
River Valley AgCredit, ACA

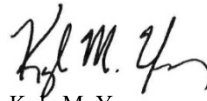
THIRD QUARTER 2020

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..... | 8 |
| Consolidated Statements of Comprehensive Income | 9 |
| Consolidated Statements of Changes in Members’ Equity | 10 |
| Notes to the Consolidated Financial Statements | 11 |

CERTIFICATION

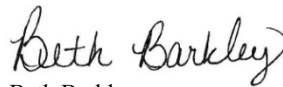
The undersigned certify that we have reviewed the September 30, 2020 quarterly report of River Valley AgCredit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that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



Kyle M. Yancey
Chief Executive Officer
of River Valley AgCredit, ACA



David L. Richesin
Chairman of the Board
of River Valley AgCredit, ACA



Beth Barkley
Chief Financial Officer
of River Valley AgCredit, ACA



Tiffany Myers
Member of the Board of Directors
Chair of the Audit Committee
of River Valley AgCredit, ACA

November 6, 2020

River Valley AgCredit, 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.



Kyle M. Yancey
Chief Executive Officer
of River Valley AgCredit, ACA



Beth Barkley
Chief Financial Officer
of River Valley AgCredit, ACA

November 6, 2020

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

FINANCIAL CONDITION

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of River Valley AgCredit, 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. 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 AgFirst Farm Credit Bank's (the Bank) 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 April 1, 2020, the Association activated its business continuity plan and operated in teams with one half of the employees working remotely from their homes. As the state eased the "stay at home" restrictions, the Association has taken steps to re-open offices at 100% capacity, while following standard safety protocols such as mask requirements, social distancing, enhanced cleaning, and appointment-only customer meetings. 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 risks presented by a workforce 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 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, would not be considered as troubled debt restructurings if made on a good faith basis in response to the national emergency.

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

On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Among other provisions, the CARES Act provided funding and authority to bolster United States Department of Agriculture (USDA) programs. On April 17, 2020, the USDA announced a \$19 billion Coronavirus Food Assistance Program (CFAP), that will provide \$16 billion of direct support based on actual losses for agricultural producers where prices and market supply chains have been impacted. The \$16 billion will include \$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 fit within the revenue-based sized 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 the Association. At the time it was passed, the CARES Act provided for loan forgiveness if an employer uses at least 75% of the loan for payroll costs and would be reduced proportionally by any reduction in full-time equivalent employees compared to the prior year and a 25% or greater reduction in full-time equivalent employee compensation. Loan payments required under the program can be deferred for up to six months.

On April 23, 2020, Congress passed 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 \$1,055 in loans and recorded approximately \$50 in loan-related fee income. At September 30, 2020, the Bank had purchased all 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 corn, soybeans, poultry, and tobacco. 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.

The gross loan volume of the Association as of September 30, 2020, was \$555,736 as compared to \$531,362 at December 31, 2019, an increase of \$24,374. Net loans outstanding at September 30, 2020, were \$548,697 as compared to \$525,070 at December 31, 2019. Net loans accounted for 95.83 percent of total assets at September 30, 2020, as compared to 94.96 percent of total assets at December 31, 2019. The increase in gross and net loan volume during the reporting period is primarily attributable to new loans originated.

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 increased from \$3,977 at December 31, 2019, to \$5,616 at September 30, 2020. This increase is primarily the result of economic conditions.

Other property owned (OPO) consists primarily of assets once held as loan collateral that were acquired through foreclosure or deeded to the Association (or a lender group) in satisfaction of secured loans. Traditionally, OPO is primarily in the form of real estate. However, it can also include equipment and equity interests in companies or partnerships. OPO totaled \$140 at September 30, 2020, compared to \$313 December 31, 2019.

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 \$7,039 compared to \$6,292 at December 31, 2019, and was considered by management to be adequate to cover probable losses. The increase in allowance is due to additional reserves in the third quarter for COVID-19 stresses in the portfolio.

RESULTS OF OPERATIONS

For the three months ended September 30, 2020

Net income for the three months ended September 30, 2020, totaled \$2,064 as compared to \$2,641 for the same period in 2019, a decrease of \$577. Net interest income decreased \$91 for the three months ended September 30, 2020, as compared to the same period in 2019. This decrease is attributed primarily to provisions for loan losses.

Noninterest income for the three months ended September 30, 2020, totaled \$1,291 as compared to \$1,232 for the same period in 2019, an increase of \$59. This is attributed to increases of \$57 in patronage refunds from other farm credit institutions and \$34 in fee income. These were offset by decreases of \$22 in gains on

sale of rural home loans in Farm Credit System, \$9 in financially related services and \$1 in other noninterest income.

