
Colonial Farm Credit, ACA

THIRD QUARTER 2020

TABLE OF CONTENTS

Report on Internal Control Over Financial Reporting	2
Management's Discussion and Analysis of Financial Condition and Results of Operations	3
Consolidated Financial Statements	
Consolidated Balance Sheets	9
Consolidated Statements of Comprehensive Income	10
Consolidated Statements of Changes in Members' Equity	11
Notes to the Consolidated Financial Statements.....	12

CERTIFICATION

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

/s/ Paul B. Franklin, Sr.
Chief Executive Officer

/s/ Diane S. Fowlkes
Chief Financial Officer

/s/ A. Kevin Monahan
Chairman of the Board

November 6, 2020

Colonial 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.

/s/ A. Kevin Monahan
Chairman of the Board

/s/ Paul B. Franklin, Sr.
Chief Executive Officer

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

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

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

operating results, or financial condition would likely be adversely affected.

The Association relies on business processes that largely depend on people, technology, and the use of complex systems and models to manage its business, including access to information systems and models as well as information, applications, payment systems, and other services provided by third parties. In response to the challenges presented by the COVID-19 pandemic, the Association has modified its business practices to focus on protecting its employees and the public while continuing to fulfill its critical mission and maintaining its regular business operations in support of the farmers, ranchers, and agricultural business of America. On March 12, 2020, the Association activated its business continuity plan and began implementing employee work from home plans. As the state eased the "stay at home" restrictions, the Association has taken steps to re-staff offices at roughly 50% capacity, while following standard safety protocols such as mask requirements, social distancing, enhanced cleaning, and appointment-only customer meetings. Some employees continue work-from-home arrangements which introduces additional operational risk and inefficiencies. These risks include, but are not limited to, greater cybersecurity risks, increased privacy and disclosure hazards, strain on the local technology networks for remote operations and potential impairment of the ability to perform critical functions, all of which could adversely affect the Association's business, results of operations, and financial condition. The Association continues to monitor 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 continue for a prolonged period or if additional limitations or potential disruptions in the ability to provide services materialize (which may be caused by a third party's own financial or operational difficulties), it may inhibit or otherwise negatively affect the normal operations and processes for the Association's business, which could have a material adverse impact on its results of operations and financial condition.

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

COVID-19 Support Programs

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

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

On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Among other provisions, the CARES Act provided funding and authority to bolster United States Department of Agriculture (USDA) programs. On April 17, 2020, the USDA announced a \$19

billion Coronavirus Food Assistance Program (CFAP), that will provide \$16 billion of direct support based on actual losses for agricultural producers where prices and market supply chains have been impacted. The \$16 billion will include approximately \$10 billion of funding targeted to livestock and dairy producers, \$4 billion for row crop producers, \$2 billion for specialty crop producers, and \$500 million for other specialty crops. Additionally, \$3 billion will be allocated for direct purchases of fresh produce, dairy and meat for distribution to food banks and other non-profits.

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

Applicants who are otherwise eligible to receive financing under the Farm Credit Act and FCA regulations are able to apply for PPP loans from a District Association. At the time it was passed, the CARES Act provided for loan forgiveness if an employer used at least 75% of the loan for payroll costs and would be reduced proportionally by any reduction in full-time equivalent employees compared to the prior year and a 25% or greater reduction in full-time equivalent employee compensation. Loan payments required under the program can be deferred for up to six months.

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

On June 5, 2020, the President of the United States signed the Paycheck Protection Program Flexibility Act of 2020, which amends the SBA Act and the CARES Act. Specifically, this Act establishes a minimum maturity of five years for a paycheck protection loan with a remaining balance after forgiveness. The bill also extends the "covered period" during which a loan recipient may use such funds for certain expenses while remaining eligible for forgiveness. The extension is to 24 weeks from the date of origination or December 31, 2020, whichever occurs first. The bill also reduces the payroll cost requirements from 75% to 60% and raises the non-payroll portion of a forgivable loan amount from 25% up to 40%.

