AgSouth Farm Credit, ACA

SECOND 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 Sheet 13

Consolidated Statements of Comprehensive Income 14

Consolidated Statements of Changes in Members' Equity 15

Notes to the Consolidated Financial Statements 16

CERTIFICATION

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

Pat Calhoun
Chief Executive Officer

Bo Fennell
Chief Financial Officer

Hugh E. Weathers
Chairman of the Board

August 7, 2020

AgSouth Farm Credit, ACA

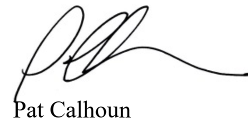
Report on Internal Control Over Financial Reporting

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

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of June 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 June 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 June 30, 2020.



Pat Calhoun
Chief Executive Officer

Bo Fennell
Chief Financial Officer

August 7, 2020

AgSouth Farm Credit, ACA

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

(dollars in thousands)

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

FORWARD LOOKING INFORMATION

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

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

Impacts of the COVID-19 Global Pandemic

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

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

One of 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 16, 2020, the Association activated its business continuity plan and began operating remotely. As the states eased their "stay at home" restrictions, the Association took steps to re-open all offices in a phased approach following standard safety protocols required in Georgia and South Carolina – mask guidance, social distancing, enhanced cleaning, and options for appointment-only or virtual customer meetings as needed. Some employees continue work-from-

home arrangements which introduce additional operational risk and inefficiencies. These risks include, but are not limited to, greater cybersecurity risks, increased privacy and disclosure hazards, strain on the local technology networks for remote operations and potential impairment of the ability to perform certain functions, all of which could adversely affect the Association's business, results of operations, and financial condition. The Association continues to monitor the attempts by third parties to gain unauthorized access to its network and information systems through cyber-attacks. Despite the increased cybersecurity risks presented by a portion of our workforce that is operating remotely, the Association had not experienced any known cyber-attacks or other known privacy or data security incidents through the date of this report that negatively affected the confidentiality, integrity, or availability of the Association's information resources.

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

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

COVID-19 Support Programs

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

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

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

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

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a wide range of agricultural commodities produced in our region, including timber, poultry (broilers, turkeys and eggs), sod, nursery and horticulture, cotton, feed grains, soybeans and hay, beef cattle, horses, peanuts, blueberries, fruits, and nuts. Loans to producers of these commodities total $1,614,087 or 86.45 percent of the Association's portfolio. Farm size varies, and many of the Association's customers have diversified farming operations. These factors, along with the numerous opportunities for non-farm income in the area, reduce to some degree the level of income dependency on any given commodity.

AGRICULTURE OVERVIEW

A June 2, 2020 Federal Reserve press release indicated the COVID-19 pandemic continues to cause human and economic hardship across the US and around the world. Although some recovery has been seen, the pandemic has induced sharp declines in economic activity and a surge in job losses. For the near term, these conditions are expected to continue and pose considerable risks to the economic outlook over the medium term. In light of these developments, the Federal Reserve decided to maintain the target range for the federal funds rate at 0.00 to 0.25 percent.

The US Bureau of Labor Statistics reports the unemployment rate at 11.1 percent as of June 30, 2020. This is a decline from April's 14.7 percent, where the US unemployment rate climbed from March's 4.4 percent due to the impacts of the COVID-19 pandemic. Georgia was at 7.6 percent for June, up from 4.6 percent in March. South Carolina was at 8.7 percent for June, up from 3.2 percent in March.

According to The Conference Board, "The Conference Board Leading Economic Index (LEI) for the US increased 2.8 percent in May to 99.8, following a 6.1 percent decline in April, and a 7.5 percent decline in March." "In May, the US LEI showed a partial recovery from its sharp decline over the previous three months, as economic activity began to pick up again," according to the Senior Director of Economic research at the Conference Board. "The relative improvement in unemployment insurance claims is responsible for about two-thirds of the gain in the index."

AgSouth loan activity continued to be strong during the second quarter of 2020. To date, the pandemic has had no significant impact on the Association's ability to deliver loan products and services to our members. The Association has not seen any unusual activity in unfunded commitments that would be attributable to the pandemic crisis at this time.

