
First South Farm Credit, ACA

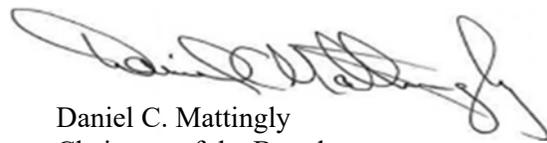
THIRD QUARTER 2020

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CERTIFICATION

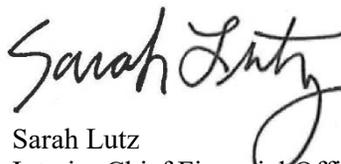
The undersigned certify that we have reviewed the September 30, 2020 quarterly report of First South Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and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



Daniel C. Mattingly
Chairman of the Board



John W. Barnard
Chief Executive Officer



Sarah Lutz
Interim Chief Financial Officer

November 6, 2020

First South Farm Credit, ACA

Report on Internal Control Over Financial Reporting

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

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

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

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



John W. Barnard
Chief Executive Officer



Sarah Lutz
Interim Chief Financial Officer

November 6, 2020

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

(dollars in thousands)

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

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 in the coming months. As of the date of this quarterly report the impact of the Association's credit and financial performance has not been significantly impacted although the remainder of 2020 is unclear at this time.

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

One of AgFirst Farm Credit Bank's (Bank) 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 rural America.

On March 19, 2020, the Association activated its business continuity and COVID-19 response plans and operated uninterrupted during that time with many of its employees working remotely from their homes. Offices were closed to the public at that time but employees were allowed to voluntarily work from the office following recommended CDC guidelines. Beginning June 1, 2020 all employees returned to normal business hours and on June 15, 2020 the offices were opened to the public. The Association offices continue to operate under the Association COVID-19 Response Plan which outlines Association procedures and CDC safety guidelines.

The association understands that the technology in employees' homes may not be as robust as in the Association's offices and could cause the networks, information systems, applications and

other tools available to employees to be more limited or less reliable than the Association's in-office technology, the continuation of these work-from-home measures introduces additional operational risk and inefficiencies. These risks include, but are not limited to, greater cybersecurity risks, increased privacy and disclosure hazards, strain on the local technology networks for remote operations and potential impairment of the ability to perform critical functions, all of which could adversely affect the Association's business, results of operations, and financial condition. Despite the return to normal business hours 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 has 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 may depend on factors beyond its control, including the duration, severity, and spread of the pandemic, as well as third-party and government actions taken to contain COVID-19 and mitigate public health and economic effects, and how quickly and to what extent normal economic and operating conditions can resume. Even after the COVID-19 pandemic is over, the Association may continue to experience material adverse effects to its business as a result of the disruption in the global economy, the domestic agricultural economy, and any resulting recession. Because there have been no comparable recent global pandemics that resulted in similar global macroeconomic impact, the Association does not yet know the full extent of the effects on its business, operations, or the global economy as a whole, but they could materially

and adversely affect the Association's business, operations, operating results, financial condition, liquidity, or capital levels as discussed in more detail above.

COVID-19 Support Programs

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

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

On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Among other provisions, the CARES Act provided funding and authority to bolster United States Department of Agriculture (USDA) programs. On April 17, 2020, the USDA announced a \$19 billion Coronavirus Food Assistance Program (CFAP), that provided \$16 billion of direct support based on actual losses for agricultural producers where prices and market supply chains were impacted. The \$16 billion included \$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 was allocated for direct purchases of fresh produce, dairy and meat for distribution to food banks and other non-profits. On September 21, 2020, the USDA implemented an expansion to the Coronavirus Food Assistance Program, known as CFAP 2. This program will provide \$14 billion of financial support to producers of certain agricultural commodities who face continuing market disruptions and significant marketing costs.

The CARES Act also appropriated \$659 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 was 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 were eligible for PPP loans. The PPP loan program closed on August 8, 2020, and as such the SBA is no longer offering new loans after this date.

Loan applicants who were eligible to receive financing under the Farm Credit Act and FCA regulations were able to borrow from participating system associations. The CARES Act provided for loan forgiveness if an employer used at least 75% of the loan for

payroll costs and would be reduced proportionally by any reduction in full-time equivalent employees compared to the prior year and a 25% or greater reduction in full-time equivalent employee compensation. Loan payments required under the program can be deferred for up to six months.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities including poultry, soybeans, livestock and forestry. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on any single commodity.