Noninterest expense for the three months ended September 30, 2020, totaled \$2,691 as compared to \$2,341 for the same period in 2019, an increase of \$350. This increase in expense is attributed to a \$315 increase in salary and employee benefits, \$85 increase in losses on OPO and \$25 increase in insurance premiums. These were offset by a \$58 decrease in other operating expenses and \$17 decrease in occupancy and equipment.

For the nine months ended September 30, 2020

Net income for the nine months ended September 30, 2020, totaled \$5,788, as compared to \$8,092 for the same period in 2019. Net interest income decreased \$97 for the nine months ended September 30, 2020, as compared to the same period in 2019. This decrease in net interest income is attributed primarily to provisions for loan losses and expenses on Other Property Owned. Nonaccrual income was \$142 for the nine months ended September 30, 2020, as compared to \$257 for the same period in 2019. This decrease is mainly the result of normal nonaccrual loan collections.

Noninterest income for the nine months ended September 30, 2020, totaled \$3,676, as compared to \$3,580 for the same period of 2019, an increase of \$96. The increase is the result of an increase of \$141 in loan fees and \$95 in patronage refund. These were offset by decreases of \$44 in sale of rural home loans, \$43 in financially related service fees, \$34 in gains on sales of premises and equipment, \$10 in gains on other transactions, \$8 in Farm Credit System Insurance Corporation Refund and \$1 in other noninterest income.

Noninterest expense for the nine months ended September 30, 2020, increased \$950 compared to the same period of 2019. The primary reason for the increase is an increase in salaries and employee benefits of \$757, an increase of \$204 in losses on other property owned, an increase in other operating expenses of \$48 and an increase of \$5 in insurance fund premiums. These were offset by decreases of \$64 in occupancy and equipment.

For the nine months ending September 30, 2020, the Association recorded \$89 of insurance premiums as compared to \$97 in 2019, from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. The amount is reflected in Noninterest Expenses on the Consolidated Statements of Income.

The Association recorded a provision for loan losses of \$720 for the nine months ended September 30, 2020, as compared to a reversal of provision of \$641 for the same period in 2019. The provision for loan loss is attributed to the increase in allowance required in the third quarter.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances 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 \$459,292 compared to \$437,014 at December 31, 2019.

CAPITAL RESOURCES

Total members' equity at September 30, 2020, increased to \$100,313 from the December 31, 2019, total of \$96,784. The increase is primarily attributed to prior year earnings retained. Total capital stock and participation certificates were \$4,660 on September 30, 2020, compared to \$4,559 on December 31, 2019.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk adjusted asset base. Risk adjusted assets are the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded minimum regulatory standards for all the ratios.

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% | 2.500% | 7.00% | 17.40% |
| Tier 1 Capital | 6.0% | 2.500% | 8.50% | 17.40% |
| Total Capital | 8.0% | 2.500% | 10.50% | 18.94% |
| Permanent Capital Ratio | 7.0% | 0.0% | 7.0% | 18.15% |
| Non-risk-adjusted: | | | | |
| Tier 1 Leverage Ratio | 4.0% | 1.0% | 5.0% | 15.85% |
| UREE Leverage Ratio | 1.5% | 0.0% | 1.5% | 15.64% |

* - The capital conservation buffers had 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 table below.

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. |

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 (270) 247-5613, writing Beth Barkley, Chief Financial Officer, River Valley AgCredit, ACA, P.O. Box 309, Mayfield, KY 42066, or accessing the website, www.rivervalleyagcredit.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.