On August 8, 2020, the PPP was closed and the SBA ceased to accept applications from participating lenders. The Association was approved as a PPP lender and made \$902 in loans and recorded approximately \$45 in loan-related fee

income. At September 30, 2020, the Bank had purchased \$902 of these loans.

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.

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 livestock operations such as beef cattle, horses, poultry, swine, and dairy farms and various field crops such as soybeans, peanuts, tobacco, cotton, and corn. Other predominant commodities in the portfolio are timber and rural home loans. Farm size varies, and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, has somewhat reduced the level of dependency on any single commodity.

The gross loan volume of the Association as of September 30, 2020 was \$707,966, an increase of \$30,765, compared to \$677,201 at December 31, 2019. Net loans outstanding at September 30, 2020 were \$705,366 compared to \$674,836 at December 31, 2019. Net loans accounted for 97.2 percent of total assets at September 30, 2020, compared to 96.6 percent of total assets at December 31, 2019. The increase in gross and net loan volume during the reporting period was due to the normal seasonal increase in working capital loans to farmers as well as an increase in real estate lending activity.

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 from \$2,344 at December 31, 2019 to \$1,649 at September 30, 2020. This decrease was primarily the result of loan repayments as well as several loans that were returned to accruing status.

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 \$2,600 compared to \$2,365 at December 31, 2019. The September 30, 2020 allowance for loan losses included an upward adjustment due to risk tied to the economic impact of COVID 19, and was considered by management to be adequate to cover probable losses. A reserve for undisbursed commitments on operating lines for grain producers is also maintained as a liability on the Consolidated Balance Sheet.

This reserve was increased by \$25 during the quarter ended September 30, 2020. This reserve is at a conservative level and best estimate, as it recognizes both the stress in the row crop segment and the controls in place that make undisbursed commitments less risky than drawn funds.

RESULTS OF OPERATIONS

For the three months ended September 30, 2020

Net income for the three months ended September 30, 2020 totaled \$3,600, a decrease of \$12 compared to \$3,612 for the same period in 2019. This decrease was attributable to a decrease in noninterest income, partially offset by a decrease in noninterest expense

Net interest income decreased by \$4 for the three months ended September 30, 2020, compared to the same period in 2019. Interest income decreased by \$707 primarily due to lower interest rates. The increase in interest income from nonaccrual loans was \$8 for the three months ended September 30, 2020 compared to the same period in 2019. Total interest expense decreased by \$703 due to the lower cost of funds from the direct note with AgFirst.

The Association recorded a provision for loan losses of \$118 for the three months ended September 30, 2020 compared to a provision of \$125 for the three months ended September 30, 2019. The provision for loan losses in both years is mainly due to seasonal fluctuations of overall portfolio volume.

Noninterest income for the three months ended September 30, 2020 totaled \$1,363, compared to \$1,429 for the same period of 2019, a decrease of \$66. The decrease was attributable to a decrease in the fee income on rural home loans and gains on the sale of Association automobiles in 2019.

Noninterest expense for the three months ended September 30, 2020 totaled \$3,088, compared to \$3,140 for the same period of 2019, a decrease of \$52. The decrease was the result of lower operating expenses due to COVID-19, partially offset by increased salaries and employee benefits expense.

For the nine months ended September 30, 2020

Net income for the nine months ended September 30, 2020 totaled \$10,651 as compared to \$10,687 for the same period in 2019, a decrease of \$36. This decrease was due to an increase in the provision for loan losses and noninterest expense, nearly offset by an increase in net interest income.

At September 30, 2020, net interest income increased by \$340 or 2.1 percent compared to September 30, 2019. Interest income on accruing loans decreased by \$1,219 and interest expense decreased by \$1,410, due to lower interest rates. Additionally, the Association recorded \$153 more from interest

on nonaccrual loans for the nine months ended September 30, 2020 compared to the same period in 2019.

The Association recorded a provision for loan losses of \$237 for the nine months ended September 30, 2020 and \$84 for the same period in 2019, a difference of \$153. The increase to the provision for loan losses in 2020 was related to an increase in overall portfolio volume as well as an increase in the Allowance for Loan Losses due to risk associated with the economic impact of COVID-19.

