AgSouth Farm Credit, ACA

FIRST QUARTER 2020

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 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

May 8, 2020

AgSouth Farm Credit, ACA

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and 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 March 31, 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 March 31, 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 March 31, 2020.

Pat Calhoun
Chief Executive Officer

Bo Fennell
Chief Financial Officer

May 8, 2020

AgSouth Farm Credit, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of AgSouth Farm Credit, ACA (Association) for the period ended March 31, 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 novel coronavirus ("COVID-19") pandemic is creating extensive disruptions to the global economy and to the lives of individuals throughout the world. Governments, businesses, and the public are taking unprecedented actions to contain the spread of COVID-19 and to mitigate its effects, including quarantines, travel bans and restrictions, shelter in place orders, closures of businesses and schools, fiscal stimulus, and legislation designed to deliver monetary aid and other relief. The scope, duration and full effects of COVID-19 are rapidly evolving and still not fully known, but it is clear that the pandemic and related efforts to contain it have disrupted global economic activity, adversely affected the functioning of financial markets, significantly increased unemployment levels and economic and market uncertainty, and disrupted trade and supply chains.

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

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

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

The Association relies on business processes that largely depend on people, technology, and the use of complex systems and models to manage its business, including access to information systems and models as well as information, applications, payment systems, and other services provided by third parties. In response to the challenges presented by the COVID-19 pandemic, the Association has modified its business practices to focus on protecting its employees and the public while continuing to fulfill its critical mission and maintaining its regular business operations in support of the farmers, ranchers, and agricultural business of America. On March 16, 2020, the Association activated its business continuity plan and has been operating uninterrupted since then with almost all of its employees working remotely. Because the technology in remote locations may not be as robust as in the Association's offices and could cause the networks, information systems, applications and other tools available to employees to be more limited or less reliable than the Association's in-office technology, the continuation of these work-from-home measures introduces additional operational risk and inefficiencies. These risks include, but are not limited to, greater cybersecurity risks, increased privacy and disclosure hazards, strain on the local technology networks for remote operations and potential impairment of the ability to perform critical functions, all of which could adversely affect the Association's business, results of operations, and financial condition. The Association continues to monitor the attempts by third parties to gain unauthorized access to its network and information systems through cyber-attacks. Despite the increased cybersecurity risks presented by a workforce that is operating remotely, the Association had not experienced any known cyber-attacks or other known privacy or data security incidents through the date of this report that negatively affected the confidentiality, integrity, or availability of the Association's information resources.

The Association relies on many third parties, including vendors that supply essential services and local and federal government agencies, offices, and courthouses, in the performance of its business operations. In light of the developing measures being undertaken as a result of the COVID-19 pandemic, many of these entities may limit the access and availability of their services. For example, reductions in available staff in recording offices or the closing of courthouses to walk-in traffic in some counties could adversely impact the established process and turnaround times for title work and mortgage and UCC filings in those counties. If limitations in the availability of important services continued for a prolonged period or if additional limitations or potential disruptions in the ability to provide services materialize (which may be caused by a third party's own financial or operational difficulties), it may inhibit or otherwise negatively affect the normal operations and processes for the Association's business, which could have a material adverse impact on its results of operations and financial condition.

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

COVID-19 Support Programs

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

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

On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Among other provisions, the CARES Act provided funding and authority to bolster United States Department of Agriculture (USDA) programs. On April 17, 2020, the USDA announced a $19 billion Coronavirus Food Assistance Program (CFAP), that will provide $16 billion of direct support based on actual losses for agricultural producers where prices and market supply chains have been impacted. The $16 billion will include $9.6 billion of funding targeted to livestock and dairy producers, $3.9 billion for row crop producers, $2.1 billion for specialty crop producers, and $500 million for other specialty crops. Additionally, $3 billion will be allocated for direct purchases of fresh produce, dairy and meat for distribution to food banks and other non-profits.

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

Loan applicants who are eligible to receive financing under the Farm Credit Act and FCA regulations are able to borrow from the Association. The CARES Act provides for loan forgiveness if an employer uses at least 75% of the loan for payroll costs and would be reduced proportionally by any reduction in full-time equivalent employees compared to the prior year and a 25% or greater reduction in full-time equivalent employee compensation. Loan payments required under the program are deferred for up to six months.

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

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 $1,566,364 or 85.98 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

During the first quarter of 2020, the Coronavirus pandemic disrupted economic activity in many countries, as well as, the US. One positive is that the US economy came into this challenging period on a strong footing. In response, the Federal Open Market Committee lowered the target range for federal funds to near zero percent. It is anticipated the committee will continue this target range until it is confident that the economy has weathered the recent events.