Comparison of September 30, 2020 to December 31, 2019

The gross loan volume of the Association as of September 30, 2020, was \$2,421,145 as compared to \$2,234,582 at December 31, 2019. Net loans outstanding at September 30, 2020, were \$2,403,826 as compared to \$2,219,699 at December 31, 2019. Net loans accounted for 94.88 percent of total assets at September 30, 2020, as compared to 94.11 percent of total assets at December 31, 2019.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans decreased to \$3,312 at September 30, 2020 from \$4,748 at December 31, 2019, a decrease of \$1,436.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at September 30, 2020, was \$17,319 compared to \$14,883 at December 31, 2019, and was considered by management to be adequate to cover possible losses.

RESULTS OF OPERATIONS

For the three months ended September 30, 2020

Net income for the three months ended September 30, 2020, totaled \$10,296, as compared to \$9,066 for the same period in 2019. The increase in net income relates to an increase in loan fees and a decrease in noninterest expenses and interest expense. A more detailed explanation of other changes will be discussed below.

Noninterest income for the three months ended September 30, 2020 totaled \$5,532, as compared to \$4,775 for the same

period of 2019, an increase of \$757. The increase is primarily the result of increased loan fees totaling \$396 and increased patronage refunds from other Farm Credit Institutions totaling \$233.

Noninterest expense for the three months ended September 30, 2020 decreased \$514 compared to the same period of 2019. The decrease is attributable to decreased other operating expenses of \$819, which is primarily a decrease in defined benefit plan costs. This decrease was offset by an increase in salaries and employee benefits of \$259 year over year. Additionally, (gains) losses on other property owned increased \$96 and occupancy and equipment increased \$19.

The Association recorded a provision for loan loss of \$1,500 for the three months ended September 30, 2020 compared to \$575 for the three months ended September 30, 2019. The Association recorded a provision for income taxes of \$0 for the three months ended September 30, 2020, compared to a provision for income taxes of \$6 for the same period of 2019.

For the nine months ended September 30, 2020

Net income for the nine months ended September 30, 2020, totaled \$28,859, as compared to \$24,507 for the same period in 2019, an increase of \$4,352. These changes in the nine months ended September 30, 2020 are discussed in more detail below.

Net interest income after the provision for loan losses for the nine months ended September 30, 2020 increased \$1,431 as compared to the same period in 2019. The increase in net interest income after the provision for loan losses was primarily the result of increased growth in the overall loan portfolio and reduced interest expense paid to AgFirst Farm Credit Bank.

Noninterest income for the nine months ended September 30, 2020, totaled \$15,366 as compared to \$13,778 for the same period of 2019, an increase of \$1,588. The majority of the increase is attributable to increased patronage refunds from other Farm Credit institutions of \$1,063, and an increase in loan fees of \$493. The above increases were offset by a decrease in gains on sales or premises and equipment, net of \$78, and a decrease in insurance fund refunds, net of \$7.

Noninterest expense for the nine months ended September 30, 2020, decreased \$1,312 compared to the same period of 2019. The decrease in noninterest expense was due to a decrease in other operating expenses of \$1,703, which is primarily decreased retirement costs, along with a decrease of \$197 in losses on other property owned. The above decreases were offset by an increase of \$404 in salaries and employee benefits expense, an increase of \$110 in insurance fund premiums, and an increase of \$74 in occupancy and equipment expense.

The Association recorded provision for loan losses of \$3,000 for the nine months ended September 30, 2020, compared to a provision for loan losses of \$1,105 for the same period in 2019. The Association also recorded a benefit for income taxes of \$4

for the nine month periods ended September 30, 2020 compared to a provision for income taxes of \$17 for the nine month periods ended September 30, 2019.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the AgFirst Farm Credit Bank (Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit

on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2020 was \$2,014,557 as compared to \$1,845,304 at December 31, 2019, an increase of \$169,253. The increase in notes payable from December 31, 2019 to September 30, 2020 is primarily related to the normal increase in loan volume due to seasonal lending within the portfolio.

CAPITAL RESOURCES

Total members' equity at September 30, 2020 and December 31, 2019 was \$473,968 and \$443,171, respectively. Allocated and unallocated retained earnings changes reflect the impact of normal earnings and patronage payments.

The following sets forth the regulatory capital and leverage ratios, which were effective January 1, 2017:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of September 30, 2020
Risk-adjusted ratios:				
CET1 Capital	4.5%	0.625%	5.125%	16.98%
Tier 1 Capital	6.0%	0.625%	6.625%	16.98%
Total Capital	8.0%	0.625%	8.625%	17.63%
Permanent Capital Ratio	7.0%	0.0%	7.0%	17.17%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	17.09%
UREE Leverage Ratio	1.5%	0.0%	1.5%	11.76%

* 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.