Noninterest income for the nine months ended September 30, 2020 increased by \$8 compared to the same period of 2019. The primary cause for the increase was the increase in estimated earnings on accrued patronage income, offset by lower net gains in 2020.

Noninterest expense for the nine months ended September 30, 2020 increased by \$231 compared to the same period of 2019. The increase in noninterest expense was primarily attributable to an increase in salaries and employee benefits, partially offset by decreased other operating expenses.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. There are separate notes payable for variable rate and fixed rate products. The variable rate note is utilized by the Association to fund variable rate loan advances and operating fund 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 \$519,611, compared to \$489,386 at December 31, 2019. The increase in notes payable of \$30,225 was primarily the result of increased loan volume in 2020.

CAPITAL RESOURCES

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the

capital plan for 2019, nor are any anticipated for 2020 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at September 30, 2020 increased to \$199,150 from the December 31, 2019 total of \$188,342. The increase was primarily attributable to current year's net income.

Total capital stock and participation certificates were \$5,352 on September 30, 2020 compared to \$5,238 on December 31, 2019. The increase of \$114 was attributable to stock and participation certificates issuances for new borrowers.

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

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

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

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

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

- The CET1 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 is tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The tier 1 leverage ratio is tier 1 capital, divided by average assets less regulatory deductions to tier 1 capital.
- The UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvment less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions to tier 1 capital.

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 September 30, 2020
Risk-adjusted ratios:				
CET1 Capital	4.5%	2.5%	7.0%	25.19%
Tier 1 Capital	6.0%	2.5%	8.5%	25.19%
Total Capital	8.0%	2.5%	10.5%	25.54%
Permanent Capital Ratio	7.0%	0.0%	7.00%	25.27%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.00%	26.85%
UREE Leverage Ratio	1.5%	0.0%	1.50%	26.91%

* The capital conservation buffers have a 3 year phase-in period and became fully effective January 1, 2020.

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

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, www.agfirst.com. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-804-746-1252, or writing Diane Fowlkes, Chief Financial Officer, Colonial Farm Credit, ACA, 7104 Mechanicsville Turnpike, Mechanicsville, VA 23111, or accessing the website, www.colonialfarmcredit.com. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Colonial 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	\$ 60	\$ 550
Loans	707,966	677,201
Allowance for loan losses	(2,600)	(2,365)
Net loans	705,366	674,836
Loans held for sale	532	310
Accrued interest receivable	6,464	5,824
Equity investments in other Farm Credit institutions	7,102	7,066
Premises and equipment, net	1,860	1,935
Other property owned	—	535
Accounts receivable	2,981	6,513
Other assets	1,145	1,173
Total assets	\$ 725,510	\$ 698,742
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 519,611	\$ 489,386
Accrued interest payable	1,188	1,362
Patronage refunds payable	86	14,574
Accounts payable	490	547
Other liabilities	4,985	4,531
Total liabilities	526,360	510,400
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	5,352	5,238
Unallocated retained earnings	194,112	183,461
Accumulated other comprehensive income (loss)	(314)	(357)
Total members' equity	199,150	188,342
Total liabilities and members' equity	\$ 725,510	\$ 698,742

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

Colonial 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	\$ 9,046	\$ 9,753	\$ 27,271	\$ 28,341
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	3,601	4,304	11,040	12,450
Net interest income	5,445	5,449	16,231	15,891
Provision for loan losses	118	125	237	84
Net interest income after provision for loan losses	5,327	5,324	15,994	15,807
Noninterest Income				
Loan fees	84	144	358	418
Fees for financially related services	20	27	42	58
Lease income	57	28	110	80
Patronage refunds from other Farm Credit institutions	965	926	2,850	2,676
Gains (losses) on sales of rural home loans, net	185	210	552	559
Gains (losses) on sales of premises and equipment, net	—	45	—	45
Gains (losses) on other transactions	33	33	3	69
Insurance Fund refunds	—	—	121	130
Other noninterest income	19	16	53	46
Total noninterest income	1,363	1,429	4,089	4,081
Noninterest Expense				
Salaries and employee benefits	2,342	2,252	7,056	6,686
Occupancy and equipment	141	182	418	436
Insurance Fund premiums	139	109	333	317
(Gains) losses on other property owned, net	4	(5)	(32)	(13)
Other operating expenses	462	602	1,650	1,768
Total noninterest expense	3,088	3,140	9,425	9,194
Income before income taxes	3,602	3,613	10,658	10,694
Provision for income taxes	2	1	7	7
Net income	\$ 3,600	\$ 3,612	\$ 10,651	\$ 10,687
Other comprehensive income net of tax				
Employee benefit plans adjustments	14	—	43	—
Comprehensive income	\$ 3,614	\$ 3,612	\$ 10,694	\$ 10,687