River Valley AgCredit, ACA

Consolidated Balance Sheets

| <i>(dollars in thousands)</i> | September 30, 2020 <i>(unaudited)</i> | December 31, 2019 <i>(audited)</i> |
|--|---|--|
| Assets | | |
| Cash | \$ 348 | \$ 853 |
| Loans | 555,736 | 531,362 |
| Allowance for loan losses | <u>(7,039)</u> | <u>(6,292)</u> |
| Net loans | 548,697 | 525,070 |
| Loans held for sale | 97 | 680 |
| Accrued interest receivable | 8,236 | 7,692 |
| Equity investments in other Farm Credit institutions | 6,512 | 6,487 |
| Premises and equipment, net | 5,753 | 5,544 |
| Other property owned | 140 | 313 |
| Accounts receivable | 2,581 | 5,898 |
| Other assets | <u>236</u> | <u>375</u> |
| Total assets | <u>\$ 572,600</u> | <u>\$ 552,912</u> |
| Liabilities | | |
| Notes payable to AgFirst Farm Credit Bank | \$ 459,292 | \$ 437,014 |
| Accrued interest payable | 869 | 1,145 |
| Patronage refunds payable | 721 | 9,916 |
| Accounts payable | 1,238 | 542 |
| Advanced conditional payments | 4,623 | 2,208 |
| Other liabilities | <u>5,544</u> | <u>5,303</u> |
| Total liabilities | <u>472,287</u> | <u>456,128</u> |
| Commitments and contingencies (Note 7) | | |
| Members' Equity | | |
| Capital stock and participation certificates | 4,660 | 4,559 |
| Additional paid-in-capital | 15,817 | 15,817 |
| Retained earnings | | |
| Allocated | 40,164 | 41,930 |
| Unallocated | <u>39,672</u> | <u>34,478</u> |
| Total members' equity | <u>100,313</u> | <u>96,784</u> |
| Total liabilities and members' equity | <u>\$ 572,600</u> | <u>\$ 552,912</u> |

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

River Valley AgCredit, 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 | \$ 6,403 | \$ 7,329 | \$ 19,757 | \$ 21,936 |
| Other | 4 | 4 | 10 | 8 |
| Total interest income | 6,407 | 7,333 | 19,767 | 21,944 |
| Interest Expense | | | | |
| Notes payable to AgFirst Farm Credit Bank | 2,692 | 3,533 | 8,689 | 10,775 |
| Other | 20 | 14 | 50 | 44 |
| Total interest expense | 2,712 | 3,547 | 8,739 | 10,819 |
| Net interest income | 3,695 | 3,786 | 11,028 | 11,125 |
| Provision for (reversal of allowance for) loan losses | 200 | 14 | 720 | (641) |
| Net interest income after provision for (reversal of allowance for) loan losses | 3,495 | 3,772 | 10,308 | 11,766 |
| Noninterest Income | | | | |
| Loan fees | 231 | 197 | 646 | 505 |
| Fees for financially related services | 89 | 98 | 131 | 174 |
| Patronage refunds from other Farm Credit institutions | 866 | 809 | 2,540 | 2,445 |
| Gains (losses) on sales of rural home loans, net | 104 | 126 | 262 | 306 |
| Gains (losses) on sales of premises and equipment, net | — | — | 5 | 39 |
| Gains (losses) on other transactions | — | — | — | 10 |
| Insurance Fund refunds | — | — | 89 | 97 |
| Other noninterest income | 1 | 2 | 3 | 4 |
| Total noninterest income | 1,291 | 1,232 | 3,676 | 3,580 |
| Noninterest Expense | | | | |
| Salaries and employee benefits | 1,903 | 1,588 | 5,700 | 4,943 |
| Occupancy and equipment | 124 | 141 | 389 | 453 |
| Insurance Fund premiums | 103 | 78 | 241 | 236 |
| (Gains) losses on other property owned, net | 88 | 3 | 205 | 1 |
| Other operating expenses | 473 | 531 | 1,651 | 1,603 |
| Total noninterest expense | 2,691 | 2,341 | 8,186 | 7,236 |
| Income before income taxes | 2,095 | 2,663 | 5,798 | 8,110 |
| Provision for income taxes | 31 | 22 | 10 | 18 |
| Net income | \$ 2,064 | \$ 2,641 | \$ 5,788 | \$ 8,092 |
| Other comprehensive income | — | — | — | — |
| Comprehensive income | \$ 2,064 | \$ 2,641 | \$ 5,788 | \$ 8,092 |

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

River Valley AgCredit, ACA
Consolidated Statements of Changes in
Members' Equity

(unaudited)

