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*AgSouth 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 AgSouth Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Pat Calhoun  
Chief Executive Officer



Bo Fennell  
Chief Financial Officer



Hugh E. Weathers  
Chairman of the Board

November 6, 2020

# Report on Internal Control Over Financial Reporting

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

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

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

Based on the assessment performed, the Association’s management concluded that as of September 30, 2020, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association’s management determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2020.



Pat Calhoun

Chief Executive Officer



Bo Fennell  
Chief Financial Officer

November 6, 2020

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

*(dollars in thousands)*

The following commentary reviews the financial condition and results of operations of AgSouth Farm Credit, ACA (Association) for the period ended September 30, 2020. This information should be read in conjunction with the accompanying financial statements, notes to the financial statements, and the 2019 Annual Report of AgSouth Farm Credit, ACA. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

## FORWARD LOOKING INFORMATION

This quarterly report contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as “anticipates,” “believes,” “could,” “estimates,” “may,” “should,” “will,” or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

## 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 AgFirst's (AgFirst or the Bank) primary responsibilities is to maintain sufficient liquidity to fund the lending operations of the AgFirst District Associations (the District). The Bank's primary source of liquidity is its ability to issue Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation (the Funding Corporation). If the effects of COVID-19 were to create market disruptions that caused the Funding Corporation to be unable to continue to issue Systemwide Debt Securities at reasonable rates and desired terms, the Association's business, operating results, or financial condition would likely be adversely affected.

The Association relies on business processes that largely depend on people, technology, and the use of complex systems and models to manage its business, including access to information systems and models as well as information, applications, payment systems, and other services provided by third parties. In response to the challenges presented by the COVID-19 pandemic, the Association has modified its business practices to focus on protecting its employees and the public while continuing to fulfill its critical mission and maintaining its regular business operations in support of the farmers, ranchers, and agricultural business of America.

On March 16, 2020, the Association activated its business continuity plan and began operating remotely. As the states eased their “stay at home” restrictions, the Association took steps to re-open all offices in a phased approach following standard safety protocols required in Georgia and South Carolina – mask guidance, social distancing, enhanced cleaning, and options for appointment-only or virtual customer

meetings as needed. Some employees continue work-from-home arrangements which introduce 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 certain functions, all of which could adversely affect the Association's business, results of operations, and financial condition. The Association continues to monitor the attempts by third parties to gain unauthorized access to its network and information systems through cyber-attacks. Despite the increased cybersecurity risks presented by a portion of our 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.

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

On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Among other provisions, the CARES Act provided funding and authority to bolster United States Department of Agriculture (USDA) programs. On April 17, 2020, the USDA announced a \$19 billion Coronavirus Food Assistance Program (CFAP), that will provide \$16 billion of direct support based on actual losses for agricultural producers where prices and market supply chains have been impacted. The \$16 billion will include approximately \$10 billion of funding targeted to livestock and dairy producers, \$4 billion for row crop producers, \$2 billion for specialty crop producers, and \$500 million for other specialty crops. Additionally, \$3 billion will be allocated for direct purchases of fresh produce, dairy and meat for distribution to food banks and other non-profits.

The CARES Act also appropriated \$349 billion for the Paycheck Protection Program (PPP), a guaranteed loan program administered by the US 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%.

On August 8, 2020, the PPP was closed and the SBA ceased to accept applications from participating lenders. The Association was approved as a PPP lender and made \$8,097 in loans and recorded approximately \$325 in loan-related fee income. At September 30, 2020, the Bank had purchased \$8,097 or 100% of these loans.

## LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association’s loan portfolio is diversified over a wide range of agricultural commodities produced in our region, including timber, poultry (broilers, turkeys and eggs), sod, nursery and horticulture, cotton, feed grains, soybeans and hay, beef cattle, horses, peanuts, blueberries, fruits, and nuts. Loans to producers of these commodities total \$1,644,540 or 86.33 percent of the Association’s portfolio. Farm size varies, and many of the Association’s customers have diversified farming operations. These factors, along with the numerous opportunities for non-farm income in the area, reduce to some degree the level of income dependency on any given commodity.

## AGRICULTURE OVERVIEW

AgSouth loan activity continued to be strong during the third quarter of 2020. To date, the pandemic has had no significant impact on the Association’s ability to deliver loan products and services to our member-borrowers. The Association has not seen any unusual activity in unfunded commitments that would be attributable to the pandemic crisis at this time. Even though the Association has not seen a decline in credit quality associated with the pandemic, a Payment Deferral Program continues to be in place to assist member-borrowers that are experiencing stress during this unprecedented time. Additionally, the Association is actively engaged in SBA Loan

Programs as provided for in the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The Association is currently in the loan forgiveness stage of the Paycheck Protection Program (PPP). Although management expects many of these loans to be forgiven, this will have no impact on AgSouth’s financial statements since all of the SBA PPP loans are 100 percent guaranteed by the US government.

The US has been battling the coronavirus pandemic for the past eight months, bringing with it the sharpest economic downturn on record. Fortunately, the US government has responded with the most dynamic policy reaction on record, as well. The United States Department of Agriculture (USDA) continues to support agricultural producers who are suffering from market disruptions and associated costs related to the pandemic. Most recently, the USDA announced an additional \$14 billion dollars under the Coronavirus Food Assistance Program (CFAP 2).

The National Agricultural Statistics Service (NASS) *October Crop Production Report* indicated the following: Peanut production in Georgia is expected to be up 31 percent from 2019 at 3.6 billion pounds. In South Carolina, peanut production is expected to be up 32 percent from 2019 at 312 million pounds. Cotton production in both Georgia and South Carolina is projected to be down from 2019 with Georgia forecasted at 2.4 million bales, down 12 percent, and South Carolina forecasted at 310,000 bales, down 38 percent. Soybean production is expected to be up 45 percent from 2019 at 3.63 million bushels in Georgia, and although the lowest planted acreage since 1956, production in South Carolina is up 15 percent from 2019 at 9.44 million bushels. In South Carolina, corn for grain production forecast is projected at 50.3 million bushels, up 36 percent from 2019 with a forecasted record yield of 136 bushels per acre. In Georgia, corn for grain production is forecast at 69.2 million bushels, up 24 percent from 2019 with a forecast record yield of 182 bushels per acre. The pecan production forecast in Georgia indicates a 71 percent increase from 2019 and if realized, the highest production since 2007.

The National Agricultural Statistics Service (NASS) *Crop Progress and Condition Report* for the week ending October 4, 2020 reported the following: South Carolina topsoil moisture as being 94 percent adequate to surplus and Georgia at 91 percent adequate to surplus. The report indicated the crop condition of peanuts in South Carolina as 77 percent good to excellent and 18 percent fair with 22 percent of the crop harvested to date. For Georgia, 64 percent were rated good to excellent and 28 percent fair with 13 percent of the crop harvested to date. Cotton harvest is behind the five year average for both Georgia and South Carolina. The South Carolina cotton crop is rated 68 percent good to excellent with 20 percent of the crop in fair condition; no cotton acreage has been harvested through the week ending October 4, 2020. The Georgia cotton crop is rated 56 percent good to excellent with 31 percent in fair condition; eight percent of the cotton acreage has been harvested through the week ending October 4, 2020. The 2020 soybean harvest is in the early stages, but NASS is

rating the crop as 74 percent good to excellent and 14 percent fair in South Carolina, and 66 percent good to excellent and 26 percent fair in Georgia. Pasture conditions for both Georgia and South Carolina were in relatively good shape with more than 60 percent of the acreage rated good to excellent and more than 25 percent rated fair for the week ending October 4, 2020 in both states. Corn harvest was 94 and 95 percent complete in both Georgia and South Carolina, respectively, as of the October 4, 2020 report.