In response to the pandemic, the Federal Government passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. This was the largest emergency aid package in US history, and gives massive financial injection to help US workers, small business and industries struggling with the economic disruption. The Unemployment Rate in the US rose to 4.4 percent in March 2020 as compared to 3.5 percent in February.

AgSouth loan activity was very strong during the first quarter of 2020. Farm plan projections for growers in our portfolio; however, continue to indicate tighter cash flow. To date, there has been no significant impact on the Association's ability to deliver loan products and service 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 COVID-19 pandemic, a Payment Deferral Program has been implemented 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 CARES Act.

NASS released its 2020 *Prospective Plantings Report* on March 31, 2020. The US soybean crop is estimated to be 83.5 million acres, up 10 percent from last year. The US corn crop is estimated to be 97 million acres, up 8 percent from 2019. The US cotton crop is estimated to be 13.7 million acres, down less than one percent from last year. The US peanut crop is estimated to be 1.529 million acres, up 7 percent from 2019. Tobacco comes in at 201,000 acres, an 11 percent decline from 2019.

For Georgia, corn planted is estimated at 440,000 acres, up 11 percent from 2019. South Carolina planted acres for corn is estimated at 390,000 acres, up 3 percent over 2019. Planted acres projected for cotton in 2020 indicates a 7 percent and 10 percent decline over 2019, for Georgia and South Carolina, respectively. The peanut crop in South Carolina is estimated to be 75,000 acres, up 15 percent from 2019. For Georgia, peanut acres are projected at 740,000 acres, a 10 percent increase from prior year.

As reported in the NASS *Crop Progress and Condition Report*, as of April 5, 2020 Georgia's planted acres for corn was 48 percent complete, while South Carolina was 22 percent complete. Other primary crops have yet to be planted as of that date; however, producers are busy preparing fields as conditions allow. The Vidalia Onion harvest season has begun with the official pack date being set for April 16, 2020. The NASS report indicates 63 percent of the crop to be good to excellent and 36 percent rated fair. Blueberry harvest in Georgia has also begun with 83 percent of the crop rated good to excellent and 17 percent rated fair. NASS reports the peach crop in Georgia at 86 percent good to excellent. For South Carolina, the peach crop is rated 78 percent good to excellent.

The NASS report indicates cattle conditions in Georgia are rated 69 percent good to excellent with 24 percent rated fair. South Carolina cattle conditions are rated 95 percent good to excellent. For the week ending April 5, 2020 pasture conditions were mostly rated good to excellent, with 32 percent rated fair for Georgia and 25 percent rated fair for South Carolina.

On April 21, 2020 NASS released a comparison of January to March US milk production for 2020 versus 2019. US milk production totaled 56 billion pounds, up 2.9 percent for the same time period in 2019. The average number of milk cows in the US during the reporting period was 9.37 million head, 27,000 more head than the same period in 2019.

Domestic broiler growers placed 191 million chicks for meat production as of March 28, 2020, up 3 percent from the comparable week in 2019. At March 28th, Georgia broiler chicks placed was at 26.6 million and South Carolina chick placements were at 4.88 million. This was a slight decrease for both states from a similar period a year ago. US broiler type eggs set were up 3 percent at 239 million compared a year ago. Broiler type eggs set in South Carolina was 5.83 million eggs which were up 1 percent from 2019. Georgia was relatively flat at 35.2 million eggs set as compared to the prior year period.

According to the first quarter 2020 market report by TimberMart-South, wet weather in the first quarter restricted wood supply, causing average stumpage prices to increase for pine products; however, hardwood products declined in the first quarter. This price movement was in line with the seasonal trend in the first quarter of the year. According to the US Census, US housing starts year to date through February 2020 totaled 226,200 units, up 35 percent over the same time period in 2019. The US Census reported residential remodeling activity was $27.7 billion, up 23 percent through February 2020 over the same time period in 2019.

The Conference Board Consumer Confidence Index for the US declined sharply in March 2020, following an increase in February. The Index now stands at 120.0, down from 136.6 in February. The Conference Board stated "Consumer confidence declined sharply in March due to a deterioration in the short-term outlook. The intensification of COVID-19 and extreme volatility in the financial markets has increased uncertainty about the outlook for the economy and jobs. March's decline in confidence is more in line with a severe contraction – rather than a temporary shock – and further declines are sure to follow."

ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of March 31, 2020 was $1,821,706, a decrease of $13,390 or less than one percent compared to $1,835,096 at December 31, 2019. Net loans outstanding at March 31, 2020 were $1,805,110 as compared to $1,818,735 at December 31, 2019. Net loans accounted for 95.63 percent of total assets at March 31, 2020, as compared to 94.54 percent of total assets at December 31, 2019.

The decrease in gross loan volume during the reporting period is attributed to payments and payoffs on operating lines of credit and term loans. Advances on most operating lines are now being processed and growth in the portfolio is anticipated in the second quarter of 2020. 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 March 31, 2020 Investments in debt securities totaled $4,940, a decrease of $70 from December 31, 2019. The 1.40 percent decrease is from expected payments made year to date 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 $16,947 at March 31, 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 March 31, 2020 was $16,596 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 is related to 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 $804 which is an increase of $165 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 March 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 first quarter of 2020, the Association had originated $50,293 in loans for the secondary market.

Originations for the same period 2019 were $38,418. The 30.91 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 March 31, 2020 the Association held $2,622 in qualifying Loans held for sale. At December 31, 2019 loans held for sale totaled $1,182.

Accrued interest receivable decreased $1,571 or 8.34 percent from $18,827 as of December 31, 2019 to $17,256 as of March 31, 2020. The decrease is directly tied to the decrease in loans outstanding for the current period compared to December 31, 2019.

Equity investments in other Farm Credit institutions increased from $24,527 at December 31, 2019 to $24,607 at March 31, 2020. The slight increase of $80, or less than one percent, is the result of a slightly higher balance of investment in other Farm Credit institutions, which varies based on participations sold on a patronage basis.

Premises and equipment, net increased $372 from $21,332 at December 31, 2019 to $21,704 at March 31, 2020. The primary reason for the increase of 1.74 percent is the result of the construction of the new branch office in Baxley, GA and the purchase of Association vehicles.

Other property owned decreased to $2,762 at March 31, 2020 from $4,019 at December 31, 2019. The decrease of $1,257 or 31.28 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. The Association is actively marketing all properties for sale. For details, please visit our website at ***www.agsouthfc.com*** and click on *Property for Sale*.

Accounts receivable decreased $17,965 from $22,120 at December 31, 2019 to $4,155 at March 31, 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 March 31, 2020 this line item included one quarter of patronage accrual from AgFirst and other Farm Credit institutions totaling $3,316.

Other assets increased from $2,172 at December 31, 2019 to $2,396 at March 31, 2020. The majority of other assets is made up of prepaid retirement expense which totaled $1,238 as of March 31, 2020.

On the liability side of the balance sheet, Notes payable to AgFirst Farm Credit Bank decreased from $1,481,914 at December 31, 2019 to $1,452,213 at March 31, 2020. The $29,701 or 2.00 percent decrease is tied to the decrease in loans outstanding.

Accrued interest payable decreased $436, or 10.69 percent, from $4,078 at December 31, 2019 to $3,642 at March 31, 2020. The decrease is tied to the decrease in the notes outstanding balance and a decrease in the direct note rate on the notes payable balance outstanding.

Patronage refunds payable decreased $10,613 from $11,532 at December 31, 2019 to $919 at March 31, 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 March 31, 2020 no patronage distribution for 2020 has been declared.

Accounts payable decreased $829 from $1,721 at December 31, 2019 to $892 at March 31, 2020. The 48.17 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 March 31, 2020 the payable was $264.

Other liabilities increased $15,762 from $13,674 at December 31, 2019 to $29,436 at March 31, 2020. The 115.27 percent increase is due to a payable established for the revolvement of the 2014 Allocated Surplus distribution and the cash portion of the 2019 Patronage distribution. These liabilities will decrease as checks are presented for payment at the commercial bank.

Capital stock and participation certificates increased from $10,012 at December 31, 2019 to $10,107 at March 31, 2020. The increase of $95 or less than one 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 $112,116 at March 31, 2020. This is a decrease of $19,685 or 14.94 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 revolvement totaled $20,875. The checks and notices for this revolvement were generated and mailed in February 2020.

Unallocated surplus increased $9,338 or 3.46 percent from the December 31, 2019 balance of $269,553. The balance of $278,891 at March 31, 2020 includes the retention of a portion of 2019 fiscal year end earnings and earnings year to date in 2020.

RESULTS OF OPERATIONS

For the three months ended March 31, 2020

Net income for the three months ended March 31, 2020 totaled $11,038 as compared to $10,261 for the same period in 2019. This is an increase of $777 or 7.57 percent. The following commentary explains the variance.