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

Colonial Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2018	\$ 5,047	\$ 181,684	\$ (8)	\$ 186,723
Cumulative effect of change in accounting principle		(9)		(9)
Comprehensive income		10,687		10,687
Capital stock/participation certificates issued/(retired), net	104			104
Patronage distribution Cash		(423)		(423)
Balance at September 30, 2019	\$ 5,151	\$ 191,939	\$ (8)	\$ 197,082
Balance at December 31, 2019	\$ 5,238	\$ 183,461	\$ (357)	\$ 188,342
Comprehensive income		10,651	43	10,694
Capital stock/participation certificates issued/(retired), net	114			114
Balance at September 30, 2020	\$ 5,352	\$ 194,112	\$ (314)	\$ 199,150

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

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

Basis of Presentation

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

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

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

Significant Accounting Policies

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

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and

financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

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

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

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

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

ASUs Pending Effective Date

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

Potential effects of ASUs issued in previous periods:

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

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

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

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

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

- In November 2019, the FASB issued ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842). On the basis of feedback obtained from outreach with

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

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

Accounting Standards Effective During the Period

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

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

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

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

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

Recent Accounting Policy Elections

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

As provided for in the CARES Act, the Association elected to suspend the requirements under GAAP for (1) loan modifications related to the COVID–19 pandemic that would otherwise be categorized as troubled debt restructurings and (2) any determination of loans modified as a result of the effects of

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

The Association elected the practical expedients from the Interagency Statement on Loan Modifications and Reporting for Financial Institutions - Working with Customers Affected by the Coronavirus (Revised) issued on April 7, 2020 which provides that a lender can conclude that a borrower is not experiencing financial difficulty if either (1) short-term modifications are made in response to COVID-19, such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant related to loans in which the borrower is less than 30 days past due on its contractual payments at the time a modification program is implemented, or (2) the modification or deferral program is mandated by the federal government or a state government. Accordingly, any loan modification made in response to the COVID-19 pandemic that meets either of these practical expedients would not be considered a TDR because the borrower is not experiencing financial difficulty. The Association’s modification program began on March 27, 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	\$ 461,157	\$ 435,210
Production and intermediate-term	168,319	171,757
Loans to cooperatives	7,141	4,278
Processing and marketing	18,219	18,672
Farm-related business	4,703	5,730
Communication	—	578
Power and water/waste disposal	2,012	2,215
Rural residential real estate	43,108	35,455
International	3,307	3,306
Total loans	\$ 707,966	\$ 677,201

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	\$	8,708	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 8,708	\$ —
Production and intermediate-term		12,087	788	3,731	—	—	—	15,818	788
Loans to cooperatives		6,673	—	484	—	—	—	7,157	—
Processing and marketing		13,239	42	2,480	—	—	—	15,719	42
Farm-related business		321	72	—	—	—	—	321	72
Power and water/waste disposal		2,028	—	—	—	—	—	2,028	—
International		3,311	—	—	—	—	—	3,311	—
Total	\$	46,367	\$ 902	\$ 6,695	\$ —	\$ —	\$ —	\$ 53,062	\$ 902