The USDA NASS released its *June Cattle on Feed Report* on September 25, 2020. It shows the number of cattle and calves on feed for the slaughter market in the US for feedlots with capacity of 1,000 or more head totaled 11.4 million head on September 1, 2020. That is slightly above September 1, 2019 and the highest September 1 inventory since the report began in 1996.

According to the NASS *Southern Region Broiler Hatchery News Release* dated September 23, 2020, domestic broiler growers placed 186 million chicks for meat production during the week ending September 19, 2020, down one percent from the comparable week a year earlier. South Carolina chick placements were 5.219 million, down nine percent from the same week in 2019. Georgia hatcheries placed 25.799 million chicks, down three percent from the same week in 2019. Cumulative placements for the United States were down one percent from the same period a year earlier at 185.788 million.

Stumpage prices for most product types across the South declined in the third quarter of 2020. Pine sawtimber and pulpwood, as well as, hardwood sawtimber and pulpwood were all down for the quarter. These seasonal price movements follow typical historical trends. Southern pine lumber and panel prices set record highs in third quarter of 2020. According to the US Census, US housing starts for month end August 2020 totaled 894,000 units, up five percent from the same period in 2019. Remodeling and improvement expenditures were up 16 percent or \$18.7 billion from the same period in 2019.

NASS published the annual *Southern Region Land Values and Cash Rents Report* on August 6, 2020. The US farm real estate value, a measurement of all land and buildings on farms, averaged \$3,160 per acre in 2020; no change from 2019. NASS reported US farm land average cash rent for all cropland (irrigated, non-irrigated and pasture) was \$139 per acre in 2020, a \$1 decrease from 2019. South Carolina's farm land average cash rent per acre for all cropland was \$47.50 in 2020, a \$.50 increase from 2019. South Carolina's farm real estate average value per acre increased \$100 per acre to \$3,500 in 2020. Georgia's farm land average cash rent per acre for all cropland was unchanged for 2020 at \$126. Georgia farm real estate average value per acre increased \$30 per acre to \$3,500 in 2020.

The Conference Board Leading Economic Index (LEI) increased 1.2 percent in August to 106.5, following a 2.0

percent increase in July and a 3.1 percent increase in June. The Conference Board stated "While the US LEI increased again in August, the slowing pace of improvement suggest that this summer's economic rebound may be losing steam heading into the final stretch of 2020." Looking ahead to 2021, the LEI suggests that the US economy will start the new year under substantially weakened economic conditions."

The Conference Board US Consumer Confidence Index increased from 86.3 in August 2020 to 101.8 in September 2020. The Conference Board stated "Consumer confidence increased sharply in September, after back-to-back monthly declines, but remains below pre-pandemic levels. A more favorable view of current business and labor market conditions, coupled with renewed optimism about the short-term outlook, helped spur September's rebound in confidence."

Total nonfarm payroll employment rose by 661,000 in September 2020, and the unemployment rate declined to 7.9 percent, according to the US Bureau of Labor Statistics. "These improvements in the labor market reflect the continued resumption of economic activity that had been curtailed due to the coronavirus (COVID-19) pandemic and efforts to contain it. In September, notable job gains occurred in leisure and hospitality, in retail trade, in health care and social services, and in professional and business services." Unemployment in South Carolina is at 5.1 percent as of September 2020. Unemployment in Georgia is at 6.4 percent as of September 2020. The Federal Reserve recently recommitted itself to keeping short-term interest rates (Fed Funds Rate) near zero for the foreseeable future, which likely means through 2023.

## ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of September 30, 2020 was \$1,904,921, an increase of \$69,825 or 3.80 percent compared to \$1,835,096 at December 31, 2019. Net loans outstanding at September 30, 2020 were \$1,887,669 as compared to \$1,818,735 at December 31, 2019. Net loans accounted for 95.60 percent of total assets at September 30, 2020, as compared to 94.54 percent of total assets at December 31, 2019.

The increase in gross loan volume during the reporting period is attributed to the funding of operating lines of credit and term loans during the busiest time of the growing season. Advances on most operating lines are now funded and additional anticipated growth in the portfolio is being realized. Competition for good quality loans remains strong from some commercial banks, but the Association has remained competitive in a difficult and volatile rate environment.

The Association typically structures loans to meet the needs of the borrower. Many term loans are made for ten years or less allowing the borrower to build equity faster and thus reducing the risk in the loan portfolio.

At December 31, 2019 the Association held Investments in debt securities totaling \$5,010. These investments are Rural America Bonds made under the authority for Mission Related Investments granted by the Farm Credit Administration (FCA). At September 30, 2020 Investments in debt securities totaled \$3,997, a decrease of \$1,013 from December 31, 2019. The 20.22 percent decrease is from expected payments made and a payoff of an investment in 2020.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality is at an acceptable level and credit administration remains satisfactory. Nonaccrual loans decreased from \$17,022 at December 31, 2019 to \$16,933 at September 30, 2020. The balance of nonaccrual loans is decreased by liquidations, loans returning to accrual status, or transfer of assets to other property owned offset by transfers to nonaccrual status. Association staff is working diligently to work out all nonaccrual debt situations.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at September 30, 2020 was \$17,252 compared to \$16,361 at December 31, 2019 and was considered by management to be adequate to cover possible losses. The increase in the allowance account includes the potential risk associated with the financial burdens created by the COVID-19 pandemic. Although management has not recognized any direct decline in credit quality, an adjustment to the qualitative factors seemed prudent given the financial climate. The reserve set aside for unfunded commitments is \$848 which is an increase of \$209 compared to the total at December 31, 2019 of \$639. The reserve for unfunded commitments is included in Other liabilities. The Asset/Liability Committee (ALCO) of the Association, which is comprised of members of executive management and staff assigned to special assets management, met in September 2020 to review the allowance account. The ALCO determined that the composition between the allowance for loan losses on the outstanding portfolio and the reserve required for unfunded commitments needed to be adjusted and an additional general reserve was required. The ALCO considered the general economic conditions, the potential for deterioration in the existing portfolio, the loan growth in the portfolio, and the amount of outstanding loan commitments in determining the level of allowance.

As of the end of the third quarter of 2020, the Association had originated \$184,233 in loans for the secondary market. Originations for the same period 2019 were \$140,479. The 31.15 percent increase is due to increased volume as the market continues to remain strong for both refinancing and new home purchases given the declining rate environment. As of September 30, 2020 the Association held \$3,302 in qualifying Loans held for sale. At December 31, 2019 loans held for sale totaled \$1,182.

Accrued interest receivable increased \$50 or less than one percent from \$18,827 as of December 31, 2019 to \$18,877 as of September 30, 2020. The increase is related to the higher loan volume balance at September 30, 2020 compared to December 31, 2019.

Equity investments in other Farm Credit institutions decreased from \$24,527 at December 31, 2019 to \$24,440 at September 30, 2020. The slight decrease of \$87, or less than one percent, is the result of a slightly lower balance of investment in other Farm Credit institutions, which varies based on participations sold on a patronage basis.

Premises and equipment, net increased \$301 from \$21,332 at December 31, 2019 to \$21,633 at September 30, 2020. The primary reason for the increase of 1.41 percent is the result of the construction of the new branch office in Baxley, GA, which was completed in June, and the purchase of Association vehicles.