| <i>(dollars in thousands)</i> | Capital Stock and Participation Certificates | Additional Paid-in-Capital | Retained Earnings | | Total Members' Equity |
|---|---|-------------------------------|-------------------|------------------|-----------------------------|
| | | | Allocated | Unallocated | |
| Balance at December 31, 2018 | \$ 4,478 | \$ 15,817 | \$ 43,889 | \$ 33,845 | \$ 98,029 |
| Comprehensive income | | | | 8,092 | 8,092 |
| Capital stock/participation certificates issued/(retired), net | 54 | | | | 54 |
| Patronage distribution | | | | | |
| Cash | | | | (1,071) | (1,071) |
| Retained earnings retired | | | (3,260) | | (3,260) |
| Patronage distribution adjustment | | | 352 | (180) | 172 |
| Balance at September 30, 2019 | \$ 4,532 | \$ 15,817 | \$ 40,981 | \$ 40,686 | \$ 102,016 |
| Balance at December 31, 2019 | \$ 4,559 | \$ 15,817 | \$ 41,930 | \$ 34,478 | \$ 96,784 |
| Comprehensive income | | | | 5,788 | 5,788 |
| Capital stock/participation certificates issued/(retired), net | 101 | | | | 101 |
| Retained earnings retired | | | (4,349) | | (4,349) |
| Patronage distribution adjustment | | | 2,583 | (594) | 1,989 |
| Balance at September 30, 2020 | \$ 4,660 | \$ 15,817 | \$ 40,164 | \$ 39,672 | \$ 100,313 |

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

River Valley AgCredit, 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 River Valley AgCredit, 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 5, *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 23, 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 | \$ 289,743 | \$ 262,608 |
| Production and intermediate-term | 200,857 | 200,729 |
| Loans to cooperatives | 587 | 430 |
| Processing and marketing | 3,971 | 3,251 |
| Farm-related business | 10,036 | 6,971 |
| Rural residential real estate | 13,806 | 12,963 |
| Other (including Mission Related) | 36,736 | 44,410 |
| Total loans | \$ 555,736 | \$ 531,362 |

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 | \$ 2,291 | \$ - | \$ - | \$ - | \$ - | \$ 3,596 | \$ 2,291 | \$ 3,596 |
| Production and intermediate-term | 1,574 | 3,189 | 220 | - | - | 2,533 | 1,794 | 5,722 |
| Loans to cooperatives | 588 | - | - | - | - | - | 588 | - |
| Processing and marketing | 2,212 | - | - | - | - | - | 2,212 | - |
| Farm-related business | 22 | 198 | - | - | - | - | 22 | 198 |
| Other (including Mission Related) | - | - | - | - | 35,105 | - | 35,105 | - |
| Total | \$ 6,687 | \$ 3,387 | \$ 220 | \$ - | \$ 35,105 | \$ 6,129 | \$ 42,012 | \$ 9,516 |

| | 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 | \$ 2,004 | \$ - | \$ - | \$ - | \$ - | \$ 2,799 | \$ 2,004 | \$ 2,799 |
| Production and intermediate-term | 2,282 | 2,531 | 4 | - | - | 2,319 | 2,286 | 4,850 |
| Loans to cooperatives | 432 | - | - | - | - | - | 432 | - |
| Processing and marketing | 946 | 2,000 | - | - | - | - | 946 | 2,000 |
| Farm-related business | 47 | 1,928 | - | - | - | - | 47 | 1,928 |
| Other (including Mission Related) | - | - | - | - | 42,041 | - | 42,041 | - |
| Total | \$ 5,711 | \$ 6,459 | \$ 4 | \$ - | \$ 42,041 | \$ 5,118 | \$ 47,756 | \$ 11,577 |

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: | | | Farm-related business: | | |
| Acceptable | 93.28% | 93.62% | Acceptable | 84.33% | 99.05% |
| OAEM | 2.82 | 4.18 | OAEM | 13.24 | 0.95 |
| Substandard/doubtful/loss | 3.90 | 2.20 | Substandard/doubtful/loss | 2.43 | - |
| | <u>100.00%</u> | <u>100.00%</u> | | <u>100.00%</u> | <u>100.00%</u> |
| Production and intermediate-term: | | | Rural residential real estate: | | |
| Acceptable | 88.52% | 92.79% | Acceptable | 97.66% | 97.91% |
| OAEM | 4.61 | 3.82 | OAEM | 0.10 | 0.25 |
| Substandard/doubtful/loss | 6.87 | 3.39 | Substandard/doubtful/loss | 2.24 | 1.84 |
| | <u>100.00%</u> | <u>100.00%</u> | | <u>100.00%</u> | <u>100.00%</u> |
| Loans to cooperatives: | | | Other (including Mission Related): | | |
| Acceptable | 100.00% | 100.00% | Acceptable | 100.00% | 100.00% |
| OAEM | - | - | OAEM | - | - |
| Substandard/doubtful/loss | - | - | Substandard/doubtful/loss | - | - |
| | <u>100.00%</u> | <u>100.00%</u> | | <u>100.00%</u> | <u>100.00%</u> |
| Processing and marketing: | | | Total loans: | | |
| Acceptable | 100.00% | 100.00% | Acceptable | 92.00% | 94.06% |
| OAEM | - | - | OAEM | 3.38 | 3.53 |
| Substandard/doubtful/loss | - | - | Substandard/doubtful/loss | 4.62 | 2.41 |
| | <u>100.00%</u> | <u>100.00%</u> | | <u>100.00%</u> | <u>100.00%</u> |

