, an increase of \$33,300 (1.17 percent) during the nine months. The increase is principally related to an increase in Participations Purchased Loans particularly in the Livestock and Animal Specialists commodity group. The Association's allowance for loan losses of \$36,225 increased \$4,028 (12.51 percent) during the first nine months of 2020 resulting in net loans (loans less allowance for loan losses) of \$2,842,068 and \$2,812,796 at September 30, 2020 and December 31, 2019, respectively. Nonaccrual loans increased \$6,379 (13.76 percent) from \$46,344 at December 31, 2019 to \$52,723 at September 30, 2020, resulting in an increase in the ratio of nonaccrual loans to total loans from 1.63 percent to 1.83 percent. The increase in nonaccrual loans was principally related to the Fruits and Vegetables commodity group. In addition, Other property owned increased from \$1,415 at December 31, 2019 (four properties) to \$1,663 at September 30, 2020 (six properties).

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 1.26 percent and 1.13 percent of loans, and 68.71 percent and 69.47 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.

In response to the impact of the COVID-19 pandemic, the Association implemented a payment deferral program for its members. As a result of this program, the Association deferred \$2.9 million of interest income related to these deferred payments as of the third quarter of 2020. Once the deferral period for payments is over, the Association will assess the ability and period to recognize the deferred interest income. See also *COVID-19 Support Programs and Results of Operations*.

The Association supported approximately \$17.0 million loan volume for the Paycheck Protection Program (PPP). The loan program generated approximately \$730 of loan fees, which were included in the Noninterest Income section on the Consolidated Statements of Comprehensive Income. The PPP loans were subsequently sold to AgFirst Farm Credit Bank. See also *COVID-19 Support Programs and Results of Operations*. On August 8, 2020, the PPP was closed and the SBA ceased to accept applications from participating lenders. At September 30, 2020, the Bank had purchased \$16,981 of these loans.

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. On September 21, 2020, the USDA implemented an expansion to the Coronavirus Food Assistance Program, known as CFAP 2. This program will provide \$14 billion of financial support to producers of certain agricultural commodities who face continuing market disruptions and significant marketing costs.

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 and \$25 billion for testing.

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%.

RESULTS OF OPERATIONS

For the three months ended September 30, 2020

Net income for the three months ended September 30, 2020 totaled \$11,791, a decrease of \$1,204 (9.27 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 for the three months was down \$1,496 (8.09 percent); there are several key factors impacting the results. The decrease in net interest income is primarily attributable to (a) a 22.63 percent decrease in the interest credit rate aggregately decreasing return on equity \$1,071, (b) a \$ 1,630 decrease attributable to interest deferred as a result of the Association’s COVID-19 loan deferral program, partially offset by, (c) an \$837 increase due to both a change in accruing margin and interest rate related to a \$50 million increase in the average daily balance of accruing portfolio volume, and (d) a \$368 increase in net interest recognized attributable to nonaccruing loans.
- The risks identified in the Association’s Loan portfolio required a provision for loan losses of \$1,000 to be recorded in the third quarter of 2020 and 2019. The Association’s nonaccrual loans to total loans increased from 1.63 percent at December 31, 2019 to 1.83 percent of the portfolio at September 30, 2020, and increased from 1.79 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” on the Consolidated Statements of Comprehensive Income of \$4,199 and \$4,201, respectively, includes accruals for the quarter ended September 30, 2020 and 2019, based on third quarter operations only; management anticipates additional income for the remaining quarter 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.

- Noninterest income increase in the third quarter of \$166 (2.57 percent) included (a) an increase of \$147 from Fees for financially related services, (b) an increase of \$67 due to increased gains on disposal of properties, partially offset by, (c) a decrease of \$34 from Loan fees, and (d) a decrease of \$14 from Lease income.
- Noninterest expense for the third quarter of 2020 was \$10,676 as compared to \$10,901 for the same period of 2019 or a decrease of \$225 (2.06 percent).

The three month increase of \$125 (1.68 percent) for Salaries and employee benefits includes favorable deferred personnel costs of \$61 and unfavorable employee benefits of \$76. Salaries increased \$110 (1.94 percent) due to hiring new staff and additional operational efforts as a result of the COVID-19 pandemic. See also Note 7, *Employee Benefit Plans*, in the Notes to the Consolidated Financial Statements.

Insurance Fund Premium expense increased \$112 (22.76 percent) due to (a) the increase in the Farm Credit System Insurance Corporation (FCSIC) premium from 0.09 percent for the third quarter of 2019 to 0.11 percent for the third quarter of 2020, and (b) the increase in loan volume during the third quarter of 2020 as compared to the third quarter of 2019.

Occupancy and equipment and Other operating expenses decreased \$432 (14.83 percent) from \$2,913 to \$2,481, which is due to disruptions caused by the COVID-19 pandemic primarily related to (a) postponed events, building improvements, and restricted business travel, partially offset by, (b) increased hardware and software expenses principally related to the Association's quick response and efforts to establish a remote work environment for staff and customers needs.

- The Association recorded a Provision for income taxes of \$148 and \$49, 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 \$36,664 or \$1,412 (3.71 percent) less than the nine months ended September 30, 2019. Major changes in the components of net income are identified as follows:

- Net interest income for the nine months was down \$1,761 (3.21 percent); there are several key factors impacting the results. The decrease in net interest income is primarily attributable to (a) a decrease of \$1,686 attributable to a lower interest earned on the Association's equity, (b) a \$ 2,909 decrease

attributable to interest deferred as a result of the Association's COVID-19 loan deferral program, partially offset by, (c) a \$2,096 increase due to both a change in accruing margin and interest rate related to a \$50 million increase in the average daily balance of accruing portfolio volume, and (d) a \$738 increase in net interest recognized attributable to nonaccruing loans.