Other property owned decreased to \$1,102 at September 30, 2020 from \$4,019 at December 31, 2019. The decrease of \$2,917 or 72.58 percent in Other property owned is the result of the sale of Other property owned exceeding transfers and write-downs of existing Other property owned during the reporting period.

Accounts receivable decreased \$10,963 from \$22,120 at December 31, 2019 to \$11,157 at September 30, 2020. The decrease is the result of the patronage distribution receivable at December 31, 2019 from AgFirst and other Farm Credit institutions, which totaled \$12,951 in regular distribution and \$8,523 in a special distribution. As of September 30, 2020 this line item included three quarters of patronage accrual from AgFirst and other Farm Credit institutions totaling \$10,571.

Other assets increased from \$2,172 at December 31, 2019 to \$2,228 at September 30, 2020. The majority of other assets is made up of prepaid retirement expense which totaled \$1,225 as of September 30, 2020.

On the liability side of the balance sheet, Notes payable to AgFirst Farm Credit Bank increased from \$1,481,914 at December 31, 2019 to \$1,536,825 at September 30, 2020. The \$54,911 or 3.71 percent increase is tied to the increase in loans outstanding.

Accrued interest payable decreased \$664, or 16.28 percent, from \$4,078 at December 31, 2019 to \$3,414 at September 30, 2020. The decrease is tied to the decrease in the direct note rate on the notes payable balance outstanding.

Patronage refunds payable decreased \$11,125 from \$11,532 at December 31, 2019 to \$407 at September 30, 2020. The decrease is the result of the cash portion of the 2019 Patronage distribution on the Association's records at December 31, 2019 moving from Patronage refund payable to Other liabilities. This amount totaled \$11,160 at December 31, 2019. At

September 30, 2020 no patronage distribution for 2020 has been declared.

Accounts payable decreased \$141 from \$1,721 at December 31, 2019 to \$1,580 at September 30, 2020. The 8.19 percent decrease is due to the payable established to pay the insurance premiums on loans to the Farm Credit System Insurance Corporation (FCSIC). At December 31, 2019 the payable related to the FCSIC totaled \$1,195, and at September 30, 2020 the payable was \$920.

Other liabilities increased \$2,200 from \$13,674 at December 31, 2019 to \$15,874 at September 30, 2020. The 16.09 percent increase is due to higher pension plan expenses.

Capital stock and participation certificates increased from \$10,012 at December 31, 2019 to \$10,447 at September 30, 2020. The increase of \$435 or 4.34 percent is due to new borrowers purchasing stock during the reporting period in excess of liquidations of stock when loans pay out.

Allocated surplus decreased from \$131,801 at December 31, 2019 to \$111,820 at September 30, 2020. This is a decrease of \$19,981 or 15.16 percent. The reduction is from the decision made by the Board of Directors to revolve the 2014 series of Allocated Surplus in February 2020. This revolvment totaled \$20,875. The checks and notices for this revolvment were generated and mailed in February 2020.

Unallocated surplus increased \$25,093 or 9.31 percent from the December 31, 2019 balance of \$269,553. The balance of \$294,646 at September 30, 2020 includes the retention of a portion of 2019 fiscal year end earnings and earnings year to date in 2020.

Accumulated other comprehensive loss decreased \$11 or 2.07 percent from the December 31, 2019 balance of \$532. At September 30, 2020 there was a balance of \$521.

## RESULTS OF OPERATIONS

### *For the three months ended September 30, 2020*

Net income for the three months ended September 30, 2020 totaled \$12,224 as compared to \$11,566 for the same period in 2019. This is an increase of \$658 or 5.69 percent. Comprehensive income for the three months ended September 30, 2020 was \$12,228. Employee benefit plans adjustments are responsible for the difference between comprehensive income and net income. The following commentary explains the variance.

At September 30, 2020 interest income decreased \$1,256 from \$28,291 at September 30, 2019 to \$27,035 at September 30, 2020. This decrease of 4.44 percent is primarily due a decrease in portfolio loan yield between the two reporting periods.

For the three months ended September 30, 2020 interest income on investments totaled \$70 compared to \$86 for the three months ended September 30, 2019. Investment income declined \$16 or 18.60 percent due to the lower outstanding balance of investments between the two reporting periods.

Interest expense for the three months ended September 30, 2020 decreased \$2,086 from \$12,598 at September 30, 2019 to \$10,512 at September 30, 2020. The variance of 16.56 percent is tied to the weighted average direct note rate between the two reporting periods.

Net interest income before the provision for loan loss increased \$830 for the three months ended September 30, 2020 as compared to the same period in 2019. The increase is due primarily to the higher accruing loan volume between the two reporting periods.

Net interest income after the provision for loan losses increased \$284 during the quarter ending September 30, 2020 compared to September 30, 2019. A net provision for loan losses of \$872 was made in the quarter ending September 30, 2020. The provision entry represents an adjustment between the general provision and the unfunded commitments provision which is booked to Other liabilities.

Noninterest income increased \$186 over the same period last year. The commentary that follows will detail the aggregate difference.

Loan fees increased \$163, or 16.75 percent, due to an increase in SMM Origination Fee income earned during the quarter compared to the same period in 2019.

Fees for financially related services decreased \$16 from \$296 at September 30, 2019 to \$280 at September 30, 2020. The decrease of 5.41 percent is due to the decrease in crop insurance income earned during the reporting period.

Patronage refunds from other Farm Credit institutions increased \$222 from \$3,529 at September 30, 2019 to \$3,751 at September 30, 2020. The increase of 6.29 percent is related to an increase in loans sold to AgFirst and other Farm Credit Institutions. See *Note 2* for more information.

Gains on the sale of rural home loans decreased \$93 from \$674 at September 30, 2019 compared to \$581 at September 30, 2020. A decrease in premium yields on originations between the two reporting periods resulted in the decreased gains.

Gains on the sale of premises and equipment, net for the period ending September 30, 2020 totaled \$57 compared to \$130 for the period ending September 30, 2019. The decrease of \$73 is directly related to the sale of fleet vehicles in 2019 compared to premises and equipment sold during the period in 2020.

Gains on other transactions totaled \$170 at September 30, 2020 compared to \$205 at September 30, 2019. The difference of



\$35 or 17.07 percent is primarily related to the lower provision for unfunded commitments compared to last year.

Other noninterest income was \$68 during the three months ended September 30, 2020 compared to \$50 for the three months ending September 30, 2019. This line item captures the volume premium paid by AgFirst for secondary market loans sold to AgFirst.

Noninterest expense for the three months ended September 30, 2020 totaled \$9,459 and decreased \$199 or 2.06 percent when compared to \$9,658 for the same period of 2019. Salaries and employee benefits expense is the largest portion of noninterest expense and totaled \$7,198 for the three months ended September 30, 2020. Salaries and employee benefits increased \$96 between the two reporting periods. There is a 1.35 percent variance between the two reporting periods due to the payout of annual leave up to 40 hours to employees under a special program approved by the Board due to COVID-19.

Occupancy and equipment expense at September 30, 2020 was \$504 compared to \$506 for the same period in 2019. This is a decrease of \$2 or less than one percent. The decrease is tied to the lower utilities and depreciation expense for the quarter.

The Insurance Fund premiums at September 30, 2020 were \$383 and at September 30, 2019 were \$303. The \$80 or 26.40 percent increase is due to the higher premium assessment rate in 2020.

In the three months ending September 30, 2020 the Association experienced gains on the sale of Other property owned in the amount of \$101. During the same period of 2019, the Association booked losses on the sale of Other property owned of \$104. The gain is the result of properties sold during the third quarter.