At March 31, 2020 interest income increased $146 from $26,975 at March 31, 2019 to $27,121. This increase of less than one percent is primarily due to the increase in accruing loan volume between the two reporting periods. Nonaccrual income, which is included in interest income, was $162 for the three months ended March 31, 2020 as compared to $136 for the same period in 2019.

For the three months ended March 31, 2020 interest income on investments totaled $83 compared to $86 for the three months ended March 31, 2019. Investment income declined $3 or 3.49 percent due to the lower outstanding balance of investments between the two reporting periods.

Interest expense for the three months ended March 31, 2020 decreased $453 from $11,840 at March 31, 2019 to $11,387 at March 31, 2020. The variance is 3.83 percent and is tied to the weighted average direct note rate between the two reporting periods.

Net interest income before the provision for loan loss increased $599 for the three months ended March 31, 2020 as compared to the same period in 2019 due primarily to the higher accruing loan volume between the two reporting periods..

Net interest income after the provision for loan losses increased $343 during the quarter ending March 31, 2020 compared to March 31, 2019. A net provision for loan losses of $256 was made in the quarter ending March 31, 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 $546 over the same period last year. The commentary that follows will detail the aggregate difference.

Loan fees increased $238, or 27.87 percent, due to an increase in SMM underwriting fees and late fees earned during the quarter compared to the same period in 2019.

Fees for financially related services increased $20 from $350 at March 31, 2019 to $370 at March 31, 2020. The increase of 5.71 percent is due to the increase in crop insurance premiums earned during the reporting period.

Patronage refunds from other Farm Credit institutions increased $327 from $3,115 at March 31, 2019 to $3,442 at March 31, 2020. The increase of 10.50 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 increased $90 from $510 at March 31, 2019 compared to $600 at March 31, 2020. An increase in originations between the two reporting periods resulted in the increased gains.

Gains on the sale of premises and equipment, net for the period ending March 31, 2020 totaled $22 compared to $0 for the period ending March 31, 2019. The increase of $22 is directly related to the sale of fleet vehicles during the period.

Losses on other transactions totaled $227 at March 31, 2020 compared to $83 at March 31, 2019. The difference is $144 or 173.49 percent is primarily related to the loss on Rabbi Trust.

Other noninterest income was $59 during the three months ended March 31, 2020 compared to $39 for the three months ending March 31, 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 March 31, 2020 totaled $10,137 and increased $112 or 1.12 percent when compared to $10,025 for the same period of 2019. Salaries and employee benefits expense are the largest portion of noninterest expense and totaled $7,138 for the three months ended March 31, 2020. Salaries and employee benefits decreased $40 between the two reporting periods. There is a less than one percent variance between the two reporting periods.

Occupancy and equipment expense at March 31, 2020 was $672 compared to $706 for the same period in 2019. This is a decrease of $34 or 4.82 percent. The decrease is tied to lower costs associated with repairs, maintenance, cost of space and depreciation.

The Insurance Fund premiums at March 31, 2019 were $291 and at March 31, 2020 were $264. The $27 or 9.28 percent decrease is due to the lower accruing loan volume in 2020.

In the three months ending March 31, 2020 the Association experienced losses on the sale of Other property owned in the amount of $170. During the same period of 2019, the Association booked losses on the sale of Other property owned of $84. The losses and expenses incurred in 2020 included write-downs on some of the properties at sale or when a new appraisal was received justifying the write-down.

Other operating expenses increased $127 from $1,766 at March 31, 2019 compared to $1,893 at March 31, 2020. The increase of 7.19 percent is primarily attributed to an increase in nonaccrual expenses between the reporting periods. Other operating expenses also include purchased services, advertising and communications and all other expenses necessary to run the business.

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 March 31, 2020 was $1,452,213 as compared to $1,481,914 at December 31, 2019. The $29,701 decrease, or 2.00 percent, is directly tied to a decrease in loan volume. As the COVID-19 pandemic increased throughout the first quarter of 2020, some fixed products were not as readily available as they are in typical environments. However, funding and liquidity for the Association is still readily available and all products are expected to return during the second quarter of 2020 with no significant impact.