- Charge-offs and risk identified in the Association's loan portfolio required a provision for loan losses of \$4,000 and \$3,000 to be recorded in the first nine months of 2020 and 2019.
- "Patronage refunds from other Farm Credit institutions" on the Consolidated Statements of Comprehensive Income is \$12,779 as compared to \$12,448 for the nine months ended September 30, 2020 and 2019. The increase of \$331 (2.66 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 for the nine months was up \$1,350 (7.57 percent). The increase is primarily related to (a) an increase of \$581 from Loan fees, (b) an increase of \$464 from Fees for financially related services, (c) an increase of \$331 in Patronage related income, (d) an increase of \$39 due to increased gains on disposal of properties, (e) an increase of \$17 in Other noninterest income, partially offset by, (f) a decrease of \$46 from Lease income, and (g) an Insurance Fund refund decrease of \$36, which is discussed below.
- 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 certain distributions to the Farm Credit System Banks and certain Associations; MidAtlantic's share was \$553 as compared to \$589 for the first nine months of 2020 and 2019, and is recorded as Insurance Fund refund within the Noninterest Income section of the Consolidated Statements of Comprehensive Income.
- Noninterest expense increased \$179 (0.57 percent) for the first nine months of 2020 as compared to 2019.

The year-to-date increase for Salaries and employee benefits of \$586 (2.72 percent) includes (a) an increase of \$549 (3.31 percent) in salaries due to annual compensation increases, hiring new staff, and

additional operational efforts as a result of the COVID-19 pandemic, (b) unfavorable employee benefits of \$487, partially offset by, (c) favorable deferred personnel costs of \$450.

Insurance fund premium expense increased \$20 (1.37 percent) due to (a) the increase in the Farm Credit System Insurance Corporation (FCSIC) premium rate from 0.09 percent for the first nine months of 2019 to

0.08 percent for the first six months of 2020 and 0.11 percent for the second half of 2020, and (b) the increase in loan volume during the first nine months of 2020 as compared to 2019.

Occupancy and equipment and Other operating expenses decreased \$899 (10.66 percent) from \$8,433 to \$7,534, which is due to disruptions caused by the COVID-19 pandemic primarily related to (a) postponed events, building improvements, and restricted business travel, partially offset by, (b) increased hardware and software expenses principally related to the Association's quick response and efforts to establish a remote work environment for staff and customer needs.

- Losses on other property owned, net increased \$114. The increase is primarily related to a write-down on one account for the first nine months of 2020 as compared to 2019.
- The Association recorded a Provision for income taxes of \$344 and \$164, for the nine months ended September 30, 2020 and 2019, respectively.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA 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 the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sectors. The Association utilizes the variable rate note 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. Notes payable to the Bank at September 30, 2020 was \$2,214,017 compared to \$2,192,656 at December 31, 2019. This increase during the period of \$21,361 (0.97 percent) corresponds to the receipt of prior year Bank patronage, current year net cash generated from operating activities, offset by an increase in the Association's loan volume and patronage payments to stockholders.

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 Bank's primary responsibilities 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 businesses operations in support of the farmers, ranchers, and agricultural business of America. On March 12, 2020, the Association activated its business continuity plan and operated remotely from employee homes. As the states eased the "stay at home" restrictions, the Association has taken steps to re-open offices at 60% capacity, as of September 30, 2020, 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 any 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 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.

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.

Members' equity at September 30, 2020 totaled \$671,039, an increase of \$9,494 (1.44 percent) compared to total members' equity of \$661,545 at December 31, 2019. This increase is attributed to (a) Total Comprehensive income of \$36,671 for the first nine months ended September 30, 2020, (b) net member capital stock/participation certificates issued of \$282, (c) an estimated \$12,000 cash patronage distribution accrual for the first nine months of 2020, and (d) additional patronage distributions to stockholders which are discussed below.

Retained earnings retired of \$15,459 is related to (a) the Association's Board approved \$7.2 million Nonqualified Allocated Surplus (NQAS) declaration revolvment of \$4.7 million of the 2013 NQAS and \$2.5 million of the 2014 NQAS distribution to stockholders in July 2020, and (b) the Association's Board approved an additional \$8.25 million in 2019 earnings as special cash patronage distributed to stockholders in September 2020.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. Effective January 1, 2017, the regulatory capital requirements for System Banks and associations were modified. The new regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. New regulations replaced core surplus and total surplus ratios with common equity Tier 1 (CET1) capital, Tier 1 capital, and total capital risk-based capital ratios. The new regulations also include a Tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio (PCR) remains in effect.

Risk-adjusted assets have been defined by FCA Regulations as the Balance Sheet assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the effect of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Calculation of PCR risk-adjusted assets includes the allowance for loan losses as a deduction from risk-adjusted assets. This differs from the other risk-based capital calculations.

The ratios are calculated using three-month average daily balances, in accordance with FCA regulations, as follows:

- The CET1 capital ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The Tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.

- The total capital ratio is Tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The Tier 1 leverage ratio is Tier 1 capital, divided by average assets less regulatory deductions to Tier 1 capital.
- The UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions to Tier 1 capital.