Other operating expenses decreased \$168 from \$1,643 at September 30, 2019 compared to \$1,475 at September 30, 2020. The decrease of 10.23 percent is primarily attributed to a decrease in travel and training due to the restrictions of COVID-19.

#### ***For the nine months ended September 30, 2020***

Net income for the nine months ended September 30, 2020, totaled \$34,793 as compared to \$31,891 for the same period in 2019. This is an increase of \$2,902 or 9.10 percent. Comprehensive income for the nine months ended September 30, 2020 was \$34,804. Employee benefit plans adjustments are responsible for the difference between comprehensive income and net income. The following narrative will explain the variance.

At September 30, 2020 interest income decreased \$2,293 to \$80,682 compared to \$82,975 for the same period in 2019. The decrease is tied to decrease in the overall weighted average interest rate earned.

For the nine months ending September 30, 2019 interest income on investments totaled \$257 compared to \$226 for the same period ended September 30, 2020. Investment income declined \$31 or 12.06 percent due to the lower outstanding balance of investments between the two reporting periods.

Interest expense decreased \$4,268 or 11.61 percent from \$36,761 at September 30, 2019 to \$32,493 for the nine months ended September 30, 2020. The net decrease is attributable to a higher direct note balance between the reporting periods and a lower weighted average direct note rate.

Net interest income before the provision for loan loss increased \$1,975 or 4.27 percent for the nine months ended September 30, 2020 as compared to the same period in 2019 primarily due to the increase in loan volume. Net interest income after the provision for loan losses increased \$1,625 for the period ending September 30, 2020 primarily due to an increase in loan volume, as well.

The Provision for loan losses amount in the 2019 reporting period totaled \$1,231 and there were provision entries totaling \$1,581 in the 2020 reporting period. In September 2020, the Association's ALCO made the decision that the allowance account required an increase to the general reserve and an increase to the allowance for unfunded commitments which resides within Other Liabilities. These decisions were made after analyzing the risk in the current portfolio. The ALCO analysis included reviewing historical trends, loan size, loan performance and credit quality reports.

Noninterest income for the nine months ended September 30, 2020 increased \$1,939 compared to the same period of 2019. Loan fees increased \$1,085 or 38.83 percent. In the first nine months of 2020, SMM origination fee income increased \$857 to \$2,595 compared to \$1,738 for 2019. Miscellaneous fee income was \$954 at September 30, 2020 compared to \$671 at September 30, 2019. This is an increase of \$283 or 42.18 percent.

Fees for financially related services decreased \$73 from \$815 at September 30, 2019 compared to \$742 at September 30, 2020. The 8.96 percent decrease in fees for financially related services is the result of a decrease in fee income earned on the sale of crop insurance policies.

The patronage refunds from other Farm Credit institutions increased \$990 from \$9,878 at September 30, 2019 to \$10,868 at September 30, 2020. The increase of 10.02 percent is due to an increase in the average balance of loans sold to AgFirst and other Farm Credit institutions which resulted in a higher patronage refund amount accrued.

Gains on the sale of rural home loans increased \$52 from \$1,854 at September 30, 2019 to \$1,906 at September 30, 2020. Gains increased due to the increase in loan volume compared to the prior period.

Gains on the sale of premises and equipment decreased \$13 from \$170 for the period ending September 30, 2019 to \$157 at September 30, 2020. The gains were recorded when the former Baxley office and automobiles were sold in 2020.

Losses on other transactions totaled \$154 for the nine months ended September 30, 2020 compared to a loss of \$1 for the same period in 2019. The loss recorded in the 2020 reporting period is primarily related to the allowance entry for unfunded commitments.

Insurance Fund refunds totaled \$339 at September 30, 2020 compared to \$366 during the nine months ended September 30, 2019. The decrease of \$27 or 7.38 percent is tied to the lower refund amount given to the AgFirst District by the Farm Credit System Insurance Corporation compared to last year.

Other noninterest income increased \$78 from \$126 at September 30, 2019 compared to \$204 at September 30, 2020. The variance of 61.90 percent is due to volume premiums paid by AgFirst for secondary market activity. In 2019, the Association earned \$118 in volume premiums and for the period ending September 30, 2020 the Association has earned \$181 in volume premiums.

Noninterest expense for the nine months ended September 30, 2020, increased \$632 compared to the same period of 2019 from \$29,094 to \$29,726. Salaries and employee benefits expense increased \$1,002 between the two reporting periods. The 4.73 percent increase in salaries and employee benefits is tied to the payout of annual leave approved by the Board in response to the COVID-19 Pandemic. The Association accrues for the 2020 incentive payment based upon plan results which are included in salary and benefit expense. The Association evaluated 2020 performance measures for incentive purposes and determined that some employees could earn incentive in 2020. Based upon this information, the Association will continue to accrue for incentive. The expense associated with the incentive accrual balance as of September 30, 2020 is \$2,565. Association results will be re-evaluated prior to the end of the fourth quarter 2020 to determine the most accurate accrual for the 2020 incentive plan.

Occupancy and equipment expense at September 30, 2020 was \$1,686 compared to \$1,698 for the same period in 2019. The decrease is tied to lower costs associated with cost of space and depreciation.

The Insurance Fund premiums increased from \$891 at September 30, 2019 to \$920 at September 30, 2020. The increase of \$29 or 3.25 percent is due to the higher insurance fund premium rate in 2020 compared to 2019.

Losses on other property owned, net totaled \$119 for the nine months ending September 30, 2020. When compared to the same period in 2019, losses on other property owned totaled \$195. The losses or write-downs were required after new contracts, sale closings, and/or new appraisals were obtained

and the book value needed to more accurately reflect the current market value.

Other operating expenses decreased \$311 from \$5,104 at September 30, 2019 compared to \$4,793 at September 30, 2020. The decrease is primarily due to expense decreases in travel, director activities, public & member relationship, and training.

## FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2020 was \$1,536,825 as compared to \$1,481,914 at December 31, 2019. The \$54,911 increase, or 3.71 percent, is directly tied to an increase in loan volume.

## CAPITAL RESOURCES

Total members' equity at December 31, 2019 totaled \$410,834. At September 30, 2020 total members' equity had increased by \$5,558 to \$416,392. The increase in total members' equity is due to the increase in Unallocated retained earnings offset by a decrease in Allocated retained earnings between the two reporting periods. At December 31, 2019 Allocated retained earnings totaled \$131,801 compared to \$111,820 at September 30, 2020. The decrease is due to the revolvment of the 2014 series of allocated surplus in the first quarter of 2020. At December 31, 2019, Unallocated retained earnings totaled \$269,553 and increased to \$294,646. The increase in Unallocated retained earnings is due to the decision to retain a portion of the 2019 earnings for capital purposes and year to date 2020 earnings.

Total Capital stock and participation certificates were \$10,447 on September 30, 2020 compared to \$10,012 on December 31, 2019. The increase is attributed to the purchase of new stock and participation certificates for new borrowing entities offset by the retirement of stock and participation certificates on loans liquidated in the normal course of business.

The Association’s capital ratios are calculated in accordance with FCA regulations, as follows:

- The CET1 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 revolvment, 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 revolvment 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.

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.