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

| | September 30, 2020 | | | | |
|-----------------------------------|-----------------------------------|-----------------------------|-------------------|--|-------------------|
| | 30 Through 89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total Loans |
| | Real estate mortgage | \$ 1,072 | \$ 3,038 | \$ 4,110 | \$ 289,780 |
| Production and intermediate-term | 89 | 1,395 | 1,484 | 202,966 | 204,450 |
| Loans to cooperatives | - | - | - | 587 | 587 |
| Processing and marketing | - | - | - | 3,994 | 3,994 |
| Farm-related business | 247 | - | 247 | 9,888 | 10,135 |
| Rural residential real estate | 176 | 52 | 228 | 13,642 | 13,870 |
| Other (including Mission Related) | - | - | - | 37,046 | 37,046 |
| Total | <u>\$ 1,584</u> | <u>\$ 4,485</u> | <u>\$ 6,069</u> | <u>\$ 557,903</u> | <u>\$ 563,972</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 | \$ 959 | \$ 2,838 | \$ 3,797 | \$ 262,441 |
| Production and intermediate-term | 2,305 | 866 | 3,171 | 201,149 | 204,320 |
| Loans to cooperatives | - | - | - | 430 | 430 |
| Processing and marketing | - | - | - | 3,247 | 3,247 |
| Farm-related business | 269 | - | 269 | 6,814 | 7,083 |
| Rural residential real estate | 59 | - | 59 | 12,947 | 13,006 |
| Other (including Mission Related) | - | - | - | 44,730 | 44,730 |
| Total | <u>\$ 3,592</u> | <u>\$ 3,704</u> | <u>\$ 7,296</u> | <u>\$ 531,758</u> | <u>\$ 539,054</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 | \$ 3,307 | \$ 2,947 |
| Production and intermediate-term | 2,187 | 985 |
| Rural residential real estate | 122 | 45 |
| Total | <u>\$ 5,616</u> | <u>\$ 3,977</u> |
| Accruing restructured loans: | | |
| Real estate mortgage | \$ 5,093 | \$ 5,175 |
| Production and intermediate-term | 241 | 707 |
| Rural residential real estate | 13 | 49 |
| Total | <u>\$ 5,347</u> | <u>\$ 5,931</u> |
| Accruing loans 90 days or more past due: | | |
| Total | <u>\$ –</u> | <u>\$ –</u> |
| Total nonperforming loans | \$ 10,963 | \$ 9,908 |
| Other property owned | 140 | 313 |
| Total nonperforming assets | <u>\$ 11,103</u> | <u>\$ 10,221</u> |
| Nonaccrual loans as a percentage of total loans | 1.01% | 0.75% |
| Nonperforming assets as a percentage of total loans and other property owned | 2.00% | 1.92% |
| Nonperforming assets as a percentage of capital | <u>11.07%</u> | <u>10.56%</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 | \$ 1,086 | \$ 131 |
| Past due | 4,530 | 3,846 |
| Total | <u>\$ 5,616</u> | <u>\$ 3,977</u> |
| Impaired accrual loans: | | |
| Restructured | \$ 5,347 | \$ 5,931 |
| 90 days or more past due | – | – |
| Total | <u>\$ 5,347</u> | <u>\$ 5,931</u> |
| Total impaired loans | <u>\$ 10,963</u> | <u>\$ 9,908</u> |
| Additional commitments to lend | <u>\$ 14</u> | <u>\$ 21</u> |