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

| Ratio | Minimum Requirement with Capital Conservation Buffer | Capital Ratios as of September 30, 2020 | Capital Ratios as of September 30, 2019 |
|-------------------------|--|---|---|
| Risk-adjusted ratios: | | | |
| CET1 Capital | 7.00% | 20.38% | 19.84% |
| Tier 1 Capital | 8.50% | 20.38% | 19.84% |
| Total Capital | 10.50% | 21.85% | 21.79% |
| Permanent Capital Ratio | 7.00% | 20.92% | 20.90% |
| Non-risk-adjusted: | | | |
| Tier 1 Leverage Ratio | 5.00% | 21.76% | 20.95% |
| UREE Leverage Ratio | 1.50% | 21.75% | 20.55% |

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 FCA 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 FCA 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 FCA 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 FCA issued a proposed rule that would ensure the System's capital requirements, including certain regulatory disclosures, reflect the current expected credit losses methodology, which revises the accounting for credit losses under U.S. generally accepted accounting principles. The proposed rule identifies which credit loss allowances under the Current Expected Credit Losses (CECL) methodology in the Financial Accounting Standards Board's

“Measurement of Credit Losses on Financial Instruments” are eligible for inclusion in a System institution’s regulatory capital. Credit loss allowances related to loans, lessor’s net investments in leases, and held-to-maturity debt securities would be included in a System institution’s Tier 2 capital up to 1.25 percent of the System institution’s total risk weighted assets. Credit loss allowances for available-for-sale debt

securities and purchased credit impaired assets would not be eligible for inclusion in a System institution’s Tier 2 capital. In addition, the proposed regulation does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution’s regulatory capital ratios. The public comment period ended on November 22, 2019.

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 |
|---|---|
| <i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i> | |
| <ul style="list-style-type: none"> • Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management’s estimate of current expected credit losses (CECL) over the 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. | <ul style="list-style-type: none"> • Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. • The new guidance is expected to result in a change in allowance for credit losses due to several factors, including: <ol style="list-style-type: none"> 1. The allowance related to loans and commitments will most likely change because it will then cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on any debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of 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. |

SHAREHOLDER INVESTMENT

Shareholder investment in the Association may be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank’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 by going to AgFirst’s web site at www.agfirst.com. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

WHISTLEBLOWER

Reports of suspected or actual wrongdoing involving the Association, its employees and/or Directors, can be made anonymously and confidentially through the Association’s Whistleblower Hotline at 1-844-321-9164 or www.convercent.com/report.

MidAtlantic 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 | \$ 10 | \$ 3,508 |
| Loans | 2,878,293 | 2,844,993 |
| Allowance for loan losses | (36,225) | (32,197) |
| Net loans | 2,842,068 | 2,812,796 |
| Loans held for sale | 3,866 | 900 |
| Other investments | 71 | — |
| Accrued interest receivable | 20,579 | 16,249 |
| Equity investments in other Farm Credit institutions | 33,011 | 32,825 |
| Premises and equipment, net | 15,887 | 15,938 |
| Other property owned | 1,663 | 1,415 |
| Accounts receivable | 13,574 | 29,895 |
| Other assets | 3,893 | 3,873 |
| Total assets | \$ 2,934,622 | \$ 2,917,399 |
| Liabilities | | |
| Notes payable to AgFirst Farm Credit Bank | \$ 2,214,017 | \$ 2,192,656 |
| Accrued interest payable | 4,604 | 5,796 |
| Patronage refunds payable | 12,352 | 27,346 |
| Accounts payable | 5,898 | 2,748 |
| Advanced conditional payments | 36 | — |
| Other liabilities | 26,676 | 27,308 |
| Total liabilities | 2,263,583 | 2,255,854 |
| Commitments and contingencies (Note 8) | | |
| Members' Equity | | |
| Capital stock and participation certificates | 11,256 | 10,974 |
| Retained earnings | | |
| Allocated | 395,708 | 409,174 |
| Unallocated | 264,440 | 241,769 |
| Accumulated other comprehensive income (loss) | (365) | (372) |
| Total members' equity | 671,039 | 661,545 |
| Total liabilities and members' equity | \$ 2,934,622 | \$ 2,917,399 |

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

MidAtlantic Farm Credit, ACA
Consolidated Statements of
Comprehensive Income

(unaudited)

| <i>(dollars in thousands)</i> | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--|---|-----------|--|------------|
| | 2020 | 2019 | 2020 | 2019 |
| Interest Income | | | | |
| Loans | \$ 31,153 | \$ 36,780 | \$ 99,363 | \$ 109,405 |
| Interest Expense | | | | |
| Notes payable to AgFirst Farm Credit Bank | 14,168 | 18,299 | 46,211 | 54,492 |
| Net interest income | 16,985 | 18,481 | 53,152 | 54,913 |
| Provision for loan losses | 1,000 | 1,000 | 4,000 | 3,000 |
| Net interest income after provision for loan losses | 15,985 | 17,481 | 49,152 | 51,913 |
| Noninterest Income | | | | |
| Loan fees | 334 | 368 | 1,629 | 1,048 |
| Fees for financially related services | 1,413 | 1,266 | 2,888 | 2,424 |
| Lease income | 35 | 49 | 105 | 151 |
| Patronage refunds from other Farm Credit institutions | 4,199 | 4,201 | 12,779 | 12,448 |
| Gains (losses) on sales of rural home loans, net | 425 | 382 | 1,089 | 867 |
| Gains (losses) on sales of premises and equipment, net | 6 | 89 | 26 | 114 |
| Gains (losses) on other transactions | 201 | 94 | 71 | 166 |
| Insurance Fund refunds | — | — | 553 | 589 |
| Other noninterest income | 17 | 15 | 49 | 32 |
| Total noninterest income | 6,630 | 6,464 | 19,189 | 17,839 |
| Noninterest Expense | | | | |
| Salaries and employee benefits | 7,563 | 7,438 | 22,133 | 21,547 |
| Occupancy and equipment | 468 | 686 | 1,445 | 1,944 |
| Insurance Fund premiums | 604 | 492 | 1,482 | 1,462 |
| (Gains) losses on other property owned, net | 28 | 58 | 184 | 70 |
| Other operating expenses | 2,013 | 2,227 | 6,089 | 6,489 |
| Total noninterest expense | 10,676 | 10,901 | 31,333 | 31,512 |
| Income before income taxes | 11,939 | 13,044 | 37,008 | 38,240 |
| Provision for income taxes | 148 | 49 | 344 | 164 |
| Net income | \$ 11,791 | \$ 12,995 | \$ 36,664 | \$ 38,076 |
| Other comprehensive income net of tax | | | | |
| Employee benefit plans adjustments | 2 | — | 7 | 1 |
| Comprehensive income | \$ 11,793 | \$ 12,995 | \$ 36,671 | \$ 38,077 |