		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	\$	9,546	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 9,546	\$ —
Production and intermediate-term		14,685	—	4,056	—	—	—	18,741	—
Loans to cooperatives		3,527	—	764	—	—	—	4,291	—
Processing and marketing		12,939	—	2,500	—	—	—	15,439	—
Farm-related business		321	—	—	—	—	—	321	—
Communication		579	—	—	—	—	—	579	—
Power and water/waste disposal		2,236	—	—	—	—	—	2,236	—
International		3,311	—	—	—	—	—	3,311	—
Total	\$	47,144	\$ —	\$ 7,320	\$ —	\$ —	\$ —	\$ 54,464	\$ —

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	97.48%	97.00%	Acceptable	—%	100.00%
OAEM	1.46	1.87	OAEM	—	—
Substandard/doubtful/loss	1.06	1.13	Substandard/doubtful/loss	—	—
	100.00%	100.00%		—%	100.00%
Production and intermediate-term:			Power and water/waste disposal:		
Acceptable	95.94%	97.25%	Acceptable	5.76%	14.50%
OAEM	3.76	2.41	OAEM	—	85.50
Substandard/doubtful/loss	0.30	0.34	Substandard/doubtful/loss	94.24	—
	100.00%	100.00%		100.00%	100.00%
Loans to cooperatives:			Rural residential real estate:		
Acceptable	100.00%	100.00%	Acceptable	98.65%	98.19%
OAEM	—	—	OAEM	0.71	0.95
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	0.64	0.86
	100.00%	100.00%		100.00%	100.00%
Processing and marketing:			International:		
Acceptable	99.74%	99.71%	Acceptable	100.00%	100.00%
OAEM	—	—	OAEM	—	—
Substandard/doubtful/loss	0.26	0.29	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
Farm-related business:			Total loans:		
Acceptable	96.41%	97.62%	Acceptable	97.01%	96.97%
OAEM	3.59	2.38	OAEM	1.91	2.16
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	1.08	0.87
	100.00%	100.00%		100.00%	100.00%

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

	September 30, 2020				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	\$ 1,584	\$ 648	\$ 2,232	\$ 462,859	\$ 465,091
Production and intermediate-term	1,897	80	1,977	168,615	170,592
Loans to cooperatives	—	—	—	7,146	7,146
Processing and marketing	—	—	—	18,243	18,243
Farm-related business	352	—	352	4,373	4,725
Communication	—	—	—	—	—
Power and water/waste disposal	—	—	—	2,013	2,013
Rural residential real estate	224	12	236	43,069	43,305
International	—	—	—	3,315	3,315
Total	\$ 4,057	\$ 740	\$ 4,797	\$ 709,633	\$ 714,430

	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	\$ 4,331	\$ 187	\$ 4,518	\$ 434,143	\$ 438,661
Production and intermediate-term	1,916	151	2,067	171,786	173,853
Loans to cooperatives	—	—	—	4,290	4,290
Processing and marketing	—	—	—	18,720	18,720
Farm-related business	14	—	14	5,746	5,760
Communication	—	—	—	578	578
Power and water/waste disposal	—	—	—	2,217	2,217
Rural residential real estate	29	55	84	35,540	35,624
International	—	—	—	3,322	3,322
Total	\$ 6,290	\$ 393	\$ 6,683	\$ 676,342	\$ 683,025

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	\$ 1,182	\$ 1,799
Production and intermediate-term	258	320
Processing and marketing	48	54
Rural residential real estate	161	171
Total	<u>\$ 1,649</u>	<u>\$ 2,344</u>
Accruing restructured loans:		
Real estate mortgage	\$ 186	\$ 401
Production and intermediate-term	1	4
Rural residential real estate	28	38
Total	<u>\$ 215</u>	<u>\$ 443</u>
Accruing loans 90 days or more past due:		
Total	<u>\$ —</u>	<u>\$ —</u>
Total nonperforming loans	\$ 1,864	\$ 2,787
Other property owned	—	535
Total nonperforming assets	<u>\$ 1,864</u>	<u>\$ 3,322</u>
Nonaccrual loans as a percentage of total loans	0.23%	0.35%
Nonperforming assets as a percentage of total loans and other property owned	0.26%	0.49%
Nonperforming assets as a percentage of capital	0.94%	1.76%