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

| | September 30, 2020 | | | Three Months Ended September 30, 2020 | | Nine Months Ended September 30, 2020 | |
|---|------------------------|--------------------------------|----------------------|--|--|---|--|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Impaired Loans | Interest Income Recognized on Impaired Loans | Average Impaired Loans | Interest Income Recognized on Impaired Loans |
| Impaired loans: | | | | | | | |
| With a related allowance for credit losses: | | | | | | | |
| Real estate mortgage | \$ – | \$ – | \$ – | \$ – | \$ – | \$ – | \$ – |
| Production and intermediate-term | 1,139 | 1,355 | 374 | 14,483 | 119 | 14,057 | 348 |
| Rural residential real estate | 43 | 80 | 14 | 542 | 4 | 527 | 13 |
| Total | <u>\$ 1,182</u> | <u>\$ 1,435</u> | <u>\$ 388</u> | <u>\$ 15,025</u> | <u>\$ 123</u> | <u>\$ 14,584</u> | <u>\$ 361</u> |
| With no related allowance for credit losses: | | | | | | | |
| Real estate mortgage | \$ 8,400 | \$ 8,450 | \$ – | \$ 106,802 | \$ 877 | \$ 103,665 | \$ 2,568 |
| Production and intermediate-term | 1,289 | 1,375 | – | 16,388 | 134 | 15,908 | 394 |
| Rural residential real estate | 92 | 92 | – | 1,174 | 10 | 1,138 | 28 |
| Total | <u>\$ 9,781</u> | <u>\$ 9,917</u> | <u>\$ –</u> | <u>\$ 124,364</u> | <u>\$ 1,021</u> | <u>\$ 120,711</u> | <u>\$ 2,990</u> |
| Total impaired loans: | | | | | | | |
| Real estate mortgage | \$ 8,400 | \$ 8,450 | \$ – | \$ 106,802 | \$ 877 | \$ 103,665 | \$ 2,568 |
| Production and intermediate-term | 2,428 | 2,730 | 374 | 30,871 | 253 | 29,965 | 742 |
| Rural residential real estate | 135 | 172 | 14 | 1,716 | 14 | 1,665 | 41 |
| Total | <u>\$ 10,963</u> | <u>\$ 11,352</u> | <u>\$ 388</u> | <u>\$ 139,389</u> | <u>\$ 1,144</u> | <u>\$ 135,295</u> | <u>\$ 3,351</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: | | | | | |
| Real estate mortgage | \$ 3 | \$ 25 | \$ 13 | \$ 4 | \$ - |
| Production and intermediate-term | 329 | 541 | 203 | 420 | 17 |
| Rural residential real estate | 45 | 81 | 14 | 58 | 2 |
| Total | \$ 377 | \$ 647 | \$ 230 | \$ 482 | \$ 19 |
| With no related allowance for credit losses: | | | | | |
| Real estate mortgage | \$ 8,119 | \$ 8,093 | \$ - | \$ 10,373 | \$ 407 |
| Production and intermediate-term | 1,363 | 1,443 | - | 1,743 | 68 |
| Rural residential real estate | 49 | 50 | - | 62 | 2 |
| Total | \$ 9,531 | \$ 9,586 | \$ - | \$ 12,178 | \$ 477 |
| Total impaired loans: | | | | | |
| Real estate mortgage | \$ 8,122 | \$ 8,118 | \$ 13 | \$ 10,377 | \$ 407 |
| Production and intermediate-term | 1,692 | 1,984 | 203 | 2,163 | 85 |
| Rural residential real estate | 94 | 131 | 14 | 120 | 4 |
| Total | \$ 9,908 | \$ 10,233 | \$ 230 | \$ 12,660 | \$ 496 |