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

<b>Ratio</b>	<b>Minimum Requirement with Capital Conservation Buffer</b>	<b>Capital Ratios as of September 30, 2020</b>
<b>Risk-adjusted ratios:</b>		
CET1 Capital	7.00%	14.61%
Tier 1 Capital	8.50%	14.61%
Total Capital	10.50%	21.63%
Permanent Capital Ratio	7.00%	20.87%
<b>Non-risk-adjusted:</b>		
Tier 1 Leverage Ratio	5.0%	13.99%
UREE Leverage Ratio	1.5%	13.86%

## REGULATORY MATTERS

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

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

On August 25, 2020, the Farm Credit Administration adopted a final rule that amends the criteria to reinstate nonaccrual loans. This rule clarifies the factors that System institutions should consider when categorizing high-risk loans and placing them in

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

On September 23, 2019, the Farm Credit Administration issued a proposed rule that would ensure the System’s capital requirements, including certain regulatory disclosures, reflect the current expected credit losses methodology, which revises the accounting for credit losses under U.S. generally accepted accounting principles. The proposed rule identifies which credit loss allowances under the Current Expected Credit Losses (CECL) methodology in the Financial Accounting Standards Board’s “Measurement of Credit Losses on Financial Instruments” are eligible for inclusion in a System institution’s regulatory capital. Credit loss allowances related to loans, lessor’s net investments in leases, and held-to-maturity debt securities would be included in a System institution’s Tier 2 capital up to 1.25 percent of the System institution’s total risk weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not

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

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
<b>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</b>	
<ul style="list-style-type: none"> <li>• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets.</li> <li>• Changes the present incurred loss impairment guidance for loans to an expected loss model.</li> <li>• The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit.</li> <li>• Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets.</li> <li>• Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.</li> <li>• Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted.</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance.</li> <li>• The new guidance is expected to result in a change in allowance for credit losses due to several factors, including:               <ol style="list-style-type: none"> <li>1. The allowance related to loans and commitments will most likely change because it will then cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions,</li> <li>2. An allowance will be established for estimated credit losses on any debt securities,</li> <li>3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans.</li> </ol> </li> <li>• The extent of change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts at the adoption date.</li> <li>• The guidance is expected to be adopted in first quarter 2023.</li> </ul>

**NOTE:** Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, [www.agfirst.com](http://www.agfirst.com). Copies of the Association's Annual and Quarterly reports are also available upon request free of charge by calling 1-800-633-9091, ext. 2674, writing Bo Fennell, CFO, AgSouth Farm Credit, ACA, P.O. Box 718, Statesboro, GA 30459, or accessing the Association's website [www.agsouthfc.com](http://www.agsouthfc.com). The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual report to Shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Reports of suspected or actual wrongdoings involving the Association, its employees and/or Directors, can be made anonymously and confidentially through the Association's Whistleblower Hotline (SpeakUp) at 1-844-850-6496 or [www.convercent.com/report](http://www.convercent.com/report).

# AgSouth Farm Credit, ACA

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2020 <i>(unaudited)</i>	December 31, 2019 <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 87	\$ 5,853
Investments in debt securities:		
Held to maturity (fair value of \$4,534 and \$5,307, respectively)	3,997	5,010
Loans	1,904,921	1,835,096
Allowance for loan losses	(17,252)	(16,361)
Net loans	1,887,669	1,818,735
Loans held for sale	3,302	1,182
Accrued interest receivable	18,877	18,827
Equity investments in other Farm Credit institutions	24,440	24,527
Premises and equipment, net	21,633	21,332
Other property owned	1,102	4,019
Accounts receivable	11,157	22,120
Other assets	2,228	2,172
Total assets	<b>\$ 1,974,492</b>	<b>\$ 1,923,777</b>
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 1,536,825	\$ 1,481,914
Accrued interest payable	3,414	4,078
Patronage refunds payable	407	11,532
Accounts payable	1,580	1,721
Advanced conditional payments	—	24
Other liabilities	15,874	13,674
Total liabilities	<b>1,558,100</b>	<b>1,512,943</b>
Commitments and contingencies (Note 8)		
<b>Members' Equity</b>		
Capital stock and participation certificates	10,447	10,012
Retained earnings		
Allocated	111,820	131,801
Unallocated	294,646	269,553
Accumulated other comprehensive income (loss)	(521)	(532)
Total members' equity	<b>416,392</b>	<b>410,834</b>
Total liabilities and members' equity	<b>\$ 1,974,492</b>	<b>\$ 1,923,777</b>

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

**AgSouth Farm Credit, ACA**  
**Consolidated Statements of**  
**Comprehensive Income**

(unaudited)

<i>(dollars in thousands)</i>	<b>For the Three Months Ended September 30,</b>		<b>For the Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Interest Income</b>				
Loans	\$ 26,965	\$ 28,205	\$ 80,456	\$ 82,718
Investments	70	86	226	257
Total interest income	<b>27,035</b>	28,291	<b>80,682</b>	82,975
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	<b>10,512</b>	12,598	<b>32,493</b>	36,761
Total interest expense	<b>10,512</b>	12,598	<b>32,493</b>	36,761
Net interest income	<b>16,523</b>	15,693	<b>48,189</b>	46,214
Provision for loan losses	<b>872</b>	326	<b>1,581</b>	1,231
Net interest income after provision for loan losses	<b>15,651</b>	15,367	<b>46,608</b>	44,983
<b>Noninterest Income</b>				
Loan fees	1,136	973	3,879	2,794
Fees for financially related services	280	296	742	815
Patronage refunds from other Farm Credit institutions	3,751	3,529	10,868	9,878
Gains (losses) on sales of rural home loans, net	581	674	1,906	1,854
Gains (losses) on sales of premises and equipment, net	57	130	157	170
Gains (losses) on other transactions	170	205	(154)	(1)
Insurance Fund refunds	—	—	339	366
Other noninterest income	68	50	204	126
Total noninterest income	<b>6,043</b>	5,857	<b>17,941</b>	16,002
<b>Noninterest Expense</b>				
Salaries and employee benefits	7,198	7,102	22,208	21,206
Occupancy and equipment	504	506	1,686	1,698
Insurance Fund premiums	383	303	920	891
(Gains) losses on other property owned, net	(101)	104	119	195
Other operating expenses	1,475	1,643	4,793	5,104
Total noninterest expense	<b>9,459</b>	9,658	<b>29,726</b>	29,094
Income before income taxes	<b>12,235</b>	11,566	<b>34,823</b>	31,891
Provision for income taxes	11	—	30	—
<b>Net income</b>	<b>\$ 12,224</b>	\$ 11,566	<b>\$ 34,793</b>	\$ 31,891
<b>Other comprehensive income net of tax</b>				
Employee benefit plans adjustments	4	—	11	—
<b>Comprehensive income</b>	<b>\$ 12,228</b>	\$ 11,566	<b>\$ 34,804</b>	\$ 31,891

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

**AgSouth 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	\$ 9,567	\$ 126,003	\$ 254,648	\$ (226)	\$ 389,992
Cumulative effect of change in accounting principle			8		8
Comprehensive income			31,891		31,891
Capital stock/participation certificates issued/(retired), net	375				375
Retained earnings retired		(20,490)			(20,490)
Patronage distribution adjustment		264	(378)		(114)
<b>Balance at September 30, 2019</b>	<b>\$ 9,942</b>	<b>\$ 105,777</b>	<b>\$ 286,169</b>	<b>\$ (226)</b>	<b>\$ 401,662</b>
<b>Balance at December 31, 2019</b>	<b>\$ 10,012</b>	<b>\$ 131,801</b>	<b>\$ 269,553</b>	<b>\$ (532)</b>	<b>\$ 410,834</b>
<b>Comprehensive income</b>			<b>34,793</b>	<b>11</b>	<b>34,804</b>
<b>Capital stock/participation certificates issued/(retired), net</b>	<b>435</b>				<b>435</b>
<b>Patronage distribution</b>					
<b>Cash</b>			<b>(8,000)</b>		<b>(8,000)</b>
<b>Retained earnings retired</b>		<b>(21,171)</b>			<b>(21,171)</b>
<b>Patronage distribution adjustment</b>		<b>1,190</b>	<b>(1,700)</b>		<b>(510)</b>
<b>Balance at September 30, 2020</b>	<b>\$ 10,447</b>	<b>\$ 111,820</b>	<b>\$ 294,646</b>	<b>\$ (521)</b>	<b>\$ 416,392</b>