If the capital ratios fall below the minimum regulatory requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

REGULATORY MATTERS

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

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

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

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

On September 23, 2019, the Farm Credit Administration issued a proposed rule that would ensure the System's capital requirements, including certain regulatory disclosures, reflect the current expected credit losses methodology, which revises the accounting for credit losses under U.S. generally accepted accounting principles. The proposed rule identifies which credit loss allowances under the Current Expected Credit Losses (CECL) methodology in the Financial Accounting Standards Board's "Measurement of Credit Losses on Financial Instruments" are eligible for inclusion in a System institution's regulatory capital. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-maturity debt securities would be included in a System institution's Tier 2 capital up to 1.25 percent of the System

institution's total risk weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not be eligible for inclusion in a System institution's Tier 2 capital. In addition, the proposed regulation

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

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

STOCKHOLDER INVESTMENT

Stockholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst Farm Credit Bank's Quarterly and Annual Reports are on the AgFirst website, www.agfirst.com, or may be obtained at no charge by calling 1-800-845-1745, extension 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Copies of the Association's Annual and Quarterly reports are also on the Association's website, www.firstsouthfarmcredit.com, or may be obtained upon request free of charge by calling 1-800-955-1722 or writing Bryan Applewhite, First South Farm Credit, ACA, 574 Highland Colony Parkway, Suite 100, Ridgeland, MS 39157. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

First South Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2020 <i>(unaudited)</i>	December 31, 2019 <i>(audited)</i>
Assets		
Cash	\$ 8,065	\$ 8,694
Loans	2,421,145	2,234,582
Allowance for loan losses	(17,319)	(14,883)
Net loans	2,403,826	2,219,699
Loans held for sale	454	464
Accrued interest receivable	24,047	22,049
Equity investments in other Farm Credit institutions	67,403	67,272
Premises and equipment, net	13,912	13,851
Other property owned	2,815	1,031
Accounts receivable	11,217	24,598
Other assets	1,619	878
Total assets	\$ 2,533,358	\$ 2,358,536
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 2,014,557	\$ 1,845,304
Accrued interest payable	4,106	5,041
Patronage refunds payable	47	19,508
Accounts payable	2,782	2,665
Other liabilities	37,898	42,847
Total liabilities	2,059,390	1,915,365
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	52,131	51,819
Retained earnings		
Allocated	256,357	256,357
Unallocated	191,590	162,731
Accumulated other comprehensive income (loss)	(26,110)	(27,736)
Total members' equity	473,968	443,171
Total liabilities and members' equity	\$ 2,533,358	\$ 2,358,536

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

First South Farm Credit, ACA
Consolidated Statements of
Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
Interest Income				
Loans	\$ 28,636	\$ 30,755	\$ 85,370	\$ 86,125
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	12,767	15,764	39,875	43,956
Net interest income	15,869	14,991	45,495	42,169
Provision for loan losses	1,500	575	3,000	1,105
Net interest income after provision for loan losses	14,369	14,416	42,495	41,064
Noninterest Income				
Loan fees	917	521	2,784	2,291
Fees for financially related services	484	425	464	347
Patronage refunds from other Farm Credit institutions	3,905	3,672	11,346	10,283
Gains (losses) on sales of premises and equipment, net	226	157	347	425
Insurance Fund refunds	—	—	425	432
Total noninterest income	5,532	4,775	15,366	13,778
Noninterest Expense				
Salaries and employee benefits	6,862	6,603	20,503	20,099
Occupancy and equipment	447	428	1,322	1,248
Insurance Fund premiums	518	395	1,218	1,108
(Gains) losses on other property owned, net	(10)	86	77	274
Other operating expenses	1,788	2,607	5,886	7,589
Total noninterest expense	9,605	10,119	29,006	30,318
Income before income taxes	10,296	9,072	28,855	24,524
Provision (benefit) for income taxes	—	6	(4)	17
Net income	\$ 10,296	\$ 9,066	\$ 28,859	\$ 24,507
Other comprehensive income net of tax				
Employee benefit plans adjustments	542	551	1,626	1,652
Comprehensive income	\$ 10,838	\$ 9,617	\$ 30,485	\$ 26,159

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

First South Farm Credit, ACA
Consolidated Statements of Changes in
Members' Equity