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	\$ 787	\$ 1,636
Past due	862	708
Total	<u>\$ 1,649</u>	<u>\$ 2,344</u>
Impaired accrual loans:		
Restructured	\$ 215	\$ 443
90 days or more past due	—	—
Total	<u>\$ 215</u>	<u>\$ 443</u>
Total impaired loans	<u>\$ 1,864</u>	<u>\$ 2,787</u>
Additional commitments to lend	<u>\$ —</u>	<u>\$ —</u>

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

	September 30, 2020			Three Months Ended September 30, 2020		Nine Months Ended September 30, 2020	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:							
Real estate mortgage	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Production and intermediate-term	173	269	39	166	5	207	26
Processing and marketing	—	—	—	—	—	—	—
Rural residential real estate	—	—	—	—	—	—	—
Total	<u>\$ 173</u>	<u>\$ 269</u>	<u>\$ 39</u>	<u>\$ 166</u>	<u>\$ 5</u>	<u>\$ 207</u>	<u>\$ 26</u>
With no related allowance for credit losses:							
Real estate mortgage	\$ 1,368	\$ 2,027	\$ —	\$ 1,308	\$ 39	\$ 1,630	\$ 208
Production and intermediate-term	86	817	—	81	2	101	13
Processing and marketing	48	65	—	46	1	57	7
Rural residential real estate	189	309	—	181	5	226	29
Total	<u>\$ 1,691</u>	<u>\$ 3,218</u>	<u>\$ —</u>	<u>\$ 1,616</u>	<u>\$ 47</u>	<u>\$ 2,014</u>	<u>\$ 257</u>
Total impaired loans:							
Real estate mortgage	\$ 1,368	\$ 2,027	\$ —	\$ 1,308	\$ 39	\$ 1,630	\$ 208
Production and intermediate-term	259	1,086	39	247	7	308	39
Processing and marketing	48	65	—	46	1	57	7
Rural residential real estate	189	309	—	181	5	226	29
Total	<u>\$ 1,864</u>	<u>\$ 3,487</u>	<u>\$ 39</u>	<u>\$ 1,782</u>	<u>\$ 52</u>	<u>\$ 2,221</u>	<u>\$ 283</u>

	December 31, 2019			Year Ended December 31, 2019		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	
Impaired loans:						
With a related allowance for credit losses:						
Real estate mortgage	\$ —	\$ —	\$ —	\$ —	\$ —	—
Production and intermediate-term	210	297	47	261		15
Processing and marketing	—	—	—	—		—
Rural residential real estate	—	—	—	—		—
Total	\$ 210	\$ 297	\$ 47	\$ 261	\$	15
With no related allowance for credit losses:						
Real estate mortgage	\$ 2,200	\$ 3,082	\$ —	\$ 2,738	\$	159
Production and intermediate-term	114	831	—	143		9
Processing and marketing	54	68	—	67		4
Rural residential real estate	209	317	—	260		15
Total	\$ 2,577	\$ 4,298	\$ —	\$ 3,208	\$	187
Total impaired loans:						
Real estate mortgage	\$ 2,200	\$ 3,082	\$ —	\$ 2,738	\$	159
Production and intermediate-term	324	1,128	47	404		24
Processing and marketing	54	68	—	67		4
Rural residential real estate	209	317	—	260		15
Total	\$ 2,787	\$ 4,595	\$ 47	\$ 3,469	\$	202