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

| | Real Estate Mortgage | Production and Intermediate-term | Agribusiness* | Rural Residential Real Estate | Other (including Mission Related) | Total |
|---|----------------------|----------------------------------|---------------|-------------------------------|-----------------------------------|------------|
| Activity related to the allowance for credit losses: | | | | | | |
| Balance at June 30, 2020 | \$ 2,727 | \$ 3,823 | \$ 180 | \$ 86 | \$ - | \$ 6,816 |
| Charge-offs | (12) | (49) | - | - | - | (61) |
| Recoveries | 23 | 35 | 23 | 3 | - | 84 |
| Provision for loan losses | 181 | 36 | (49) | 32 | - | 200 |
| Balance at September 30, 2020 | \$ 2,919 | \$ 3,845 | \$ 154 | \$ 121 | \$ - | \$ 7,039 |
| Balance at December 31, 2019 | \$ 2,522 | \$ 3,549 | \$ 133 | \$ 88 | \$ - | \$ 6,292 |
| Charge-offs | (18) | (68) | - | - | - | (86) |
| Recoveries | 43 | 44 | 23 | 3 | - | 113 |
| Provision for loan losses | 372 | 320 | (2) | 30 | - | 720 |
| Balance at September 30, 2020 | \$ 2,919 | \$ 3,845 | \$ 154 | \$ 121 | \$ - | \$ 7,039 |
| Balance at June 30, 2019 | \$ 2,411 | \$ 3,492 | \$ 158 | \$ 92 | \$ - | \$ 6,153 |
| Charge-offs | - | (2) | - | (1) | - | (3) |
| Recoveries | - | 4 | - | - | - | 4 |
| Provision for loan losses | 94 | (89) | 10 | (1) | - | 14 |
| Balance at September 30, 2019 | \$ 2,505 | \$ 3,405 | \$ 168 | \$ 90 | \$ - | \$ 6,168 |
| Balance at December 31, 2018 | \$ 927 | \$ 3,894 | \$ 1,825 | \$ 88 | \$ - | \$ 6,734 |
| Charge-offs | - | (4) | - | (24) | - | (28) |
| Recoveries | - | 44 | 59 | - | - | 103 |
| Provision for loan losses | 1,578 | (529) | (1,716) | 26 | - | (641) |
| Balance at September 30, 2019 | \$ 2,505 | \$ 3,405 | \$ 168 | \$ 90 | \$ - | \$ 6,168 |
| Allowance on loans evaluated for impairment: | | | | | | |
| Individually | \$ - | \$ 374 | \$ - | \$ 14 | \$ - | \$ 388 |
| Collectively | 2,919 | 3,471 | 154 | 107 | - | 6,651 |
| PCI** | - | - | - | - | - | - |
| Balance at September 30, 2020 | \$ 2,919 | \$ 3,845 | \$ 154 | \$ 121 | \$ - | \$ 7,039 |
| Individually | \$ 13 | \$ 203 | \$ - | \$ 14 | \$ - | \$ 230 |
| Collectively | 2,509 | 3,346 | 133 | 74 | - | 6,062 |
| PCI** | - | - | - | - | - | - |
| Balance at December 31, 2019 | \$ 2,522 | \$ 3,549 | \$ 133 | \$ 88 | \$ - | \$ 6,292 |
| Recorded investment in loans evaluated for impairment: | | | | | | |
| Individually | \$ 8,400 | \$ 2,428 | \$ - | \$ 135 | \$ - | \$ 10,963 |
| Collectively | 285,490 | 202,022 | 14,716 | 13,735 | 37,046 | 553,009 |
| PCI** | - | - | - | - | - | - |
| Balance at September 30, 2020 | \$ 293,890 | \$ 204,450 | \$ 14,716 | \$ 13,870 | \$ 37,046 | \$ 563,972 |
| Individually | \$ 8,122 | \$ 1,692 | \$ - | \$ 60 | \$ - | \$ 9,874 |
| Collectively | 258,116 | 202,628 | 10,760 | 12,911 | 44,730 | 529,145 |
| PCI** | - | - | - | 35 | - | 35 |
| Balance at December 31, 2019 | \$ 266,238 | \$ 204,320 | \$ 10,760 | \$ 13,006 | \$ 44,730 | \$ 539,054 |

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

**Purchased credit impaired loans.

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 three or nine month periods ended September 30, 2020 or September 30, 2019.

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

The following table presents outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

| Defaulted troubled debt restructurings: | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------|-------------------|--------|
| | September 30, | | September 30, | |
| | 2020 | 2019 | 2020 | 2019 |
| Production and intermediate-term | \$ - | \$ - | \$ 19 | \$ 314 |
| Total | \$ - | \$ - | \$ 19 | \$ 314 |

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 | \$ 6,677 | \$ 6,955 | \$ 1,584 | \$ 1,780 |
| Production and intermediate-term | 872 | 1,083 | 631 | 376 |
| Rural residential real estate | 13 | 49 | - | - |
| Total loans | \$ 7,562 | \$ 8,087 | \$ 2,215 | \$ 2,156 |
| Additional commitments to lend | \$ 14 | \$ 21 | | |

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 | \$ - |

Purchased Credit Impaired (PCI) Loans

For further discussion of the Association's accounting for PCI loans, see Note 2, *Summary of Significant Accounting Policies*, from the Association's most recent Annual Report.

The carrying amounts of loans acquired in a 2012 business combination included in the balance sheet amounts of loans receivable at period end were as follows:

| | September 30, 2020 | December 31, 2019 |
|-------------------------------|--------------------|-------------------|
| Rural residential real estate | \$ - | \$ 35 |
| Total loans | \$ - | \$ 35 |

There was no allowance for loan losses related to these loans at either September 30, 2020 or December 31, 2019. For the three and nine months ended September 30, 2020, provision for loan losses was an expense reversal of \$5 and \$4, respectively, on these loans compared to no provision for loan losses and an expense reversal of \$29, respectively, for the three and nine months ended September 30, 2019. See above for a summary

of changes in the total allowance for loan losses for the period ended September 30, 2020. There were no other loans acquired during 2020 or 2019 for which it was probable at acquisition that all contractually required payments would not be collected.