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

MidAtlantic 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 | \$ 10,744 | \$ 388,255 | \$ 236,149 | \$ (198) | \$ 634,950 |
| Cumulative effect of change in accounting principle | | | (11) | | (11) |
| Comprehensive income | | | 38,076 | 1 | 38,077 |
| Capital stock/participation certificates issued/(retired), net | 187 | | | | 187 |
| Patronage distribution | | | | | |
| Cash | | | (11,295) | | (11,295) |
| Retained earnings retired | | (55) | | | (55) |
| Patronage distribution adjustment | | (110) | 110 | | — |
| Balance at September 30, 2019 | \$ 10,931 | \$ 388,090 | \$ 263,029 | \$ (197) | \$ 661,853 |
| Balance at December 31, 2019 | \$ 10,974 | \$ 409,174 | \$ 241,769 | \$ (372) | \$ 661,545 |
| Comprehensive income | | | 36,664 | 7 | 36,671 |
| Capital stock/participation certificates issued/(retired), net | 282 | | | | 282 |
| Patronage distribution | | | | | |
| Cash | | | (12,000) | | (12,000) |
| Retained earnings retired | | (15,459) | | | (15,459) |
| Patronage distribution adjustment | | 1,993 | (1,993) | | — |
| Balance at September 30, 2020 | \$ 11,256 | \$ 395,708 | \$ 264,440 | \$ (365) | \$ 671,039 |

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

MidAtlantic Farm Credit, ACA

Notes to the Consolidated Financial Statements

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

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

Organization

The accompanying financial statements include the accounts of MidAtlantic 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 April 1, 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 | \$ 1,812,843 | \$ 1,771,690 |
| Production and intermediate-term | 768,927 | 796,599 |
| Loans to cooperatives | 32,513 | 17,437 |
| Processing and marketing | 88,566 | 78,001 |
| Farm-related business | 45,056 | 49,109 |
| Communication | 56,834 | 62,134 |
| Power and water/waste disposal | 2,772 | 3,148 |
| Rural residential real estate | 45,829 | 41,931 |
| International | 24,953 | 24,944 |
| Total loans | <u>\$ 2,878,293</u> | <u>\$ 2,844,993</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:

| | September 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 | \$ 43,385 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 43,385 | \$ - |
| Production and intermediate-term | 40,048 | 61,620 | 29,796 | 2,719 | - | - | 69,844 | 64,339 |
| Loans to cooperatives | 11,999 | - | 20,556 | - | - | - | 32,555 | - |
| Processing and marketing | 31,669 | 17,901 | 4,197 | - | 4,806 | - | 40,672 | 17,901 |
| Farm-related business | 1,579 | 721 | - | - | - | - | 1,579 | 721 |
| Communication | 21,387 | - | 35,590 | - | - | - | 56,977 | - |
| Power and water/waste disposal | - | - | 2,775 | - | - | - | 2,775 | - |
| International | - | - | 25,000 | - | - | - | 25,000 | - |
| Total | <u>\$ 150,067</u> | <u>\$ 80,242</u> | <u>\$ 117,914</u> | <u>\$ 2,719</u> | <u>\$ 4,806</u> | <u>\$ -</u> | <u>\$ 272,787</u> | <u>\$ 82,961</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 | \$ 44,750 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 44,750 | \$ - |
| Production and intermediate-term | 51,029 | 56,028 | 10,795 | 4,333 | - | - | 61,824 | 60,361 |
| Loans to cooperatives | 6,911 | - | 10,573 | - | - | - | 17,484 | - |
| Processing and marketing | 29,367 | 15,627 | 4,426 | - | - | - | 33,793 | 15,627 |
| Farm-related business | 1,579 | - | - | - | - | - | 1,579 | - |
| Communication | 18,251 | - | 44,010 | - | - | - | 62,261 | - |
| Power and water/waste disposal | - | - | 3,157 | - | - | - | 3,157 | - |
| International | - | - | 25,000 | - | - | - | 25,000 | - |
| Total | <u>\$ 151,887</u> | <u>\$ 71,655</u> | <u>\$ 97,961</u> | <u>\$ 4,333</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 249,848</u> | <u>\$ 75,988</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:

| | September 30, 2020 | December 31, 2019 | | September 30, 2020 | December 31, 2019 |
|--|-----------------------|----------------------|--|-----------------------|----------------------|
| Real estate mortgage: | | | Communication: | | |
| Acceptable | 90.25% | 91.41% | Acceptable | 100.00% | 100.00% |
| OAEM | 3.92 | 4.66 | OAEM | – | – |
| Substandard/doubtful/loss | 5.83 | 3.93 | Substandard/doubtful/loss | – | – |
| | <u>100.00%</u> | <u>100.00%</u> | | <u>100.00%</u> | <u>100.00%</u> |
| Production and intermediate-term: | | | Power and water/waste disposal: | | |
| Acceptable | 90.10% | 89.25% | Acceptable | 100.00% | 100.00% |
| OAEM | 5.16 | 5.87 | OAEM | – | – |
| Substandard/doubtful/loss | 4.74 | 4.88 | Substandard/doubtful/loss | – | – |
| | <u>100.00%</u> | <u>100.00%</u> | | <u>100.00%</u> | <u>100.00%</u> |
| Loans to cooperatives: | | | Rural residential real estate: | | |
| Acceptable | 100.00% | 100.00% | Acceptable | 94.98% | 92.66% |
| OAEM | – | – | OAEM | 2.21 | 3.32 |
| Substandard/doubtful/loss | – | – | Substandard/doubtful/loss | 2.81 | 4.02 |
| | <u>100.00%</u> | <u>100.00%</u> | | <u>100.00%</u> | <u>100.00%</u> |
| Processing and marketing: | | | International: | | |
| Acceptable | 94.45% | 93.67% | Acceptable | 100.00% | 100.00% |
| OAEM | 5.55 | 6.33 | OAEM | – | – |
| Substandard/doubtful/loss | – | – | Substandard/doubtful/loss | – | – |
| | <u>100.00%</u> | <u>100.00%</u> | | <u>100.00%</u> | <u>100.00%</u> |
| Farm-related business: | | | Total loans: | | |
| Acceptable | 94.15% | 95.37% | Acceptable | 90.87% | 91.28% |
| OAEM | 5.29 | 4.11 | OAEM | 4.13 | 4.84 |
| Substandard/doubtful/loss | 0.56 | 0.52 | Substandard/doubtful/loss | 5.00 | 3.88 |
| | <u>100.00%</u> | <u>100.00%</u> | | <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:

| | 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 |
| Real estate mortgage | \$ 7,566 | \$ 19,746 | \$ 27,312 | \$ 1,798,857 | \$ 1,826,169 |
| Production and intermediate-term | 4,322 | 12,531 | 16,853 | 758,534 | 775,387 |
| Loans to cooperatives | – | – | – | 32,547 | 32,547 |
| Processing and marketing | – | – | – | 88,762 | 88,762 |
| Farm-related business | 239 | 109 | 348 | 45,008 | 45,356 |
| Communication | – | – | – | 56,839 | 56,839 |
| Power and water/waste disposal | – | – | – | 2,794 | 2,794 |
| Rural residential real estate | 418 | 177 | 595 | 45,437 | 46,032 |
| International | – | – | – | 24,986 | 24,986 |
| Total | \$ 12,545 | \$ 32,563 | \$ 45,108 | \$ 2,853,764 | \$ 2,898,872 |

| | 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 | \$ 8,265 | \$ 14,832 | \$ 23,097 | \$ 1,758,779 | \$ 1,781,876 |
| Production and intermediate-term | 2,779 | 6,932 | 9,711 | 792,259 | 801,970 |
| Loans to cooperatives | – | – | – | 17,502 | 17,502 |
| Processing and marketing | – | – | – | 78,208 | 78,208 |
| Farm-related business | 217 | 145 | 362 | 48,956 | 49,318 |
| Communication | – | – | – | 62,142 | 62,142 |
| Power and water/waste disposal | – | – | – | 3,173 | 3,173 |
| Rural residential real estate | 514 | 835 | 1,349 | 40,700 | 42,049 |
| International | – | – | – | 25,004 | 25,004 |
| Total | \$ 11,775 | \$ 22,744 | \$ 34,519 | \$ 2,826,723 | \$ 2,861,242 |

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 | \$ 33,099 | \$ 26,256 |
| Production and intermediate-term | 18,791 | 18,900 |
| Farm-related business | 110 | 75 |
| Rural residential real estate | 723 | 1,113 |
| Total | <u>\$ 52,723</u> | <u>\$ 46,344</u> |
| Accruing restructured loans: | | |
| Real estate mortgage | \$ 27,345 | \$ 18,458 |
| Production and intermediate-term | 8,723 | 12,344 |
| Rural residential real estate | 372 | 382 |
| Total | <u>\$ 36,440</u> | <u>\$ 31,184</u> |
| Accruing loans 90 days or more past due: | | |
| Real estate mortgage | \$ 315 | - |
| Farm-related business | - | 70 |
| Total | <u>\$ 315</u> | <u>\$ 70</u> |
| Total nonperforming loans | \$ 89,478 | \$ 77,598 |
| Other property owned | 1,663 | 1,415 |
| Total nonperforming assets | <u>\$ 91,141</u> | <u>\$ 79,013</u> |
| Nonaccrual loans as a percentage of total loans | 1.83% | 1.63% |
| Nonperforming assets as a percentage of total loans and other property owned | 3.16% | 2.78% |
| Nonperforming assets as a percentage of capital | <u>13.58%</u> | <u>11.94%</u> |

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 | \$ 19,142 | \$ 20,992 |
| Past due | 33,581 | 25,352 |
| Total | <u>\$ 52,723</u> | <u>\$ 46,344</u> |
| Impaired accrual loans: | | |
| Restructured | \$ 36,440 | \$ 31,184 |
| 90 days or more past due | 315 | 70 |
| Total | <u>\$ 36,755</u> | <u>\$ 31,254</u> |
| Total impaired loans | <u>\$ 89,478</u> | <u>\$ 77,598</u> |
| Additional commitments to lend | <u>\$ 1,723</u> | <u>\$ 1,384</u> |