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

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

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and

other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

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

#### Accounting Standards Updates (ASUs) Issued During the Period and Effective in Future Periods

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

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

#### ASUs Pending Effective Date

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

Potential effects of ASUs issued in previous periods:

- In December 2019, the FASB issued ASU 2019-12 Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The amendments simplify the accounting for income taxes by removing the following exceptions:



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

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

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

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

- In November 2019, the FASB issued ASU 2019-10 Financial Instruments—Credit Losses (Topic 326),

Derivatives and Hedging (Topic 815), and Leases (Topic 842). On the basis of feedback obtained from outreach with stakeholders and monitoring of implementation, the Board has gained a greater understanding about the implementation challenges encountered by all types of entities when adopting a major Update. The challenges are often magnified for private companies, smaller public companies, and not-for-profit organizations. In response to those issues and requests to defer certain major Updates not yet effective for all entities, the Board developed a philosophy to extend and simplify how effective dates are staggered between larger public companies (bucket one) and all other entities (bucket two). Credit Losses guidance in ASU 2016-13 will be effective for all bucket two entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.

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

#### *Accounting Standards Effective During the Period*

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

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

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

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

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

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

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

As provided for in the CARES Act, the Association elected to suspend the requirements under GAAP for (1) loan modifications related to the COVID–19 pandemic that would

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

The Association elected the practical expedients from the Interagency Statement on Loan Modifications and Reporting for Financial Institutions - Working with Customers Affected by the Coronavirus (Revised) issued on April 7, 2020 which provides that a lender can conclude that a borrower is not experiencing financial difficulty if either (1) short-term modifications are made in response to COVID-19, such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant related to loans in which the borrower is less than 30 days past due on its contractual payments at the time a modification program is implemented, or (2) the modification or deferral program is mandated by the federal government or a state government. Accordingly, any loan modification made in response to the COVID-19 pandemic that meets either of these practical expedients would not be considered a TDR because the borrower is not experiencing financial difficulty. The Association’s modification program began on March 31, 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	\$ 1,422,983	\$ 1,364,772
Production and intermediate-term	353,408	350,390
Processing and marketing	24,596	21,951
Farm-related business	22,609	25,608
Rural residential real estate	80,925	71,960
Other (including Mission Related)	400	415
Total loans	<u>\$ 1,904,921</u>	<u>\$ 1,835,096</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	\$ 7,476	\$ 139,507	\$ 369	\$ 8,590	\$ -	\$ -	\$ 7,845	\$ 148,097
Production and intermediate-term	452	166,690	1,517	-	2,989	-	4,958	166,690
Processing and marketing	-	106,643	248	25,482	-	-	248	132,125
Farm-related business	1,161	10,677	-	-	-	-	1,161	10,677
Total	<u>\$ 9,089</u>	<u>\$ 423,517</u>	<u>\$ 2,134</u>	<u>\$ 34,072</u>	<u>\$ 2,989</u>	<u>\$ -</u>	<u>\$ 14,212</u>	<u>\$ 457,589</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	\$ 5,954	\$ 152,114	\$ 386	\$ 9,127	\$ -	\$ -	\$ 6,340	\$ 161,241
Production and intermediate-term	1,056	88,188	1,531	-	3,730	-	6,317	88,188
Processing and marketing	-	106,685	309	27,960	-	-	309	134,645
Farm-related business	3,860	12,674	-	-	-	-	3,860	12,674
Total	<u>\$ 10,870</u>	<u>\$ 359,661</u>	<u>\$ 2,226</u>	<u>\$ 37,087</u>	<u>\$ 3,730</u>	<u>\$ -</u>	<u>\$ 16,826</u>	<u>\$ 396,748</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
<b>Real estate mortgage:</b>			<b>Rural residential real estate:</b>		
Acceptable	97.38%	97.51%	Acceptable	98.50%	98.34%
OAEM	1.83	1.71	OAEM	0.80	0.82
Substandard/doubtful/loss	0.79	0.78	Substandard/doubtful/loss	0.70	0.84
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Production and intermediate-term:</b>			<b>Other (including Mission Related):</b>		
Acceptable	94.90%	95.35%	Acceptable	100.00%	100.00%
OAEM	3.68	2.97	OAEM	-	-
Substandard/doubtful/loss	1.42	1.68	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Processing and marketing:</b>			<b>Total loans:</b>		
Acceptable	94.08%	92.45%	Acceptable	96.76%	96.94%
OAEM	-	-	OAEM	2.17	1.99
Substandard/doubtful/loss	5.92	7.55	Substandard/doubtful/loss	1.07	1.07
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Farm-related business:</b>					
Acceptable	84.12%	88.27%			
OAEM	7.30	8.42			
Substandard/doubtful/loss	8.58	3.31			
	<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	\$ 5,858	\$ 2,956	\$ 8,814	\$ 1,426,722	\$ 1,435,536	
Production and intermediate-term	2,358	2,867	5,225	353,725	358,950	
Processing and marketing	-	-	-	24,851	24,851	
Farm-related business	449	911	1,360	21,399	22,759	
Rural residential real estate	1,204	-	1,204	80,074	81,278	
Other (including Mission Related)	-	-	-	402	402	
Total	<u>\$ 9,869</u>	<u>\$ 6,734</u>	<u>\$ 16,603</u>	<u>\$ 1,907,173</u>	<u>\$ 1,923,776</u>	

	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	\$ 7,572	\$ 3,313	\$ 10,885	\$ 1,365,719	\$ 1,376,604	
Production and intermediate-term	3,639	3,376	7,015	349,739	356,754	
Processing and marketing	310	-	310	21,769	22,079	
Farm-related business	1,458	403	1,861	23,969	25,830	
Rural residential real estate	221	122	343	71,868	72,211	
Other (including Mission Related)	-	-	-	416	416	
Total	<u>\$ 13,200</u>	<u>\$ 7,214</u>	<u>\$ 20,414</u>	<u>\$ 1,833,480</u>	<u>\$ 1,853,894</u>	

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
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 8,723	\$ 9,030
Production and intermediate-term	6,414	7,415
Farm-related business	1,580	403
Rural residential real estate	216	174
Total	<u>\$ 16,933</u>	<u>\$ 17,022</u>
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 3,348	\$ 4,434
Production and intermediate-term	842	444
Rural residential real estate	142	280
Total	<u>\$ 4,332</u>	<u>\$ 5,158</u>
<b>Accruing loans 90 days or more past due:</b>		
Total	<u>\$ -</u>	<u>\$ -</u>
Total nonperforming loans	\$ 21,265	\$ 22,180
Other property owned	1,102	4,019
Total nonperforming assets	<u>\$ 22,367</u>	<u>\$ 26,199</u>
Nonaccrual loans as a percentage of total loans	0.89%	0.93%
Nonperforming assets as a percentage of total loans and other property owned	1.17%	1.42%
Nonperforming assets as a percentage of capital	<u>5.37%</u>	<u>6.38%</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
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 8,836	\$ 5,647
Past due	8,097	11,375
Total	<u>\$ 16,933</u>	<u>\$ 17,022</u>
<b>Impaired accrual loans:</b>		
Restructured	\$ 4,332	\$ 5,158
90 days or more past due	-	-
Total	<u>\$ 4,332</u>	<u>\$ 5,158</u>
Total impaired loans	\$ 21,265	\$ 22,180
Additional commitments to lend	\$ -	\$ -