CAPITAL RESOURCES

Total members' equity at December 31, 2019 totaled $410,834. At March 31, 2020 total members' equity had decreased by $10,248 to $400,586. The decrease 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 $112,116 at March 31, 2020. The decrease is due to the revolvement 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 $278,891. 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 $10,107 on March 31, 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 revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- The total capital ratio is tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The tier 1 leverage ratio is tier 1 capital, divided by average assets less regulatory deductions to tier 1 capital.
- The UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions to tier 1 capital.
- 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 following sets forth the regulatory capital ratios, which were effective January 1, 2017:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of March 31, 2020
Risk-adjusted ratios:				
CET1 Capital	4.5%	2.50%	7.00%	14.73%
Tier 1 Capital	6.0%	2.50%	8.50%	14.73%
Total Capital	8.0%	2.50%	10.50%	22.74%
Permanent Capital Ratio	7.0%	0.00%	7.00%	21.98%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	14.11%
UREE Leverage Ratio	1.5%	0.0%	1.5%	14.00%

**The capital conservation buffers have a 3 year phase-in period and will become fully effective January 1, 2020. Risk-adjusted ratio minimums will increase 0.625% each year until fully phased in. There is no phase-in period for the tier 1 leverage ratio.*

REGULATORY MATTERS

On April 9, 2020, the Farm Credit Administration voted to delay publication, until at least June 8, 2020, of its final rule on criteria to reinstate nonaccrual loans. Previously, on February 13, 2020, the Farm Credit Administration approved a rule that 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.

On September 18, 2019, the Farm Credit Administration issued a proposed rule to amend its investment regulations to allow System 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 timely payment of principal and interest. The rule would authorize Associations to buy investments to augment the liquidity of rural credit markets, reduce the capital burden on community banks and other non-System lenders who choose to sell their USDA guaranteed portions of loans, and to enhance the ability of associations to manage risk. The public comment period ended on November 18, 2019.

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 US 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):

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

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, ***www.agfirst.com***. Copies of the Association's Annual and Quarterly reports are also available upon request free of charge by calling 1-800-633-9091, 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***. 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*.

AgSouth Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	March 31, 2020 *(unaudited)*	December 31, 2019 *(audited)*
Assets		
Cash	**$ 2,136**	$ 5,853
Investments in debt securities:		
Held to maturity (fair value of $5,436 and $5,307, respectively)	**4,940**	5,010
Loans	**1,821,706**	1,835,096
Allowance for loan losses	**(16,596)**	(16,361)
Net loans	**1,805,110**	1,818,735
Loans held for sale	**2,622**	1,182
Accrued interest receivable	**17,256**	18,827
Equity investments in other Farm Credit institutions	**24,607**	24,527
Premises and equipment, net	**21,704**	21,332
Other property owned	**2,762**	4,019
Accounts receivable	**4,155**	22,120
Other assets	**2,396**	2,172
Total assets	**$ 1,887,688**	$ 1,923,777
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 1,452,213**	$ 1,481,914
Accrued interest payable	**3,642**	4,078
Patronage refunds payable	**919**	11,532
Accounts payable	**892**	1,721
Advanced conditional payments	**—**	24
Other liabilities	**29,436**	13,674
Total liabilities	**1,487,102**	1,512,943
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	**10,107**	10,012
Retained earnings		
Allocated	**112,116**	131,801
Unallocated	**278,891**	269,553
Accumulated other comprehensive income (loss)	**(528)**	(532)
Total members' equity	**400,586**	410,834
Total liabilities and members' equity	**$ 1,887,688**	$ 1,923,777

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

AgSouth Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the Three Months Ended March 31, 2020	2019
Interest Income		
Loans	**$ 27,038**	$ 26,889
Investments	**83**	86
Total interest income	**27,121**	26,975
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	**11,387**	11,840
Total interest expense	**11,387**	11,840
Net interest income	**15,734**	15,135
Provision for loan losses	**256**	—
Net interest income after provision for loan losses	**15,478**	15,135
Noninterest Income		
Loan fees	**1,092**	854
Fees for financially related services	**370**	350
Patronage refunds from other Farm Credit institutions	**3,442**	3,115
Gains (losses) on sales of rural home loans, net	**600**	510
Gains (losses) on sales of premises and equipment, net	**22**	—
Gains (losses) on other transactions	**(227)**	(83)
Insurance Fund refunds	**339**	366
Other noninterest income	**59**	39
Total noninterest income	**5,697**	5,151
Noninterest Expense		
Salaries and employee benefits	**7,138**	7,178
Occupancy and equipment	**672**	706
Insurance Fund premiums	**264**	291
(Gains) losses on other property owned, net	**170**	84
Other operating expenses	**1,893**	1,766
Total noninterest expense	**10,137**	10,025
Income before income taxes	**11,038**	10,261
Provision for income taxes	**—**	—
Net income	**$ 11,038**	$ 10,261