Even though the Association has not seen a decline in credit quality associated with the pandemic, a Payment Deferral Program continues to be in place to assist members that are experiencing stress during these unprecedented times. Additionally, the Association is actively engaged in Small Business Administration (SBA) Loan Programs as provided for in the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

The USDA June *Acreage Report*, released on June 30, 2020, showed Georgia's corn planted for all purposes at 390,000 acres, down one percent from 2019. South Carolina's corn crop is also estimated at 390,000 acres, up three percent from 2019. Soybeans planted in Georgia is estimated at 90,000 acres, down 10 percent from last year. South Carolina's soybean crop is estimated at 370,000 acres, up 10 percent from 2019. The 2020 Georgia cotton crop is estimated at 1.23 million acres, down 12 percent from prior year. South Carolina's cotton acreage is estimated at 190,000 acres, down 37 percent from 2019. For both Georgia and South Carolina, peanut planted acres are up for 2020. Tobacco planted acres in both Georgia and South Carolina will be the lowest harvested acres in over 100 years for both states. Winter wheat acres are up 27 percent and 57 percent, respectively, for Georgia and South Carolina.

According to the US Department of Agriculture (USDA) *National Agricultural Statistics Service (NASS) Crop Progress and Condition Report* for July 6, 2020, crop progress in Georgia and South Carolina for the week ending July 5, 2020 indicates 93 percent of the corn crop in Georgia in the silking stage with South Carolina at 85 percent. The Georgia cotton crop is progressing well and in line with historical averages. The South Carolina cotton crop progress is behind compared to prior year and historical averages. The report showed the Georgia peanut crop to be 69 percent in the pegging stage with South Carolina at 53 percent. Soybean progress in both states are similar to historical averages. Peach harvest in both Georgia and South Carolina are ahead of prior year and historical averages.

Precipitation estimates for Georgia ranging from no rain to 2.8 inches and South Carolina ranged from no rain to 3.4 inches. The report showed the condition of the Georgia cotton crop at 69 percent good to excellent and 26 percent fair. The South Carolina cotton crop was reported to be 62 percent good to excellent and 22 percent fair. Peanut conditions for Georgia showed 64 percent good to excellent and 27 percent fair. The South Carolina peanut crop was reported to be 74 percent good to excellent and 19 percent fair. Pasture and Range conditions for Georgia showed 60 percent good to excellent and 30 percent fair, with South Carolina reported to be 77 percent good to excellent and 22 percent fair. South Carolina soil moisture for week ending July 5, 2020 indicated top soil moisture as 82 percent adequate to surplus and 16 percent short. Georgia's soil moisture was reported to be 59 percent adequate to surplus and 35 percent short. Crops overall in both South Carolina and Georgia are in fair to excellent condition.

The USDA NASS released its June *Cattle on Feed Report* on June 19, 2020. It shows the number of cattle and calves on feed for the slaughter market in the US for feedlots with capacity of 1,000 or more head totaled 11.7 million head on June 1, 2020. That inventory is slightly below June 1, 2019 and the second highest June 1 inventory since the report began in 1996. Placements in feedlots during May totaled 2.04 million head, 1 percent below 2019. Marketing of fed cattle during May totaled 1.50 million head, 28 percent below 2019, which is the lowest for May since the report began in 1996.

The USDA NASS released its *Milk Production Report* on June 18, 2020. Milk Production in the US during May totaled 18.8 billion pounds, down 1.1 percent from May 2019. Production per cow in the US averaged 2,011 pounds for May, 32 pounds below May 2019. The number of milk cows on farms in the US was 9.37 million head in May, 37,000 head more than May 2019.

The USDA NASS *Broiler Hatchery Report* for July 1, 2020, showed broiler growers in the US placed 190 million chicks for meat production during the week ending June 27, 2020, down just slightly from a year ago. Georgia chick placements were 27.949 million and South Carolina chick placements were 4.844 million for the same week. "Hatcheries in the United States weekly program set 232 million eggs in incubators during the week ending June 27, 2020, up 1 percent from a year ago."

As reported in the TimberMart-South Second Quarter 2020 market bulletin, south-wide average stumpage prices declined for all major pine and hardwood categories. The report indicated that while common for second quarter stumpage prices to fall, the quarter over quarter drop was exacerbated by the on-going COVID-19 pandemic, affecting mostly in the pine sawtimber, chip-n-saw and pulpwood markets.

ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of June 30, 2020 was $1,867,152, an increase of $32,056 or 1.75 percent compared to $1,835,096 at December 31, 2019. Net loans outstanding at June 30, 2020 were $1,850,633 as compared to $1,818,735 at December 31, 2019. Net loans accounted for 95.70 percent of total assets at June 30, 2020, as compared to 94.54 percent of total assets at December 31, 2019.