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2018	\$ 52,969	\$ 259,012	\$ 138,687	\$ (26,968)	\$ 423,700
Cumulative effect of change in accounting principle			(321)		(321)
Comprehensive income			24,507	1,652	26,159
Capital stock/participation certificates issued/(retired), net	226				226
Retained earnings retired		(2,655)			(2,655)
Patronage distribution adjustment			(173)		(173)
Balance at September 30, 2019	\$ 53,195	\$ 256,357	\$ 162,700	\$ (25,316)	\$ 446,936
Balance at December 31, 2019	\$ 51,819	\$ 256,357	\$ 162,731	\$ (27,736)	\$ 443,171
Comprehensive income			28,859	1,626	30,485
Capital stock/participation certificates issued/(retired), net	312				312
Balance at September 30, 2020	\$ 52,131	\$ 256,357	\$ 191,590	\$ (26,110)	\$ 473,968

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

First South 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 First South Farm Credit, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2019, are contained in the 2019 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair statement of results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The results of any interim period are not necessarily indicative of those to be expected for a full year.

Significant Accounting Policies

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

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

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

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

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

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

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

ASUs Pending Effective Date

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

Potential effects of ASUs issued in previous periods:

- In December 2019, the FASB issued ASU 2019-12 Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The amendments simplify the

accounting for income taxes by removing the following exceptions:

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

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

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

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

- In November 2019, the FASB issued ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842). On the basis of feedback obtained from outreach with stakeholders and monitoring of implementation, the Board has gained a greater understanding about the implementation challenges encountered by all types of entities when adopting a major Update. The challenges are often magnified for private companies, smaller public companies, and not-for-profit organizations. In response to those issues and requests to defer certain major Updates not yet effective for all entities, the Board developed a philosophy to extend and simplify how effective dates are staggered between larger public companies (bucket one) and all other entities (bucket two). Credit Losses guidance in ASU 2016-13 will be effective for all bucket two entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.
- In August 2018, the FASB issued ASU 2018-14 Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans. The amendments in this Update remove disclosures that are no longer considered cost beneficial, clarify the specific requirements of certain disclosures, and add new disclosure requirements identified as relevant. Although narrow in scope, the amendments are considered an important part of the FASB’s efforts to improve the effectiveness of disclosures in the notes to financial statements by applying concepts in the Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements. The amendments are effective for fiscal years ending after December 15, 2020, for public business entities. 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.
- In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update, and subsequent clarifying guidance issued, is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early adoption is permitted. Evaluation of any possible effects the guidance

may have on the statements of financial condition and results of operations is in progress.

Accounting Standards Effective During the Period

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

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

- In March 2020, the FASB issued ASU 2020-04 Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. In response to concerns about structural risks of interbank offered rates (IBORs), and, particularly, the risk of cessation of the London Interbank Offered Rate (LIBOR), regulators around the world have undertaken reference rate reform initiatives to identify alternative reference rates that are more observable or transaction-based and less susceptible to manipulation. The amendments in this Update provide optional guidance for a limited time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The amendments provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The guidance applies only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. The expedients and exceptions do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022. The amendments are elective and were effective upon issuance for all entities. Adoption of this guidance had no impact on the statements of financial condition and results of operations.
- In March 2020, the FASB issued ASU 2020-03 Codification Improvements to Financial Instruments. The amendments represent changes to clarify or improve the Codification that were not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments addressing issues one through five, related to Topics 320, 470 and 820, are effective for 2020. The adoption of the guidance had no impact on the statements of financial condition and results of operations. The amendments addressing issues six and seven will be adopted and evaluated for impact along with ASU 2016-13 as discussed above.
- In August 2018, the FASB issued ASU 2018-15 Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service

contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this Update. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The amendments were applied prospectively to all implementation costs incurred after the date of adoption. Adoption of this guidance had no impact on the statements of financial condition and results of operations.

Recent Accounting Policy Elections

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

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

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

The Association elected to account for lease concessions related to the effects of the COVID-19 pandemic, consistent with how those concessions would be accounted for under Topic 842, as though enforceable rights and obligations for

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

Note 2 — Loans and Allowance for Loan Losses

The Association maintains an allowance for loan losses at a level considered adequate by management to provide for

probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified. See Note 3, *Loans and Allowance for Loan Losses*, from the latest Annual Report for further discussion.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. The Association manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the board of directors.

A summary of loans outstanding at period end follows:

	September 30, 2020	December 31, 2019
Real estate mortgage	\$ 1,856,337	\$ 1,745,138
Production and intermediate-term	465,878	396,010
Loans to cooperatives	15,230	11,581
Processing and marketing	47,321	50,048
Farm-related business	16,025	11,053
Communication	3,584	6,760
Power and water/waste disposal	3,014	3,011
Rural residential real estate	13,756	10,981
Total loans	<u>\$ 2,421,145</u>	<u>\$ 2,234,582</u>

A substantial portion of the Association's lending activities is collateralized, and exposure to credit loss associated with lending activities is reduced accordingly.