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:								
Balance at June 30, 2020	\$ 1,620	\$ 617	\$ 106	\$ 2	\$ 7	\$ 141	\$ 12	\$ 2,505
Charge-offs	—	(31)	—	—	—	—	—	(31)
Recoveries	4	4	—	—	—	—	—	8
Provision for loan losses	44	60	2	(2)	—	14	—	118
Balance at September 30, 2020	\$ 1,668	\$ 650	\$ 108	\$ —	\$ 7	\$ 155	\$ 12	\$ 2,600
Balance at December 31, 2019	\$ 1,488	\$ 637	\$ 98	\$ 2	\$ 8	\$ 121	\$ 11	\$ 2,365
Charge-offs	(1)	(49)	—	—	—	—	—	(50)
Recoveries	25	23	—	—	—	—	—	48
Provision for loan losses	156	39	10	(2)	(1)	34	1	237
Balance at September 30, 2020	\$ 1,668	\$ 650	\$ 108	\$ —	\$ 7	\$ 155	\$ 12	\$ 2,600
Balance at June 30, 2019	\$ 1,404	\$ 597	\$ 102	\$ 2	\$ 8	\$ 119	\$ 10	\$ 2,242
Charge-offs	—	—	—	—	—	—	—	—
Recoveries	3	40	—	—	—	1	—	44
Provision for loan losses	92	13	9	—	1	9	1	125
Balance at September 30, 2019	\$ 1,499	\$ 650	\$ 111	\$ 2	\$ 9	\$ 129	\$ 11	\$ 2,411
Balance at December 31, 2018	\$ 1,371	\$ 633	\$ 104	\$ 2	\$ 8	\$ 117	\$ 10	\$ 2,245
Charge-offs	(7)	(27)	—	—	—	—	—	(34)
Recoveries	23	90	—	—	—	3	—	116
Provision for loan losses	112	(46)	7	—	1	9	1	84
Balance at September 30, 2019	\$ 1,499	\$ 650	\$ 111	\$ 2	\$ 9	\$ 129	\$ 11	\$ 2,411
Allowance on loans evaluated for impairment:								
Individually	\$ —	\$ 39	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 39
Collectively	1,668	611	108	—	7	155	12	2,561
Balance at September 30, 2020	\$ 1,668	\$ 650	\$ 108	\$ —	\$ 7	\$ 155	\$ 12	\$ 2,600
Individually	\$ —	\$ 47	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 47
Collectively	1,488	590	98	2	8	121	11	2,318
Balance at December 31, 2019	\$ 1,488	\$ 637	\$ 98	\$ 2	\$ 8	\$ 121	\$ 11	\$ 2,365
Recorded investment in loans evaluated for impairment:								
Individually	\$ 1,368	\$ 259	\$ 48	\$ —	\$ —	\$ 189	\$ —	\$ 1,864
Collectively	463,723	170,333	30,066	—	2,013	43,116	3,315	712,566
Balance at September 30, 2020	\$ 465,091	\$ 170,592	\$ 30,114	\$ —	\$ 2,013	\$ 43,305	\$ 3,315	\$ 714,430
Individually	\$ 2,200	\$ 324	\$ 54	\$ —	\$ —	\$ 209	\$ —	\$ 2,787
Collectively	436,461	173,529	28,716	578	2,217	35,415	3,322	680,238
Balance at December 31, 2019	\$ 438,661	\$ 173,853	\$ 28,770	\$ 578	\$ 2,217	\$ 35,624	\$ 3,322	\$ 683,025

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

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

Three Months Ended September 30, 2020					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ —	\$ 131	\$ —	\$ 131	
Production and intermediate-term	—	—	2	2	
Total	\$ —	\$ 131	\$ 2	\$ 133	
Post-modification:					
Real estate mortgage	\$ —	\$ 131	\$ —	\$ 131	\$ —
Production and intermediate-term	—	—	3	3	—
Total	\$ —	\$ 131	\$ 3	\$ 134	\$ —

Nine Months Ended September 30, 2020					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ —	\$ 132	\$ —	\$ 132	
Production and intermediate-term	—	—	2	2	
Processing and marketing	—	51	—	51	
Total	\$ —	\$ 183	\$ 2	\$ 185	
Post-modification:					
Real estate mortgage	\$ —	\$ 132	\$ —	\$ 132	\$ —
Production and intermediate-term	—	—	3	3	—
Processing and marketing	—	52	—	52	—
Total	\$ —	\$ 184	\$ 3	\$ 187	\$ —