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 | |
|---|------------------------|--------------------------------|----------------------|--|--|---|--|
| | 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 |
| Impaired loans: | | | | | | | |
| With a related allowance for credit losses: | | | | | | | |
| Real estate mortgage | \$ 11,894 | \$ 13,193 | \$ 3,893 | \$ 11,457 | \$ 42 | \$ 10,888 | \$ 105 |
| Production and intermediate-term | 8,676 | 9,406 | 4,677 | 8,358 | 30 | 7,942 | 77 |
| Farm-related business | 110 | 123 | 23 | 105 | - | 100 | 1 |
| Rural residential real estate | 527 | 620 | 152 | 508 | 2 | 483 | 4 |
| Total | <u>\$ 21,207</u> | <u>\$ 23,342</u> | <u>\$ 8,745</u> | <u>\$ 20,428</u> | <u>\$ 74</u> | <u>\$ 19,413</u> | <u>\$ 187</u> |
| With no related allowance for credit losses: | | | | | | | |
| Real estate mortgage | \$ 48,865 | \$ 52,883 | \$ - | \$ 47,072 | \$ 171 | \$ 44,732 | \$ 433 |
| Production and intermediate-term | 18,838 | 21,281 | - | 18,145 | 66 | 17,244 | 166 |
| Farm-related business | - | 53 | - | - | - | - | - |
| Rural residential real estate | 568 | 640 | - | 547 | 2 | 519 | 5 |
| Total | <u>\$ 68,271</u> | <u>\$ 74,857</u> | <u>\$ -</u> | <u>\$ 65,764</u> | <u>\$ 239</u> | <u>\$ 62,495</u> | <u>\$ 604</u> |
| Total impaired loans: | | | | | | | |
| Real estate mortgage | \$ 60,759 | \$ 66,075 | \$ 3,893 | \$ 58,529 | \$ 213 | \$ 55,620 | \$ 537 |
| Production and intermediate-term | 27,514 | 30,688 | 4,677 | 26,503 | 96 | 25,186 | 243 |
| Farm-related business | 110 | 176 | 23 | 105 | - | 100 | 1 |
| Rural residential real estate | 1,095 | 1,260 | 152 | 1,055 | 4 | 1,002 | 10 |
| Total | <u>\$ 89,478</u> | <u>\$ 98,199</u> | <u>\$ 8,745</u> | <u>\$ 86,192</u> | <u>\$ 313</u> | <u>\$ 81,908</u> | <u>\$ 791</u> |

| | 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: | | | | | |
| Real estate mortgage | \$ 8,627 | \$ 9,877 | \$ 2,351 | \$ 8,032 | \$ 51 |
| Production and intermediate-term | 8,055 | 8,999 | 3,829 | 7,499 | 48 |
| Farm-related business | 75 | 89 | 16 | 70 | - |
| Rural residential real estate | 1,117 | 1,238 | 230 | 1,039 | 7 |
| Total | \$ 17,874 | \$ 20,203 | \$ 6,426 | \$ 16,640 | \$ 106 |
| With no related allowance for credit losses: | | | | | |
| Real estate mortgage | \$ 36,087 | \$ 41,397 | \$ - | \$ 33,595 | \$ 213 |
| Production and intermediate-term | 23,189 | 25,246 | - | 21,587 | 137 |
| Farm-related business | 70 | 122 | - | 65 | 1 |
| Rural residential real estate | 378 | 396 | - | 353 | 2 |
| Total | \$ 59,724 | \$ 67,161 | \$ - | \$ 55,600 | \$ 353 |
| Total impaired loans: | | | | | |
| Real estate mortgage | \$ 44,714 | \$ 51,274 | \$ 2,351 | \$ 41,627 | \$ 264 |
| Production and intermediate-term | 31,244 | 34,245 | 3,829 | 29,086 | 185 |
| Farm-related business | 145 | 211 | 16 | 135 | 1 |
| Rural residential real estate | 1,495 | 1,634 | 230 | 1,392 | 9 |
| Total | \$ 77,598 | \$ 87,364 | \$ 6,426 | \$ 72,240 | \$ 459 |

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 | Total |
|---|----------------------|----------------------------------|---------------|---------------|--------------------------------|-------------------------------|---------------|--------------|
| Activity related to the allowance for credit losses: | | | | | | | | |
| Balance at June 30, 2020 | \$ 14,447 | \$ 18,944 | \$ 1,192 | \$ 191 | \$ 2 | \$ 406 | \$ 22 | \$ 35,204 |
| Charge-offs | - | - | - | - | - | - | - | - |
| Recoveries | 3 | 18 | - | - | - | - | - | 21 |
| Provision for loan losses | 1,812 | (660) | (10) | (67) | - | (75) | - | 1,000 |
| Balance at September 30, 2020 | \$ 16,262 | \$ 18,302 | \$ 1,182 | \$ 124 | \$ 2 | \$ 331 | \$ 22 | \$ 36,225 |
| Balance at December 31, 2019 | \$ 12,754 | \$ 17,841 | \$ 998 | \$ 139 | \$ 2 | \$ 441 | \$ 22 | \$ 32,197 |
| Charge-offs | - | (3) | - | - | - | - | - | (3) |
| Recoveries | 10 | 21 | - | - | - | - | - | 31 |
| Provision for loan losses | 3,498 | 443 | 184 | (15) | - | (110) | - | 4,000 |
| Balance at September 30, 2020 | \$ 16,262 | \$ 18,302 | \$ 1,182 | \$ 124 | \$ 2 | \$ 331 | \$ 22 | \$ 36,225 |
| Balance at June 30, 2019 | \$ 11,635 | \$ 18,865 | \$ 903 | \$ 157 | \$ 2 | \$ 381 | \$ - | \$ 31,943 |
| Charge-offs | - | (15) | - | - | - | - | - | (15) |
| Recoveries | 10 | 1 | - | - | - | - | - | 11 |
| Provision for loan losses | 258 | 703 | (43) | (2) | - | 62 | 22 | 1,000 |
| Balance at September 30, 2019 | \$ 11,903 | \$ 19,554 | \$ 860 | \$ 155 | \$ 2 | \$ 443 | \$ 22 | \$ 32,939 |
| Balance at December 31, 2018 | \$ 11,205 | \$ 17,541 | \$ 792 | \$ 150 | \$ 2 | \$ 400 | \$ - | \$ 30,090 |
| Charge-offs | (141) | (57) | - | - | - | - | - | (198) |
| Recoveries | 13 | 18 | - | - | - | 16 | - | 47 |
| Provision for loan losses | 826 | 2,052 | 68 | 5 | - | 27 | 22 | 3,000 |
| Balance at September 30, 2019 | \$ 11,903 | \$ 19,554 | \$ 860 | \$ 155 | \$ 2 | \$ 443 | \$ 22 | \$ 32,939 |
| Allowance on loans evaluated for impairment: | | | | | | | | |
| Individually | \$ 3,893 | \$ 4,677 | \$ 23 | \$ - | \$ - | \$ 152 | \$ - | \$ 8,745 |
| Collectively | 12,369 | 13,625 | 1,159 | 124 | 2 | 179 | 22 | 27,480 |
| Balance at September 30, 2020 | \$ 16,262 | \$ 18,302 | \$ 1,182 | \$ 124 | \$ 2 | \$ 331 | \$ 22 | \$ 36,225 |
| Individually | \$ 2,351 | \$ 3,829 | \$ 16 | \$ - | \$ - | \$ 230 | \$ - | \$ 6,426 |
| Collectively | 10,403 | 14,012 | 982 | 139 | 2 | 211 | 22 | 25,771 |
| Balance at December 31, 2019 | \$ 12,754 | \$ 17,841 | \$ 998 | \$ 139 | \$ 2 | \$ 441 | \$ 22 | \$ 32,197 |
| Recorded investment in loans evaluated for impairment: | | | | | | | | |
| Individually | \$ 33,099 | \$ 18,791 | \$ 110 | \$ - | \$ - | \$ 723 | \$ - | \$ 52,723 |
| Collectively | 1,793,070 | 756,596 | 166,555 | 56,839 | 2,794 | 45,309 | 24,986 | 2,846,149 |
| Balance at September 30, 2020 | \$ 1,826,169 | \$ 775,387 | \$ 166,665 | \$ 56,839 | \$ 2,794 | \$ 46,032 | \$ 24,986 | \$ 2,898,872 |
| Individually | \$ 26,256 | \$ 18,900 | \$ 75 | \$ - | \$ - | \$ 1,113 | \$ - | \$ 46,344 |
| Collectively | 1,755,620 | 783,070 | 144,953 | 62,142 | 3,173 | 40,936 | 25,004 | 2,814,898 |
| Balance at December 31, 2019 | \$ 1,781,876 | \$ 801,970 | \$ 145,028 | \$ 62,142 | \$ 3,173 | \$ 42,049 | \$ 25,004 | \$ 2,861,242 |