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration (FCA) regulations. The following tables present the principal balance of participation loans at periods ended:

	September 30, 2020							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 10,484	\$ 14,982	\$ —	\$ —	\$ 15,112	\$ —	\$ 25,596	\$ 14,982
Production and intermediate-term	7,805	8,451	53	—	306	—	8,164	8,451
Loans to cooperatives	15,264	—	—	—	—	—	15,264	—
Processing and marketing	14,158	33,333	—	—	12,572	—	26,730	33,333
Communication	3,590	—	—	—	—	—	3,590	—
Power and water/waste disposal	3,028	—	—	—	—	—	3,028	—
Rural residential real estate	—	—	—	—	39	—	39	—
Total	<u>\$ 54,329</u>	<u>\$ 56,766</u>	<u>\$ 53</u>	<u>\$ —</u>	<u>\$ 28,029</u>	<u>\$ —</u>	<u>\$ 82,411</u>	<u>\$ 56,766</u>

	December 31, 2019							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 10,829	\$ 22,580	\$ —	\$ —	\$ 18,618	\$ —	\$ 29,447	\$ 22,580
Production and intermediate-term	8,880	14,867	62	—	401	—	9,343	14,867
Loans to cooperatives	11,612	—	—	—	—	—	11,612	—
Processing and marketing	11,728	35,425	15,313	1,478	2,000	—	29,041	36,903
Communication	6,758	—	—	—	—	—	6,758	—
Power and water/waste disposal	3,028	—	—	—	—	—	3,028	—
Rural residential real estate	—	—	—	—	40	—	40	—
Total	<u>\$ 52,835</u>	<u>\$ 72,872</u>	<u>\$ 15,375</u>	<u>\$ 1,478</u>	<u>\$ 21,059</u>	<u>\$ —</u>	<u>\$ 89,269</u>	<u>\$ 74,350</u>

The recorded investment in a receivable is the face amount increased or decreased by applicable accrued interest, unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

The following table shows the recorded investment of loans, classified under the FCA Uniform Loan Classification System, as a percentage of the recorded investment of total loans by loan type as of:

	September 30, 2020	December 31, 2019		September 30, 2020	December 31, 2019
Real estate mortgage:			Communication:		
Acceptable	97.32%	96.64%	Acceptable	100.00%	100.00%
OAEM	1.92	2.53	OAEM	-	-
Substandard/doubtful/loss	0.76	0.83	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Production and intermediate-term:			Power and water/waste disposal:		
Acceptable	88.82%	88.25%	Acceptable	-%	-%
OAEM	6.52	7.83	OAEM	-	100.00
Substandard/doubtful/loss	4.66	3.92	Substandard/doubtful/loss	100.00	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Loans to cooperatives:			Rural residential real estate:		
Acceptable	100.00%	100.00%	Acceptable	98.01%	97.49%
OAEM	-	-	OAEM	1.10	1.32
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	0.89	1.19
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Processing and marketing:			Total loans:		
Acceptable	89.41%	87.58%	Acceptable	95.43%	94.81%
OAEM	10.59	12.42	OAEM	2.96	3.84
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	1.61	1.35
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Farm-related business:					
Acceptable	98.22%	87.97%			
OAEM	1.78	12.03			
Substandard/doubtful/loss	-	-			
	<u>100.00%</u>	<u>100.00%</u>			

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

	September 30, 2020					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	
Real estate mortgage	\$ 4,976	\$ 969	\$ 5,945	\$ 1,867,041	\$ 1,872,986	
Production and intermediate-term	1,202	1,222	2,424	470,334	472,758	
Loans to cooperatives	-	-	-	15,236	15,236	
Processing and marketing	-	-	-	47,495	47,495	
Farm-related business	290	-	290	15,990	16,280	
Communication	-	-	-	3,584	3,584	
Power and water/waste disposal	-	-	-	3,015	3,015	
Rural residential real estate	53	-	53	13,785	13,838	
Total	<u>\$ 6,521</u>	<u>\$ 2,191</u>	<u>\$ 8,712</u>	<u>\$ 2,436,480</u>	<u>\$ 2,445,192</u>	