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

	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
<b>Impaired loans:</b>							
<b>With a related allowance for credit losses:</b>							
Real estate mortgage	\$ 671	\$ 701	\$ 24	\$ 709	\$ 13	\$ 680	\$ 31
Production and intermediate-term	815	817	140	860	15	824	37
Farm-related business	466	494	110	492	9	472	21
Rural residential real estate	-	-	-	-	-	-	-
Total	<u>\$ 1,952</u>	<u>\$ 2,012</u>	<u>\$ 274</u>	<u>\$ 2,061</u>	<u>\$ 37</u>	<u>\$ 1,976</u>	<u>\$ 89</u>
<b>With no related allowance for credit losses:</b>							
Real estate mortgage	\$ 11,400	\$ 13,543	\$ -	\$ 12,040	\$ 215	\$ 11,543	\$ 521
Production and intermediate-term	6,441	8,600	-	6,803	122	6,523	295
Farm-related business	1,114	1,371	-	1,176	21	1,128	51
Rural residential real estate	358	419	-	379	7	363	16
Total	<u>\$ 19,313</u>	<u>\$ 23,933</u>	<u>\$ -</u>	<u>\$ 20,398</u>	<u>\$ 365</u>	<u>\$ 19,557</u>	<u>\$ 883</u>
<b>Total impaired loans:</b>							
Real estate mortgage	\$ 12,071	\$ 14,244	\$ 24	\$ 12,749	\$ 228	\$ 12,223	\$ 552
Production and intermediate-term	7,256	9,417	140	7,663	137	7,347	332
Farm-related business	1,580	1,865	110	1,668	30	1,600	72
Rural residential real estate	358	419	-	379	7	363	16
Total	<u>\$ 21,265</u>	<u>\$ 25,945</u>	<u>\$ 274</u>	<u>\$ 22,459</u>	<u>\$ 402</u>	<u>\$ 21,533</u>	<u>\$ 972</u>

Impaired loans:	December 31, 2019			Year Ended December 31, 2019	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 384	\$ 368	\$ –	\$ 341	\$ 30
Production and intermediate-term	3,265	3,193	928	2,902	253
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	\$ 3,649	\$ 3,561	\$ 928	\$ 3,243	\$ 283
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 13,080	\$ 15,368	\$ –	\$ 11,625	\$ 1,016
Production and intermediate-term	4,594	5,884	–	4,083	358
Farm-related business	403	524	–	358	31
Rural residential real estate	454	495	–	404	35
Total	\$ 18,531	\$ 22,271	\$ –	\$ 16,470	\$ 1,440
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 13,464	\$ 15,736	\$ –	\$ 11,966	\$ 1,046
Production and intermediate-term	7,859	9,077	928	6,985	611
Farm-related business	403	524	–	358	31
Rural residential real estate	454	495	–	404	35
Total	\$ 22,180	\$ 25,832	\$ 928	\$ 19,713	\$ 1,723

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*	Rural Residential Real Estate	Other (including Mission Related)	Total
<b>Activity related to the allowance for credit losses:</b>						
Balance at June 30, 2020	\$ 12,076	\$ 3,191	\$ 622	\$ 626	\$ 4	\$ 16,519
Charge-offs	(12)	(160)	(26)	–	–	(198)
Recoveries	14	45	–	–	–	59
Provision for loan losses	615	232	(66)	91	–	872
Balance at September 30, 2020	\$ 12,693	\$ 3,308	\$ 530	\$ 717	\$ 4	\$ 17,252
Balance at December 31, 2019	\$ 11,485	\$ 3,868	\$ 400	\$ 604	\$ 4	\$ 16,361
Charge-offs	(12)	(880)	(131)	(5)	–	(1,028)
Recoveries	189	145	–	4	–	338
Provision for loan losses	1,031	175	261	114	–	1,581
Balance at September 30, 2020	\$ 12,693	\$ 3,308	\$ 530	\$ 717	\$ 4	\$ 17,252
Balance at June 30, 2019	\$ 11,954	\$ 2,999	\$ 393	\$ 599	\$ 4	\$ 15,949
Charge-offs	(64)	(124)	–	–	–	(188)
Recoveries	57	188	–	–	–	245
Provision for loan losses	(133)	420	25	14	–	326
Balance at September 30, 2019	\$ 11,814	\$ 3,483	\$ 418	\$ 613	\$ 4	\$ 16,332
Balance at December 31, 2018	\$ 11,485	\$ 3,032	\$ 385	\$ 538	\$ 4	\$ 15,444
Charge-offs	(201)	(731)	–	–	–	(932)
Recoveries	170	211	2	206	–	589
Provision for loan losses	360	971	31	(131)	–	1,231
Balance at September 30, 2019	\$ 11,814	\$ 3,483	\$ 418	\$ 613	\$ 4	\$ 16,332
<b>Allowance on loans evaluated for impairment:</b>						
Individually	\$ 24	\$ 140	\$ 110	\$ –	\$ –	\$ 274
Collectively	12,669	3,168	420	717	4	16,978
Balance at September 30, 2020	\$ 12,693	\$ 3,308	\$ 530	\$ 717	\$ 4	\$ 17,252
Individually	\$ –	\$ 928	\$ –	\$ –	\$ –	\$ 928
Collectively	11,485	2,940	400	604	4	15,433
Balance at December 31, 2019	\$ 11,485	\$ 3,868	\$ 400	\$ 604	\$ 4	\$ 16,361
<b>Recorded investment in loans evaluated for impairment:</b>						
Individually	\$ 12,145	\$ 7,255	\$ 1,580	\$ 358	\$ –	\$ 21,338
Collectively	1,423,391	351,695	46,030	80,920	402	1,902,438
Balance at September 30, 2020	\$ 1,435,536	\$ 358,950	\$ 47,610	\$ 81,278	\$ 402	\$ 1,923,776
Individually	\$ 13,596	\$ 7,859	\$ 403	\$ 454	\$ –	\$ 22,312
Collectively	1,363,008	348,895	47,506	71,757	416	1,831,582
Balance at December 31, 2019	\$ 1,376,604	\$ 356,754	\$ 47,909	\$ 72,211	\$ 416	\$ 1,853,894

\*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
<b>Pre-modification:</b>					
Real estate mortgage	\$ 401	\$ 897	\$ –	\$ 1,298	
Production and intermediate-term	–	1,163	–	1,163	
Total	\$ 401	\$ 2,060	\$ –	\$ 2,461	
<b>Post-modification:</b>					
Real estate mortgage	\$ 407	\$ 902	\$ –	\$ 1,309	\$ –
Production and intermediate-term	–	1,173	–	1,173	(76)
Total	\$ 407	\$ 2,075	\$ –	\$ 2,482	\$ (76)