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

AgSouth Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended March 31, 2020	2019
Net income	**$ 11,038**	$ 10,261
Other comprehensive income net of tax		
Employee benefit plans adjustments	**4**	—
Comprehensive income	**$ 11,042**	$ 10,261

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

AgSouth Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2018	$ 9,567	$ 126,003	$ 254,648	$ (226)	$ 389,992
Cumulative effect of change in accounting principle			8		8
Comprehensive income			10,261		10,261
Capital stock/participation certificates issued/(retired), net	78				78
Retained earnings retired		(20,435)			(20,435)
Patronage distribution adjustment		264	(377)		(113)
Balance at March 31, 2019	$ 9,645	$ 105,832	$ 264,540	$ (226)	$ 379,791
Balance at December 31, 2019	**$ 10,012**	**$ 131,801**	**$ 269,553**	**$ (532)**	**$ 410,834**
Comprehensive income			**11,038**	**4**	**11,042**
Capital stock/participation certificates issued/(retired), net	**95**				**95**
Retained earnings retired		**(20,875)**			**(20,875)**
Patronage distribution adjustment		**1,190**	**(1,700)**		**(510)**
Balance at March 31, 2020	**$ 10,107**	**$ 112,116**	**$ 278,891**	**$ (528)**	**$ 400,586**

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

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

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

- In March 2020, the FASB issued ASU 2020-03 Codification Improvements to Financial Instruments. The amendments in this Update represent changes to clarify or improve the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

- 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 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:

	March 31, 2020	December 31, 2019
Real estate mortgage	$ 1,384,031	$ 1,364,772
Production and intermediate-term	321,372	350,390
Processing and marketing	20,268	21,951
Farm-related business	24,323	25,608
Rural residential real estate	71,304	71,960
Other (including Mission Related)	408	415
Total loans	$ 1,821,706	$ 1,835,096

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:

March 31, 2020	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 6,153	$ 148,135	$ 380	$ 9,126	$ –	$ –	$ 6,533	$ 157,261
Production and intermediate-term	503	194,232	1,539	–	3,623	–	5,665	194,232
Processing and marketing	–	105,493	241	27,219	–	–	241	132,712
Farm-related business	2,708	5,988	–	–	–	–	2,708	5,988
Total	$ 9,364	$ 453,848	$ 2,160	$ 36,345	$ 3,623	$ –	$ 15,147	$ 490,193

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	$ 10,870	$ 359,661	$ 2,226	$ 37,087	$ 3,730	$ –	$ 16,826	$ 396,748

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

March 31, 2020	Due Less Than 1 Year	Due 1 Through 5 Years	Due After 5 Years	Total
Real estate mortgage	$ 32,914	$ 191,757	$ 1,159,360	$ 1,384,031
Production and intermediate-term	150,144	135,576	35,652	321,372
Processing and marketing	2,800	7,490	9,978	20,268
Farm-related business	3,100	11,890	9,333	24,323
Rural residential real estate	4,346	2,006	64,952	71,304
Other (including Mission Related)	–	–	408	408
Total loans	$ 193,304	$ 348,719	$ 1,279,683	$ 1,821,706
Percentage	10.61%	19.14%	70.25%	100.00%

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:

	March 31, 2020	December 31, 2019
Real estate mortgage:		
Acceptable	97.91%	97.51%
OAEM	1.25	1.71
Substandard/doubtful/loss	0.84	0.78
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	95.82%	95.35%
OAEM	2.71	2.97
Substandard/doubtful/loss	1.47	1.68
	100.00%	100.00%
Processing and marketing:		
Acceptable	92.26%	92.45%
OAEM	–	–
Substandard/doubtful/loss	7.74	7.55
	100.00%	100.00%
Farm-related business:		
Acceptable	88.65%	88.27%
OAEM	3.97	8.42
Substandard/doubtful/loss	7.38	3.31
	100.00%	100.00%

	March 31, 2020	December 31, 2019
Rural residential real estate:		
Acceptable	98.02%	98.34%
OAEM	1.14	0.82
Substandard/doubtful/loss	0.84	0.84
	100.00%	100.00%
Other (including Mission Related):		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	97.36%	96.94%
OAEM	1.52	1.99
Substandard/doubtful/loss	1.12	1.07
	100.00%	100.00%

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

	March 31, 2020				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 5,443	$ 4,615	$ 10,058	$ 1,385,610	$ 1,395,668
Production and intermediate-term	4,210	3,211	7,421	318,816	326,237
Processing and marketing	–	–	–	20,470	20,470
Farm-related business	1,172	332	1,504	23,019	24,523
Rural residential real estate	1,119	4	1,123	70,503	71,626
Other (including Mission Related)	–	–	–	410	410
Total	11,944	8,162	20,106	1,818,828	1,838,934