	December 31, 2019					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	
Real estate mortgage	\$ 4,012	\$ 1,494	\$ 5,506	\$ 1,755,363	\$ 1,760,869	
Production and intermediate-term	1,863	1,194	3,057	398,699	401,756	
Loans to cooperatives	-	-	-	11,593	11,593	
Processing and marketing	-	-	-	50,305	50,305	
Farm-related business	-	-	-	11,262	11,262	
Communication	-	-	-	6,787	6,787	
Power and water/waste disposal	-	-	-	3,013	3,013	
Rural residential real estate	213	-	213	10,833	11,046	
Total	<u>\$ 6,088</u>	<u>\$ 2,688</u>	<u>\$ 8,776</u>	<u>\$ 2,247,855</u>	<u>\$ 2,256,631</u>	

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

	September 30, 2020	December 31, 2019
Nonaccrual loans:		
Real estate mortgage	\$ 1,209	\$ 2,166
Production and intermediate-term	2,103	2,582
Total	<u>\$ 3,312</u>	<u>\$ 4,748</u>
Accruing restructured loans:		
Real estate mortgage	\$ 1,131	\$ 1,159
Production and intermediate-term	481	1,165
Total	<u>\$ 1,612</u>	<u>\$ 2,324</u>
Accruing loans 90 days or more past due:		
Total	\$ —	\$ —
Total nonperforming loans	\$ 4,924	\$ 7,072
Other property owned	2,815	1,031
Total nonperforming assets	<u>\$ 7,739</u>	<u>\$ 8,103</u>
Nonaccrual loans as a percentage of total loans	0.14%	0.21%
Nonperforming assets as a percentage of total loans and other property owned	0.32%	0.36%
Nonperforming assets as a percentage of capital	<u>1.63%</u>	<u>1.83%</u>

The following table presents information related to the recorded investment of impaired loans at period end. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

	September 30, 2020	December 31, 2019
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 1,071	\$ 1,939
Past due	2,241	2,809
Total	<u>\$ 3,312</u>	<u>\$ 4,748</u>
Impaired accrual loans:		
Restructured	\$ 1,612	\$ 2,324
90 days or more past due	—	—
Total	<u>\$ 1,612</u>	<u>\$ 2,324</u>
Total impaired loans	<u>\$ 4,924</u>	<u>\$ 7,072</u>
Additional commitments to lend	\$ 7	\$ —

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

	September 30, 2020			Three Months Ended September 30, 2020		Nine Months Ended September 30, 2020	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans:							
With a related allowance for credit losses:							
Production and intermediate-term	\$ 83	\$ 101	\$ 8	\$ 95	\$ 1	\$ 117	\$ 5
Total	<u>\$ 83</u>	<u>\$ 101</u>	<u>\$ 8</u>	<u>\$ 95</u>	<u>\$ 1</u>	<u>\$ 117</u>	<u>\$ 5</u>
With no related allowance for credit losses:							
Real estate mortgage	\$ 2,340	\$ 4,289	\$ —	\$ 2,685	\$ 22	\$ 3,294	\$ 137
Production and intermediate-term	2,501	4,183	—	2,869	24	3,519	147
Total	<u>\$ 4,841</u>	<u>\$ 8,472</u>	<u>\$ —</u>	<u>\$ 5,554</u>	<u>\$ 46</u>	<u>\$ 6,813</u>	<u>\$ 284</u>
Total impaired loans:							
Real estate mortgage	\$ 2,340	\$ 4,289	\$ —	\$ 2,685	\$ 22	\$ 3,294	\$ 137
Production and intermediate-term	2,584	4,284	8	2,964	25	3,636	152
Total	<u>\$ 4,924</u>	<u>\$ 8,573</u>	<u>\$ 8</u>	<u>\$ 5,649</u>	<u>\$ 47</u>	<u>\$ 6,930</u>	<u>\$ 289</u>

Impaired loans:	December 31, 2019			Year Ended December 31, 2019	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Production and intermediate-term	\$ 638	\$ 674	\$ 77	\$ 559	\$ 20
Total	\$ 638	\$ 674	\$ 77	\$ 559	\$ 20
With no related allowance for credit losses:					
Real estate mortgage	\$ 3,325	\$ 5,255	\$ —	\$ 2,914	\$ 104
Production and intermediate-term	3,109	4,303	—	2,723	98
Total	\$ 6,434	\$ 9,558	\$ —	\$ 5,637	\$ 202
Total impaired loans:					
Real estate mortgage	\$ 3,325	\$ 5,255	\$ —	\$ 2,914	\$ 104
Production and intermediate-term	3,747	4,977	77	3,282	118
Total	\$ 7,072	\$ 10,232	\$ 77	\$ 6,196	\$ 222