Nine Months Ended September 30, 2020					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
<b>Pre-modification:</b>					
Real estate mortgage	\$ 690	\$ 2,401	\$ –	\$ 3,091	
Production and intermediate-term	–	1,779	–	1,779	
Total	\$ 690	\$ 4,180	\$ –	\$ 4,870	
<b>Post-modification:</b>					
Real estate mortgage	\$ 697	\$ 2,437	\$ –	\$ 3,134	\$ –
Production and intermediate-term	–	1,826	–	1,826	(103)
Total	\$ 697	\$ 4,263	\$ –	\$ 4,960	\$ (103)

Three Months Ended September 30, 2019					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
<b>Pre-modification:</b>					
Real estate mortgage	\$ 320	\$ 789	\$ –	\$ 1,109	
Production and intermediate-term	–	91	–	91	
Total	\$ 320	\$ 880	\$ –	\$ 1,200	
<b>Post-modification:</b>					
Real estate mortgage	\$ 314	\$ 820	\$ –	\$ 1,134	\$ –
Production and intermediate-term	–	94	–	94	–
Total	\$ 314	\$ 914	\$ –	\$ 1,228	\$ –

Nine Months Ended September 30, 2019					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
<b>Pre-modification:</b>					
Real estate mortgage	\$ 333	\$ 1,710	\$ –	\$ 2,043	
Production and intermediate-term	171	239	–	410	
Total	\$ 504	\$ 1,949	\$ –	\$ 2,453	
<b>Post-modification:</b>					
Real estate mortgage	\$ 327	\$ 1,743	\$ –	\$ 2,070	\$ –
Production and intermediate-term	164	276	–	440	(39)
Total	\$ 491	\$ 2,019	\$ –	\$ 2,510	\$ (39)

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 outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. 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
Real estate mortgage	\$ 280	\$ —	\$ 455	\$ —
Production and intermediate-term	—	20	178	20
Rural residential real estate	109	—	219	—
Total	\$ 389	\$ 20	\$ 852	\$ 20

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	\$ 7,308	\$ 8,113	\$ 3,960	\$ 3,679
Production and intermediate-term	2,215	1,489	1,373	1,045
Farm-related business	3	3	3	3
Rural residential real estate	142	280	—	—
Total loans	\$ 9,668	\$ 9,885	\$ 5,336	\$ 4,727
Additional commitments to lend	\$ —	\$ —		

The following table presents information as of period end:

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

### Note 3 — Investments

#### Investments in Debt Securities

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have different eligibility requirements. At September 30, 2020 the Association held no RABs whose credit quality had deteriorated beyond the program limits.

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

	September 30, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 3,997	\$ 537	\$ —	\$ 4,534	6.78%

	December 31, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 5,010	\$ 297	\$ —	\$ 5,307	6.41%

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

	September 30, 2020		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ —	\$ —	—%
After one year through five years	—	—	—
After five years through ten years	—	—	—
After ten years	3,997	4,534	6.78
Total	\$ 3,997	\$ 4,534	6.78%

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

An investment is considered impaired if its fair value is less than its cost. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified. The Association had no investments that were in a continuous unrealized loss position for the periods presented.

The recording of an impairment is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether



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

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others: (1) the length of time and the extent to which the fair value is less than cost, (2) adverse conditions specifically related to the industry, (3) geographic area and the condition of the underlying collateral, (4) payment structure of the security, (5) ratings by rating agencies, (6) the credit worthiness of bond insurers, and (7) volatility of the fair value changes.

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

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

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

#### **Equity Investments in Other Farm Credit System Institutions**

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

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 7.19 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 \$4,088 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)**

	<b>Changes in Accumulated Other Comprehensive Income by Component (a)</b>			
	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Employee Benefit Plans:</b>				
Balance at beginning of period	\$ (525)	\$ (226)	\$ (532)	\$ (226)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	4	—	11	—
Net current period other comprehensive income	4	—	11	—
Balance at end of period	\$ (521)	\$ (226)	\$ (521)	\$ (226)

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Income Statement Line Item
	2020	2019	2020	2019	
<b>Defined Benefit Pension Plans:</b>					
Periodic pension costs	\$ (4)	\$ –	\$ (11)	\$ –	See Note 7.
Net amounts reclassified	\$ (4)	\$ –	\$ (11)	\$ –	

(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
<b>Recurring Measurements</b>					
<b>Assets:</b>					
Assets held in trust funds	\$ 1,939	\$ 1,939	\$ –	\$ –	\$ 1,939
Recurring Assets	\$ 1,939	\$ 1,939	\$ –	\$ –	\$ 1,939
<b>Liabilities:</b>					
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –
<b>Nonrecurring Measurements</b>					
<b>Assets:</b>					
Impaired loans	\$ 1,678	\$ –	\$ –	\$ 1,678	\$ 1,678
Other property owned	1,102	–	–	1,285	1,285
Nonrecurring Assets	\$ 2,780	\$ –	\$ –	\$ 2,963	\$ 2,963
<b>Other Financial Instruments</b>					
<b>Assets:</b>					
Cash	\$ 87	\$ 87	\$ –	\$ –	\$ 87
Investment securities, held-to-maturity	3,997	–	–	4,534	4,534
Loans	1,889,293	–	–	1,916,284	1,916,284
Other Financial Assets	\$ 1,893,377	\$ 87	\$ –	\$ 1,920,818	\$ 1,920,905
<b>Liabilities:</b>					
Notes payable to AgFirst Farm Credit Bank	\$ 1,536,825	\$ –	\$ –	\$ 1,552,014	\$ 1,552,014
Other Financial Liabilities	\$ 1,536,825	\$ –	\$ –	\$ 1,552,014	\$ 1,552,014

December 31, 2019

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Recurring Measurements</b>					
<b>Assets:</b>					
Assets held in trust funds	\$ 1,975	\$ 1,975	\$ –	\$ –	\$ 1,975
Recurring Assets	\$ 1,975	\$ 1,975	\$ –	\$ –	\$ 1,975
<b>Liabilities:</b>					
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –
<b>Nonrecurring Measurements</b>					
<b>Assets:</b>					
Impaired loans	\$ 2,721	\$ –	\$ –	\$ 2,721	\$ 2,721
Other property owned	4,019	–	–	4,460	4,460
Nonrecurring Assets	\$ 6,740	\$ –	\$ –	\$ 7,181	\$ 7,181
<b>Other Financial Instruments</b>					
<b>Assets:</b>					
Cash	\$ 5,853	\$ 5,853	\$ –	\$ –	\$ 5,853
Investment securities, held-to-maturity	5,010	–	–	5,307	5,307
Loans	1,817,196	–	–	1,830,735	1,830,735
Other Financial Assets	\$ 1,828,059	\$ 5,853	\$ –	\$ 1,836,042	\$ 1,841,895
<b>Liabilities:</b>					
Notes payable to AgFirst Farm Credit Bank	\$ 1,481,914	\$ –	\$ –	\$ 1,484,797	\$ 1,484,797
Other Financial Liabilities	\$ 1,481,914	\$ –	\$ –	\$ 1,484,797	\$ 1,484,797

### 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.

### Investment Securities

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

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

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

### Inputs to Valuation Techniques

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

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

**Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements**

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 2,963	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
Investment securities, held-to-maturity	Discounted cash flow	Prepayment rates Risk-adjusted discount rate
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	\$ 1,040	\$ 939	\$ 3,121	\$ 2,661
401(k)	303	295	975	894
Other postretirement benefits	228	222	678	683
Total	\$ 1,571	\$ 1,456	\$ 4,774	\$ 4,238

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 monetary 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.

**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 \$12,848 and \$14,454 which will be recorded as patronage refunds from other Farm Credit institutions.