	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	$ 13,200	$ 7,214	$ 20,414	$ 1,833,480	$ 1,853,894

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

	March 31, 2020	December 31, 2019
Nonaccrual loans:		
Real estate mortgage	$ 9,707	$ 9,030
Production and intermediate-term	5,912	7,415
Farm-related business	1,166	403
Rural residential real estate	162	174
Total	$ 16,947	$ 17,022
Accruing restructured loans:		
Real estate mortgage	$ 3,139	$ 4,434
Production and intermediate-term	563	444
Rural residential real estate	278	280
Total	$ 3,980	$ 5,158
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 20,927	$ 22,180
Other property owned	2,762	4,019
Total nonperforming assets	$ 23,689	$ 26,199
Nonaccrual loans as a percentage of total loans	0.93%	0.93%
Nonperforming assets as a percentage of total loans and other property owned	1.30%	1.42%
Nonperforming assets as a percentage of capital	5.91%	6.38%

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.

	March 31, 2020	December 31, 2019
Impaired nonaccrual loans:		
Current as to principal and interest	$ 5,307	$ 5,647
Past due	11,640	11,375
Total	$ 16,947	$ 17,022
Impaired accrual loans:		
Restructured	$ 3,980	$ 5,158
90 days or more past due	–	–
Total	$ 3,980	$ 5,158
Total impaired loans	$ 20,927	$ 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.

	March 31, 2020			Three Months Ended March 31, 2020	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 558	$ 525	$ 6	$ 569	$ 6
Production and intermediate-term	1,406	1,448	507	1,434	15
Farm-related business	340	363	182	347	4
Rural residential real estate	–	–	–	–	–
Total	$ 2,304	$ 2,336	$ 695	$ 2,350	$ 25
With no related allowance for credit losses:					
Real estate mortgage	$ 12,288	$ 14,559	$ –	$ 12,531	$ 134
Production and intermediate-term	5,069	6,440	–	5,169	56
Farm-related business	826	931	–	842	9
Rural residential real estate	440	488	–	449	5
Total	$ 18,623	$ 22,418	$ –	$ 18,991	$ 204
Total impaired loans:					
Real estate mortgage	$ 12,846	$ 15,084	$ 6	$ 13,100	$ 140
Production and intermediate-term	6,475	7,888	507	6,603	71
Farm-related business	1,166	1,294	182	1,189	13
Rural residential real estate	440	488	–	449	5
Total	$ 20,927	$ 24,754	$ 695	$ 21,341	$ 229

Impaired loans:	December 31, 2019 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2019 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
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
With no related allowance for credit losses:					
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
Total impaired loans:					
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
Activity related to the allowance for credit losses:						
Balance at December 31, 2019	$ 11,485	$ 3,868	$ 400	$ 604	$ 4	$ 16,361
Charge-offs	–	(170)	(1)	–	–	(171)
Recoveries	128	18	–	4	–	150
Provision for loan losses	487	(412)	166	15	–	256
Balance at March 31, 2020	$ 12,100	$ 3,304	$ 565	$ 623	$ 4	$ 16,596
Balance at December 31, 2018	$ 11,485	$ 3,032	$ 385	$ 538	$ 4	$ 15,444
Charge-offs	(47)	(210)	–	–	–	(257)
Recoveries	104	19	1	6	–	130
Provision for loan losses	12	(1)	(13)	2	–	–
Balance at March 31, 2019	$ 11,554	$ 2,840	$ 373	$ 546	$ 4	$ 15,317
Allowance on loans evaluated for impairment:						
Individually	$ 6	$ 507	$ 182	$ –	$ –	$ 695
Collectively	12,094	2,797	383	623	4	15,901
Balance at March 31, 2020	$ 12,100	$ 3,304	$ 565	$ 623	$ 4	$ 16,596
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
Recorded investment in loans evaluated for impairment:						
Individually	$ 12,974	$ 6,474	$ 1,166	$ 440	$ –	$ 21,054
Collectively	1,382,694	319,763	43,827	71,186	410	1,817,880
Balance at March 31, 2020	$ 1,395,668	$ 326,237	$ 44,993	$ 71,626	$ 410	$ 1,838,934
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 March 31, 2020				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 289	$ –	$ –	$ 289	
Production and intermediate-term	–	430	–	430	
Total	$ 289	$ 430	$ –	$ 719	
Post-modification:					
Real estate mortgage	$ 290	$ –	$ –	$ 290	$ –
Production and intermediate-term	–	467	–	467	(27)
Total	$ 290	$ 467	$ –	$ 757	$ (27)