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

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

At December 31, 2019 the Association held Investments in debt securities totaling $5,010. These investments are Rural America Bonds made under the authority for Mission Related Investments granted by the Farm Credit Administration (FCA). At June 30, 2020 Investments in debt securities totaled $4,042, a decrease of $968 from December 31, 2019. The 19.32 percent decrease is from expected payments made and a payoff of an investment in 2020.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality is at an acceptable level and credit administration remains satisfactory. Nonaccrual loans increased from $17,022 at December 31, 2019 to $18,426 at June 30, 2020. The balance of nonaccrual loans is decreased by liquidations, loans returning to accrual status, or transfer of assets to other property owned offset by transfers to nonaccrual status. Association staff is working diligently to work out all nonaccrual debt situations.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at June 30, 2020 was $16,519 compared to $16,361 at December 31, 2019 and was considered by management to be adequate to cover possible losses. The increase in the allowance account includes the potential risk associated with the financial burdens created by the COVID-19 pandemic. Although management has not recognized any direct decline in credit quality, an adjustment to the qualitative factors seemed prudent given the financial climate. The reserve set aside for unfunded commitments is $881which is an increase of $242 compared to the total at December 31, 2019 of $639. The reserve for unfunded commitments is included in Other liabilities. The

Asset/Liability Committee (ALCO) of the Association, which is comprised of members of executive management and staff assigned to special assets management, met in June 2020 to review the allowance account. The ALCO determined that the composition between the allowance for loan losses on the outstanding portfolio and the reserve required for unfunded commitments needed to be adjusted and an additional general reserve was required. The ALCO considered the general economic conditions, the potential for deterioration in the existing portfolio, the loan growth in the portfolio, and the amount of outstanding loan commitments in determining the level of allowance.

As of the end of the second quarter of 2020, the Association had originated $121,248 in loans for the secondary market.

Originations for the same period 2019 were $87,400. The 38.73 percent increase is due to increased volume as the market continues to remain strong for both refinancing and new home purchases given the declining rate environment. As of June 30, 2020 the Association held $1,079 in qualifying Loans held for sale. At December 31, 2019 loans held for sale totaled $1,182.

Accrued interest receivable decreased $905 or 4.81 percent from $18,827 as of December 31, 2019 to $17,922 as of June 30, 2020. The decrease is related to a lower portfolio yield which is directly impacted by the lower interest rate environment we are currently in compared to December 31, 2019.

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

Premises and equipment, net increased $787 from $21,332 at December 31, 2019 to $22,119 at June 30, 2020. The primary reason for the increase of 3.69 percent is the result of the construction of the new branch office in Baxley, GA, which was completed in June, and the purchase of Association vehicles.

Other property owned decreased to $1,749 at June 30, 2020 from $4,019 at December 31, 2019. The decrease of $2,270 or 56.48 percent in Other property owned is the result of the sale of Other property owned exceeding transfers and write-downs of existing Other property owned during the reporting period. The Association is actively marketing all properties for sale. For details, please visit our website at ***www.agsouthfc.com*** and click on *Property for Sale*.

Accounts receivable decreased $14,717 from $22,120 at December 31, 2019 to $7,403 at June 30, 2020. The decrease is the result of the patronage distribution receivable at December 31, 2019 from AgFirst and other Farm Credit institutions, which totaled $12,951 in regular distribution and $8,523 in a special distribution. As of June 30, 2020 this line item included two quarters of patronage accrual from AgFirst and other Farm Credit institutions totaling $6,902.

Other assets increased from $2,172 at December 31, 2019 to $2,245 at June 30, 2020. The majority of other assets is made up of prepaid retirement expense which totaled $1,171 as of June 30, 2020.

On the liability side of the balance sheet, Notes payable to AgFirst Farm Credit Bank increased from $1,481,914 at December 31, 2019 to $1,498,897 at June 30, 2020. The $16,983 or 1.15 percent increase is tied to the increase in loans outstanding.

Accrued interest payable decreased $587, or 14.39 percent, from $4,078 at December 31, 2019 to $3,491 at June 30, 2020. The decrease is tied to the decrease in the direct note rate on the notes payable balance outstanding.