Three Months Ended September 30, 2019					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ —	\$ 24	\$ —	\$ 24	
Production and intermediate-term	—	1	—	1	
Total	\$ —	\$ 25	\$ —	\$ 25	
Post-modification:					
Real estate mortgage	\$ —	\$ 25	\$ —	\$ 25	\$ —
Production and intermediate-term	—	84	—	84	(90)
Total	\$ —	\$ 109	\$ —	\$ 109	\$ (90)

Nine Months Ended September 30, 2019					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ —	\$ 24	\$ —	\$ 24	
Production and intermediate-term	—	40	—	40	
Total	\$ —	\$ 64	\$ —	\$ 64	
Post-modification:					
Real estate mortgage	\$ —	\$ 25	\$ —	\$ 25	\$ —
Production and intermediate-term	—	123	—	123	(90)
Total	\$ —	\$ 148	\$ —	\$ 148	\$ (90)

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 period. 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	\$ 551	\$ 686	\$ 365	\$ 285
Production and intermediate-term	122	162	121	158
Processing and marketing	48	54	48	54
Rural residential real estate	93	109	65	71
Total loans	\$ 814	\$ 1,011	\$ 599	\$ 568
Additional commitments to lend	\$ —	\$ —		

At September 30, 2020, the Association had no foreclosed residential real estate properties held as a result of obtaining physical possession or 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 2.35 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 \$449 in investments related to other Farm Credit institutions.

Note 4 — Debt

Notes payable to AgFirst Farm Credit Bank

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

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

	Changes in Accumulated Other Comprehensive Income by Component (a)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Employee Benefit Plans:				
Balance at beginning of period	\$ (328)	\$ (8)	\$ (357)	\$ (8)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	14	—	43	—
Net current period other comprehensive income	14	—	43	—
Balance at end of period	\$ (314)	\$ (8)	\$ (314)	\$ (8)

	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	\$ (14)	\$ —	\$ (43)	\$ —	See Note 7.
Net amounts reclassified	\$ (14)	\$ —	\$ (43)	\$ —	

(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:								
Assets held in trust funds	\$	847	\$	847	\$	—	\$	847
Recurring Assets	\$	847	\$	847	\$	—	\$	847
Liabilities:								
Recurring Liabilities	\$	—	\$	—	\$	—	\$	—
<u>Nonrecurring Measurements</u>								
Assets:								
Impaired loans	\$	134	\$	—	\$	—	\$	134
Other property owned		—		—		—		—
Nonrecurring Assets	\$	134	\$	—	\$	—	\$	134
<u>Other Financial Instruments</u>								
Assets:								
Cash	\$	60	\$	60	\$	—	\$	60
Loans		705,764		—		715,533		715,533
Other Financial Assets	\$	705,824	\$	60	\$	—	\$	715,593
Liabilities:								
Notes payable to AgFirst Farm Credit Bank	\$	519,611	\$	—	\$	—	\$	526,342
Other Financial Liabilities	\$	519,611	\$	—	\$	—	\$	526,342

December 31, 2019

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	\$ 922	\$ 922	\$ –	\$ –	\$ 922
Recurring Assets	\$ 922	\$ 922	\$ –	\$ –	\$ 922
Liabilities:					
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	\$ 163	\$ –	\$ –	\$ 163	\$ 163
Other property owned	535	–	–	571	571
Nonrecurring Assets	\$ 698	\$ –	\$ –	\$ 734	\$ 734
Other Financial Instruments					
Assets:					
Cash	\$ 550	\$ 550	\$ –	\$ –	\$ 550
Loans	674,983	–	–	677,176	677,176
Other Financial Assets	\$ 675,533	\$ 550	\$ –	\$ 677,176	\$ 677,726
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	\$ 489,386	\$ –	\$ –	\$ 490,564	\$ 490,564
Other Financial Liabilities	\$ 489,386	\$ –	\$ –	\$ 490,564	\$ 490,564

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	\$ 134	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	\$ 483	\$ 442	\$ 1,449	\$ 1,224
401(k)	98	94	336	322
Other postretirement benefits	51	53	158	158
Total	\$ 632	\$ 589	\$ 1,943	\$ 1,704

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 \$4,294 and \$4,831 which will be recorded as patronage refunds from other Farm Credit institutions.