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented.

| Three Months Ended September 30, 2020 | | | | | |
|---------------------------------------|----------------------|-----------------------|-------------------|----------|-------------|
| Outstanding Recorded Investment | Interest Concessions | Principal Concessions | Other Concessions | Total | Charge-offs |
| Pre-modification: | | | | | |
| Real estate mortgage | \$ - | \$ 6,925 | \$ - | \$ 6,925 | |
| Production and intermediate-term | - | 2,089 | - | 2,089 | |
| Total | \$ - | \$ 9,014 | \$ - | \$ 9,014 | |
| Post-modification: | | | | | |
| Real estate mortgage | \$ - | \$ 6,904 | \$ - | \$ 6,904 | \$ - |
| Production and intermediate-term | - | 2,122 | - | 2,122 | - |
| Total | \$ - | \$ 9,026 | \$ - | \$ 9,026 | \$ - |

| Nine Months Ended September 30, 2020 | | | | | |
|--------------------------------------|----------------------|-----------------------|-------------------|-----------|-------------|
| Outstanding Recorded Investment | Interest Concessions | Principal Concessions | Other Concessions | Total | Charge-offs |
| Pre-modification: | | | | | |
| Real estate mortgage | \$ 8,492 | \$ 15,432 | \$ - | \$ 23,924 | |
| Production and intermediate-term | 362 | 12,086 | - | 12,448 | |
| Rural residential real estate | - | 118 | - | 118 | |
| Total | \$ 8,854 | \$ 27,636 | \$ - | \$ 36,490 | |
| Post-modification: | | | | | |
| Real estate mortgage | \$ 8,461 | \$ 15,128 | \$ - | \$ 23,589 | \$ - |
| Production and intermediate-term | 359 | 12,117 | - | 12,476 | - |
| Rural residential real estate | - | 121 | - | 121 | - |
| Total | \$ 8,820 | \$ 27,366 | \$ - | \$ 36,186 | \$ - |

| Three Months Ended September 30, 2019 | | | | | |
|---------------------------------------|----------------------|-----------------------|-------------------|-----------|-------------|
| Outstanding Recorded Investment | Interest Concessions | Principal Concessions | Other Concessions | Total | Charge-offs |
| Pre-modification: | | | | | |
| Real estate mortgage | \$ 3,647 | \$ 844 | \$ - | \$ 4,491 | |
| Production and intermediate-term | 2,772 | 3,313 | - | 6,085 | |
| Total | \$ 6,419 | \$ 4,157 | \$ - | \$ 10,576 | |
| Post-modification: | | | | | |
| Real estate mortgage | \$ 3,646 | \$ 841 | \$ - | \$ 4,487 | \$ - |
| Production and intermediate-term | 2,775 | 3,330 | - | 6,105 | - |
| Total | \$ 6,421 | \$ 4,171 | \$ - | \$ 10,592 | \$ - |

| Nine Months Ended September 30, 2019 | | | | | |
|--------------------------------------|----------------------|-----------------------|-------------------|-----------|-------------|
| Outstanding Recorded Investment | Interest Concessions | Principal Concessions | Other Concessions | Total | Charge-offs |
| Pre-modification: | | | | | |
| Real estate mortgage | \$ 4,455 | \$ 3,008 | \$ - | \$ 7,463 | |
| Production and intermediate-term | 5,028 | 22,040 | - | 27,068 | |
| Total | \$ 9,483 | \$ 25,048 | \$ - | \$ 34,531 | |
| Post-modification: | | | | | |
| Real estate mortgage | \$ 4,454 | \$ 3,011 | \$ - | \$ 7,465 | \$ - |
| Production and intermediate-term | 5,036 | 22,017 | - | 27,053 | - |
| Total | \$ 9,490 | \$ 25,028 | \$ - | \$ 34,518 | \$ - |

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.