Patronage refunds payable decreased $10,973 from $11,532 at December 31, 2019 to $559 at June 30, 2020. The decrease is the result of the cash portion of the 2019 Patronage distribution on the Association's records at December 31, 2019 moving from Patronage refund payable to Other liabilities. This amount totaled $11,160 at December 31, 2019. At June 30, 2020 no patronage distribution for 2020 has been declared.

Accounts payable decreased $701 from $1,721 at December 31, 2019 to $1,020 at June 30, 2020. The 40.73 percent decrease is due to the payable established to pay the insurance premiums on loans to the Farm Credit System Insurance Corporation (FCSIC). At December 31, 2019 the payable related to the FCSIC totaled $1,195, and at June 30, 2020 the payable was $537.

Other liabilities increased $12,118 from $13,674 at December 31, 2019 to $25,792 at June 30, 2020. The 88.62 percent increase is due to a payable established for the revolvement of the 2014 Allocated Surplus distribution, the cash portion of the 2019 Patronage distribution, and the 2019 Special Cash distribution. These liabilities will decrease as checks are presented for payment at the commercial bank.

Capital stock and participation certificates increased from $10,012 at December 31, 2019 to $10,212 at June 30, 2020. The increase of $200 or 2.00 percent is due to new borrowers purchasing stock during the reporting period in excess of liquidations of stock when loans pay out.

Allocated surplus decreased from $131,801 at December 31, 2019 to $111,835 at June 30, 2020. This is a decrease of $19,966 or 15.15 percent. The reduction is from the decision made by the Board of Directors to revolve the 2014 series of Allocated Surplus in February 2020. This revolvement totaled $20,875. The checks and notices for this revolvement were generated and mailed in February 2020.

Unallocated surplus increased $12,869 or 4.77 percent from the December 31, 2019 balance of $269,553. The balance of $282,422 at June 30, 2020 includes the retention of a portion of 2019 fiscal year end earnings and earnings year to date in 2020.

Accumulated other comprehensive loss decreased $7 or 1.32 percent from the December 31, 2019 balance of $532. At June 30, 2020 there was a balance of $525.

RESULTS OF OPERATIONS

For the three months ended June 30, 2020

Net income for the three months ended June 30, 2020 totaled $11,531 as compared to $10,064 for the same period in 2019. This is an increase of $1,467 or 14.58 percent. Comprehensive Income for the three months ended June 30, 2020 was $11,534. Employee benefit plans adjustments are responsible for the difference between comprehensive income and net income. The following commentary explains the variance.

At June 30, 2020 interest income decreased $1,183 from $27,709 at June 30, 2019 to $26,526. This decrease of 4.27 percent is primarily due a decrease in portfolio loan yield between the two reporting periods.

For the three months ended June 30, 2020 interest income on investments totaled $73 compared to $85 for the three months ended June 30, 2019. Investment income declined $12 or 14.12 percent due to the lower outstanding balance of investments between the two reporting periods.

Interest expense for the three months ended June 30, 2020 decreased $1,729 from $12,323 at June 30, 2019 to $10,594 at June 30, 2020. The variance is 14.03 percent and is tied to the weighted average direct note rate between the two reporting periods.

Net interest income before the provision for loan loss increased $546 for the three months ended June 30, 2020 as compared to the same period in 2019 due primarily to the higher accruing loan volume between the two reporting periods..

Net interest income after the provision for loan losses increased $998 during the quarter ending June 30, 2020 compared to June 30, 2019. A net provision for loan losses of $453 was made in the quarter ending June 30, 2020. The provision entry represents an adjustment between the general provision and the unfunded commitments provision which is booked to Other liabilities.

Noninterest income increased $1,207 over the same period last year. The commentary that follows will detail the aggregate difference.

Loan fees increased $684, or 70.73 percent, due to an increase in SMM underwriting fees and Small Business Administration Paycheck Protection Program fee income earned during the quarter compared to the same period in 2019.

Fees for financially related services decreased $77 from $169 at June 30, 2019 to $92 at June 30, 2020. The decrease of 45.56 percent is due to the decrease in leasing income earned during the reporting period.

Patronage refunds from other Farm Credit institutions increased $441 from $3,234 at June 30, 2019 to $3,675 at June 30, 2020. The increase of 13.64 percent is related to an increase in loans sold to AgFirst and other Farm Credit Institutions. See *Note 2* for more information.

Gains on the sale of rural home loans increased $55 from $670 at June 30, 2019 compared to $725 at June 30, 2020. An increase in originations between the two reporting periods resulted in the increased gains.