Certain of the loans acquired by the Association in the business combination that were within the scope of PCI loan guidance are accounted for using a cash basis method of income recognition because the Association cannot reasonably estimate cash flows expected to be collected. Substantially all of the loans acquired were real estate collateral dependent loans. The real estate market is unpredictable, making the estimation of the amount and timing of a sale of loan collateral in essentially the same condition as received upon foreclosure indeterminate. As such, the Association does not have the information necessary to reasonably estimate cash flows expected to be collected to compute its yield. Management determined a nonaccrual classification would be the most appropriate and that no income would be recognized on these loans as is allowed under accounting guidance.

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 2.14 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 \$457 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 — 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 of the Association's financial instruments within the fair value hierarchy are as follows:

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

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

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

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

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

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

| | | September 30, 2020 | | | | |
|---|--|-----------------------------|---------|----------|------------|------------------------|
| | | Total Carrying Amount | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Recurring Measurements | | | | | | |
| Assets: | | | | | | |
| Recurring Assets | | \$ - | \$ - | \$ - | \$ - | \$ - |
| Liabilities: | | | | | | |
| Recurring Liabilities | | \$ - | \$ - | \$ - | \$ - | \$ - |
| Nonrecurring Measurements | | | | | | |
| Assets: | | | | | | |
| Impaired loans | | \$ 794 | \$ - | \$ - | \$ 794 | \$ 794 |
| Other property owned | | 140 | - | - | 153 | 153 |
| Nonrecurring Assets | | \$ 934 | \$ - | \$ - | \$ 947 | \$ 947 |
| Other Financial Instruments | | | | | | |
| Assets: | | | | | | |
| Cash | | \$ 348 | \$ 348 | \$ - | \$ - | \$ 348 |
| Loans | | 548,000 | - | - | 551,332 | 551,332 |
| Accrued interest receivable | | 8,236 | - | 8,236 | - | 8,236 |
| Other Financial Assets | | \$ 556,584 | \$ 348 | \$ 8,236 | \$ 551,332 | \$ 559,916 |
| Liabilities: | | | | | | |
| Notes payable to AgFirst Farm Credit Bank | | \$ 459,292 | \$ - | \$ - | \$ 462,443 | \$ 462,443 |
| Accrued interest payable | | 869 | - | 869 | - | 869 |
| Other Financial Liabilities | | \$ 460,161 | \$ - | \$ 869 | \$ 462,443 | \$ 463,312 |
| | | 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 | | \$ 147 | \$ - | \$ - | \$ 147 | \$ 147 |
| Other property owned | | 313 | - | - | 351 | 351 |
| Nonrecurring Assets | | \$ 460 | \$ - | \$ - | \$ 498 | \$ 498 |
| Other Financial Instruments | | | | | | |
| Assets: | | | | | | |
| Cash | | \$ 853 | \$ 853 | \$ - | \$ - | \$ 853 |
| Loans | | 525,603 | - | - | 523,247 | 523,247 |
| Accrued interest receivable | | 7,692 | - | 7,692 | - | 7,692 |
| Other Financial Assets | | \$ 534,148 | \$ 853 | \$ 7,692 | \$ 523,247 | \$ 531,792 |
| Liabilities: | | | | | | |
| Notes payable to AgFirst Farm Credit Bank | | \$ 437,014 | \$ - | \$ - | \$ 436,448 | \$ 436,448 |
| Accrued interest payable | | 1,145 | - | 1,145 | - | 1,145 |
| Other Financial Liabilities | | \$ 438,159 | \$ - | \$ 1,145 | \$ 436,448 | \$ 437,593 |

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 | \$ 947 | Appraisal | Income and expense Comparable sales Replacement cost Comparability adjustments Collateral discounts | * * * * * |

* 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 |
| Accrued interest receivable | Carrying value | Par/principal |
| Notes payable to AgFirst Farm Credit Bank | Discounted cash flow | Prepayment forecasts Probability of default Loss severity |
| Accrued interest payable | Carrying value | Par/principal |

Note 6 — 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 | \$ 221 | \$ 173 | \$ 663 | \$ 518 |
| 401(k) | 88 | 75 | 255 | 226 |
| Other postretirement benefits | 44 | 43 | 131 | 115 |
| Total | \$ 353 | \$ 291 | \$ 1,049 | \$ 859 |

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 7 — 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 8 — 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 \$3,839 and \$4,319 which will be recorded as patronage refunds from other Farm Credit institutions.