The following table presents the outstanding recorded investment for 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.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|----------------------------------|--------|---------------------------------|--------|
| | 2020 | 2019 | 2020 | 2019 |
| Defaulted troubled debt restructurings: | | | | |
| Real estate mortgage | \$ 314 | \$ – | \$ 314 | \$ 331 |
| Production and intermediate-term | 153 | 174 | 1,957 | 664 |
| Total | \$ 467 | \$ 174 | \$ 2,271 | \$ 995 |

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. 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 | \$ 35,367 | \$ 21,518 | \$ 8,022 | \$ 3,060 |
| Production and intermediate-term | 20,174 | 21,408 | 11,451 | 9,064 |
| Farm-related business | 16 | 18 | 16 | 18 |
| Rural residential real estate | 710 | 624 | 338 | 242 |
| Total loans | \$ 56,267 | \$ 43,568 | \$ 19,827 | \$ 12,384 |
| Additional commitments to lend | \$ 332 | \$ 1,287 | | |

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 | \$ – |

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 10.74 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 \$2,624 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)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|----------|---------------------------------|----------|
| | 2020 | 2019 | 2020 | 2019 |
| Employee Benefit Plans: | | | | |
| Balance at beginning of period | \$ (367) | \$ (197) | \$ (372) | \$ (198) |
| Other comprehensive income before reclassifications | — | — | — | — |
| Amounts reclassified from AOCI | 2 | — | 7 | 1 |
| Net current period other comprehensive income | 2 | — | 7 | 1 |
| Balance at end of period | \$ (365) | \$ (197) | \$ (365) | \$ (197) |

| | 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) | \$ — | \$ (7) | \$ (1) | See Note 7. |
| Net amounts reclassified | \$ (2) | \$ — | \$ (7) | \$ (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 | \$ | 2,637 | \$ 2,637 | \$ – | \$ – | \$ 2,637 |
| Recurring Assets | \$ | 2,637 | \$ 2,637 | \$ – | \$ – | \$ 2,637 |
| Liabilities: | | | | | | |
| Recurring Liabilities | \$ | – | \$ – | \$ – | \$ – | \$ – |
| Nonrecurring Measurements | | | | | | |
| Assets: | | | | | | |
| Impaired loans | \$ | 12,462 | \$ – | \$ – | \$ 12,462 | \$ 12,462 |
| Other property owned | | 1,663 | – | – | 1,848 | 1,848 |
| Nonrecurring Assets | \$ | 14,125 | \$ – | \$ – | \$ 14,310 | \$ 14,310 |
| Other Financial Instruments | | | | | | |
| Assets: | | | | | | |
| Cash | \$ | 10 | \$ 10 | \$ – | \$ – | \$ 10 |
| Loans | | 2,833,472 | – | – | 2,865,920 | 2,865,920 |
| Other Financial Assets | \$ | 2,833,482 | \$ 10 | \$ – | \$ 2,865,920 | \$ 2,865,930 |
| Liabilities: | | | | | | |
| Notes payable to AgFirst Farm Credit Bank | \$ | 2,214,017 | \$ – | \$ – | \$ 2,243,165 | \$ 2,243,165 |
| Other Financial Liabilities | \$ | 2,214,017 | \$ – | \$ – | \$ 2,243,165 | \$ 2,243,165 |
| | | December 31, 2019 | | | | |
| | | Total Carrying Amount | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Recurring Measurements | | | | | | |
| Assets: | | | | | | |
| Assets held in trust funds | \$ | 2,687 | \$ 2,687 | \$ – | \$ – | \$ 2,687 |
| Recurring Assets | \$ | 2,687 | \$ 2,687 | \$ – | \$ – | \$ 2,687 |
| Liabilities: | | | | | | |
| Recurring Liabilities | \$ | – | \$ – | \$ – | \$ – | \$ – |
| Nonrecurring Measurements | | | | | | |
| Assets: | | | | | | |
| Impaired loans | \$ | 11,448 | \$ – | \$ – | \$ 11,448 | \$ 11,448 |
| Other property owned | | 1,415 | – | – | 1,572 | 1,572 |
| Nonrecurring Assets | \$ | 12,863 | \$ – | \$ – | \$ 13,020 | \$ 13,020 |
| Other Financial Instruments | | | | | | |
| Assets: | | | | | | |
| Cash | \$ | 3,508 | \$ 3,508 | \$ – | \$ – | \$ 3,508 |
| Loans | | 2,802,248 | – | – | 2,801,621 | 2,801,621 |
| Other Financial Assets | \$ | 2,805,756 | \$ 3,508 | \$ – | \$ 2,801,621 | \$ 2,805,129 |
| Liabilities: | | | | | | |
| Notes payable to AgFirst Farm Credit Bank | \$ | 2,192,656 | \$ – | \$ – | \$ 2,199,173 | \$ 2,199,173 |
| Other Financial Liabilities | \$ | 2,192,656 | \$ – | \$ – | \$ 2,199,173 | \$ 2,199,173 |

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 at September 30, 2020

| | Fair Value | Valuation Technique(s) | Unobservable Input | Range |
|---|------------|------------------------|---------------------------|-------|
| Impaired loans and other property owned | \$ 14,310 | 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 is a table of retirement and other postretirement benefit expenses for the Association:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------------|-------------------------------------|----------|------------------------------------|----------|
| | 2020 | 2019 | 2020 | 2019 |
| Pension | \$ 1,147 | \$ 1,105 | \$ 3,438 | \$ 3,139 |
| 401(k) | 350 | 346 | 1,031 | 938 |
| Other postretirement benefits | 166 | 155 | 498 | 459 |
| Total | \$ 1,663 | \$ 1,606 | \$ 4,967 | \$ 4,536 |

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 \$19,129 and \$21,520 which will be recorded as patronage refunds from other Farm Credit institutions.