	Three Months Ended March 31, 2019				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 243	$ –	$ 243	
Production and intermediate-term	171	58	–	229	
Total	$ 171	$ 301	$ –	$ 472	
Post-modification:					
Real estate mortgage	$ –	$ 245	$ –	$ 245	$ –
Production and intermediate-term	164	91	–	255	–
Total	$ 164	$ 336	$ –	$ 500	$ –

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 March 31,	
	2020	**2019**
Real estate mortgage	$ 282	$ –
Production and intermediate-term	165	–
Total	$ 447	$ –

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	
	March 31, 2020	**December 31, 2019**	**March 31, 2020**	**December 31, 2019**
Real estate mortgage	$ 6,928	$ 8,113	$ 3,789	$ 3,679
Production and intermediate-term	1,502	1,489	939	1,045
Farm-related business	3	3	3	3
Rural residential real estate	278	280	–	–
Total loans	$ 8,711	$ 9,885	$ 4,731	$ 4,727
Additional commitments to lend	$ –	$ –		

The following table presents information as of period end:

	March 31, 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 March 31, 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:

	March 31, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 4,940	$ 496	$ –	$ 5,436	6.55%

	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:

	March 31, 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	854	929	5.44
After ten years	4,086	4,507	6.78
Total	$ 4,940	$ 5,436	6.55%

Some 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 March 31, 2020 net of any reciprocal investment. As of that date, the Bank's assets totaled $35.9 billion and shareholders' equity totaled $2.5 billion. The Bank's earnings were $72 million for the first three months of 2020. In addition, the Association held investments of $4,255 related to other Farm Credit institutions.

Note 4 — Debt

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

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

	Changes in Accumulated Other Comprehensive Income by Component *(a)*	
	Three Months Ended March 31,	
	2020	2019
Employee Benefit Plans:		
Balance at beginning of period	$ (532)	$ (226)
Other comprehensive income before reclassifications	–	–
Amounts reclassified from AOCI	4	–
Net current period other comprehensive income	4	–
Balance at end of period	$ (528)	$ (226)

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*		
	Three Months Ended March 31,		
	2020	2019	Income Statement Line Item
Defined Benefit Pension Plans:			
Periodic pension costs	$ (4)	$ –	See Note 7.
Net amounts reclassified	$ (4)	$ –	

(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.

	March 31, 2020				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 1,905	$ 1,905	$ –	$ –	$ 1,905
Recurring Assets	$ 1,905	$ 1,905	$ –	$ –	$ 1,905
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 1,609	$ –	$ –	$ 1,609	$ 1,609
Other property owned	2,762	–	–	3,198	3,198
Nonrecurring Assets	$ 4,371	$ –	$ –	$ 4,807	$ 4,807
Other Financial Instruments					
Assets:					
Cash	$ 2,136	$ 2,136	$ –	$ –	$ 2,136
Investment securities, held-to-maturity	4,940	–	–	5,436	5,436
Loans	1,806,123	–	–	1,849,766	1,849,766
Other Financial Assets	$ 1,813,199	$ 2,136	$ –	$ 1,855,202	$ 1,857,338
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,452,213	$ –	$ –	$ 1,470,303	$ 1,470,303
Other Financial Liabilities	$ 1,452,213	$ –	$ –	$ 1,470,303	$ 1,470,303

	December 31, 2019				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 1,975	$ 1,975	$ –	$ –	$ 1,975
Recurring Assets	$ 1,975	$ 1,975	$ –	$ –	$ 1,975
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
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
Other Financial Instruments					
Assets:					
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
Liabilities:					
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	$ 4,807	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 March 31, 2020	2019
Pension	$ 1,024	$ 944
401(k)	350	309
Other postretirement benefits	227	234
Total	$ 1,601	$ 1,487

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

	Actual YTD Through 3/31/20	Projected Contributions For Remainder of 2020	Projected Total Contributions 2020
Pension	$ 40	$ 4,123	$ 4,163
Other postretirement benefits	227	629	856
Total	$ 267	$ 4,752	$ 5,019

Contributions in the above table include 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

On April 29, 2020 the Board of Directors approved a Special Patronage Distribution of $10 Million to be distributed in the second quarter of 2020. At this time, no declaration date has been set for this distribution. No other subsequent events requiring disclosure were noted through May 8, 2020.