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	Total
Activity related to the allowance for credit losses:							
Balance at June 30, 2020	\$ 10,710	\$ 4,189	\$ 531	\$ 77	\$ 188	\$ 72	\$ 15,767
Charge-offs	—	—	—	—	—	—	—
Recoveries	52	—	—	—	—	—	52
Provision for loan losses	1,209	267	(6)	5	9	16	1,500
Balance at September 30, 2020	\$ 11,971	\$ 4,456	\$ 525	\$ 82	\$ 197	\$ 88	\$ 17,319
Balance at December 31, 2019	\$ 10,614	\$ 3,646	\$ 468	\$ 35	\$ 53	\$ 67	\$ 14,883
Charge-offs	(6)	(658)	—	—	—	—	(664)
Recoveries	52	48	—	—	—	—	100
Provision for loan losses	1,311	1,420	57	47	144	21	3,000
Balance at September 30, 2020	\$ 11,971	\$ 4,456	\$ 525	\$ 82	\$ 197	\$ 88	\$ 17,319
Balance at June 30, 2019	\$ 10,047	\$ 3,756	\$ 491	\$ 34	\$ 18	\$ 61	\$ 14,407
Charge-offs	(75)	(57)	—	—	—	—	(132)
Recoveries	56	50	—	—	—	—	106
Provision for loan losses	100	483	(57)	1	45	3	575
Balance at September 30, 2019	\$ 10,128	\$ 4,232	\$ 434	\$ 35	\$ 63	\$ 64	\$ 14,956
Balance at December 31, 2018	\$ 10,411	\$ 3,072	\$ 334	\$ 37	\$ 20	\$ 67	\$ 13,941
Charge-offs	(188)	(62)	—	—	—	—	(250)
Recoveries	107	53	—	—	—	—	160
Provision for loan losses	(202)	1,169	100	(2)	43	(3)	1,105
Balance at September 30, 2019	\$ 10,128	\$ 4,232	\$ 434	\$ 35	\$ 63	\$ 64	\$ 14,956
Allowance on loans evaluated for impairment:							
Individually	\$ —	\$ 8	\$ —	\$ —	\$ —	\$ —	\$ 8
Collectively	11,971	4,448	525	82	197	88	17,311
Balance at September 30, 2020	\$ 11,971	\$ 4,456	\$ 525	\$ 82	\$ 197	\$ 88	\$ 17,319
Individually	\$ —	\$ 77	\$ —	\$ —	\$ —	\$ —	\$ 77
Collectively	10,614	3,569	468	35	53	67	14,806
Balance at December 31, 2019	\$ 10,614	\$ 3,646	\$ 468	\$ 35	\$ 53	\$ 67	\$ 14,883
Recorded investment in loans evaluated for impairment:							
Individually	\$ 2,340	\$ 2,584	\$ —	\$ —	\$ —	\$ —	\$ 4,924
Collectively	1,870,646	470,174	79,011	3,584	3,015	13,838	2,440,268
Balance at September 30, 2020	\$ 1,872,986	\$ 472,758	\$ 79,011	\$ 3,584	\$ 3,015	\$ 13,838	\$ 2,445,192
Individually	\$ 3,325	\$ 3,747	\$ —	\$ —	\$ —	\$ —	\$ 7,072
Collectively	1,757,544	398,009	73,160	6,787	3,013	11,046	2,249,559
Balance at December 31, 2019	\$ 1,760,869	\$ 401,756	\$ 73,160	\$ 6,787	\$ 3,013	\$ 11,046	\$ 2,256,631

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. There were no new TDRs that occurred during the periods presented.

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets.

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the periods presented. Payment default is defined as a payment that was thirty days or more past due.

The following table provides information at period end on outstanding loans restructured in troubled debt restructurings. These loans are included as impaired loans in the impaired loan table:

	Total TDRs		Nonaccrual TDRs	
	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
Real estate mortgage	\$ 1,175	\$ 1,208	\$ 44	\$ 49
Production and intermediate-term	660	1,165	180	—
Total loans	\$ 1,835	\$ 2,373	\$ 224	\$ 49
Additional commitments to lend	\$ —	\$ —		

The following table presents information as of period end:

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

Note 3 — Investments

Equity Investments in Other Farm Credit System Institutions

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

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 8.66 percent of the issued stock of the Bank as of September 30, 2020 net of any reciprocal investment. As of that date, the Bank's assets totaled \$35.8 billion and

shareholders' equity totaled \$2.8 billion. The Bank's earnings were \$275 million for the first nine months of 2020. In addition, the Association held investments of \$1,351 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

	Changes in Accumulated Other Comprehensive Income by Component (a)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Employee Benefit Plans:				
Balance at beginning of period	\$ (26,652)	\$ (25,867)	\$ (27,736)	\$ (26,968)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	542	551	1,626	1,652
Net current period other comprehensive income	542	551	1,626	1,652
Balance at end of period	\$ (26,110)	\$ (25,316)	\$ (26,110)	\$ (25,316)

Reclassifications Out of Accumulated Other Comprehensive Income (b)

	Three Months Ended September 30,		Nine Months Ended September 30,		Income Statement Line Item
	2020	2019	2020	2019	
Defined Benefit Pension Plans:					
Periodic pension costs	\$ (542)	\$ (551)	\$ (1,626)	\$ (1,652)	See Note 7.
Net amounts reclassified	\$ (542)	\$ (551)	\$ (1,626)	\$ (1,652)	

(a) Amounts in parentheses indicate debits to AOCI.

(b) Amounts in parentheses indicate debits to profit/loss.

Note 6 — Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

The classifications within the fair value hierarchy are as follows:

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability.

Level 3 inputs are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see the latest Annual Report to Shareholders.

There were no Level 3 assets or liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

Fair values are estimated at each period end date for assets and liabilities measured at fair value on a recurring basis. Other Financial Instruments are not measured at fair value in the statement of financial position, but their fair values are estimated as of each period end date. The following tables summarize the carrying amounts of these assets and liabilities at period end, and their related fair values.

	September 30, 2020				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<u>Recurring Measurements</u>					
Assets:					
Recurring Assets	\$ —	\$ —	\$ —	\$ —	\$ —
Liabilities:					
Recurring Liabilities	\$ —	\$ —	\$ —	\$ —	\$ —
<u>Nonrecurring Measurements</u>					
Assets:					
Impaired loans	\$ 75	\$ —	\$ —	\$ 75	\$ 75
Other property owned	2,815	—	—	3,102	3,102
Nonrecurring Assets	\$ 2,890	\$ —	\$ —	\$ 3,177	\$ 3,177
<u>Other Financial Instruments</u>					
Assets:					
Cash	\$ 8,065	\$ 8,065	\$ —	\$ —	\$ 8,065
Loans	2,404,205	—	—	2,423,906	2,423,906
Other Financial Assets	\$ 2,412,270	\$ 8,065	\$ —	\$ 2,423,906	\$ 2,431,971
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	\$ 2,014,557	\$ —	\$ —	\$ 2,033,485	\$ 2,033,485
Other Financial Liabilities	\$ 2,014,557	\$ —	\$ —	\$ 2,033,485	\$ 2,033,485

December 31, 2019

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Recurring Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Liabilities:					
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
Nonrecurring Measurements					
Assets:					
Impaired loans	\$ 561	\$ -	\$ -	\$ 561	\$ 561
Other property owned	1,031	-	-	1,185	1,185
Nonrecurring Assets	\$ 1,592	\$ -	\$ -	\$ 1,746	\$ 1,746
Other Financial Instruments					
Assets:					
Cash	\$ 8,694	\$ 8,694	\$ -	\$ -	\$ 8,694
Loans	2,219,602	-	-	2,211,691	2,211,691
Other Financial Assets	\$ 2,228,296	\$ 8,694	\$ -	\$ 2,211,691	\$ 2,220,385
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	\$ 1,845,304	\$ -	\$ -	\$ 1,847,584	\$ 1,847,584
Other Financial Liabilities	\$ 1,845,304	\$ -	\$ -	\$ 1,847,584	\$ 1,847,584

Uncertainty in Measurements of Fair Value

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

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

certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 3,177	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

* Ranges for this type of input are not useful because each collateral property is unique.

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity

Note 7 — Employee Benefit Plans

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Pension	\$ 578	\$ 918	\$ 1,733	\$ 2,755
401(k)	231	219	714	675
Other postretirement benefits	176	178	540	538
Total	\$ 985	\$ 1,315	\$ 2,987	\$ 3,968

Expenses in the above table are computed using allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2020.

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

Note 8 — Commitments and Contingent Liabilities

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

Note 9 — Subsequent Events

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

On October 19, 2020, AgFirst's Board of Directors indicated an intention to declare, in December 2020, a special patronage distribution. The Association will receive between approximately \$16,605 and \$18,680 which will be recorded as patronage refunds from other Farm Credit institutions.