Gains on the sale of premises and equipment, net for the period ending June 30, 2020 totaled $78 compared to $40 for the period ending June 30, 2019. The increase of $38 is directly related to the sale of fleet vehicles during the period.

Losses on other transactions totaled $97 at June 30, 2020 compared to $123 at June 30, 2019. The difference is $26 or 21.14 percent is primarily related to the loss on Rabbi Trust.

Other noninterest income was $77 during the three months ended June 30, 2020 compared to $37 for the three months ending June 30, 2019. This line item captures the volume premium paid by AgFirst for secondary market loans sold to AgFirst.

Noninterest expense for the three months ended June 30, 2020 totaled $10,130 and increased $719 or 7.64 percent when compared to $9,411 for the same period of 2019. Salaries and employee benefits expense are the largest portion of noninterest expense and totaled $7,872 for the three months ended June 30, 2020. Salaries and employee benefits increased $946 between the two reporting periods. There is a 13.66 percent variance between the two reporting periods due to the payout of annual leave up to 40 hours to employees under a special program approved by the Board due to COVID-19.

Occupancy and equipment expense at June 30, 2020 was $510 compared to $486 for the same period in 2019. This is an increase of $24 or 4.94 percent. The increase is tied to additional costs associated with the new Baxley branch office that opened in June, as well as, additional computer equipment.

The Insurance Fund premiums at June 30, 2019 were $297 and at June 30, 2020 were $273. The $24 or 8.08 percent decrease is due to the lower premium assessment rate in 2020.

In the three months ending June 30, 2020 the Association experienced losses on the sale of Other property owned in the amount of $50. During the same period of 2019, the

Association booked losses on the sale of Other property owned of $7. The losses and expenses incurred in 2020 included write-downs on some of the properties at sale or when a new appraisal was received justifying the write-down.

Other operating expenses decreased $270 from $1,695 at June 30, 2019 compared to $1,425 at June 30, 2020. The decrease of 15.93 percent is primarily attributed to a decrease in purchased services, travel, training, advertising and communications due to the restrictions of COVID-19.

For the six months ended June 30, 2020

Net income for the six months ended June 30, 2020, totaled $22,569 as compared to $20,325 for the same period in 2019. This is an increase of $2,244 or 11.04 percent. Comprehensive Income for the six months ended June 30, 2020 was $22,576. Employee benefit plans adjustments are responsible for the difference between comprehensive income and net income. The following narrative will explain the variance.

At June 30, 2020 interest income decreased $1,037 to $53,647 compared to $54,684 for the same period in 2019. The net decrease is tied to the increase in accruing loan volume between the reporting periods and a decrease in the overall weighted average interest rate earned.

For the six months ending June 30, 2019 interest income on investments totaled $171 compared to $156 for the same period ended June 30, 2020. Investment income declined $15 or 8.77 percent due to the lower outstanding balance of investments between the two reporting periods.

Interest expense decreased $2,182 or 9.03 percent from $24,163 at June 30, 2019 to $21,981 for the six months ended June 30, 2020. The net decrease is attributable to a higher direct note balance between the reporting periods and a lower weighted average direct note rate.

Net interest income before the provision for loan loss increased $1,145 or 3.75 percent for the six months ended June 30, 2020 as compared to the same period in 2019 primarily due to the increase in loan volume. Net interest income after the provision for loan losses increased $1,341 for the period ending June 30, 2020 primarily due to an increase in loan volume, as well.

The Provision for loan losses amount in the 2019 reporting period totaled $905 and there were provision entries totaling $709 in the 2020 reporting period. In June 2020, the Association's ALCO made the decision that the allowance account required an increase to the general reserve and an increase to the allowance for unfunded commitments which resides within Other Liabilities. These decisions were made after analyzing the risk in the current portfolio. The ALCO analysis included reviewing historical trends, loan size, loan performance and credit quality reports.

Noninterest income for the six months ended June 30, 2020 increased $1,753 compared to the same period of 2019. Loan fees increased $922 or 50.63 percent. In the first six months of 2020, late fees on loans increased $35 to $201 compared to $166 for 2019. Fees earned on loans sold in the secondary market for the first six months of 2020 were $568 or 52.16 percent higher than the same period in 2019. The volume of loans sold increased as well. Loan fees on portfolio activity increased slightly between the two reporting periods.

Fees for financially related services decreased $57 from $519 at June 30, 2019 compared to $462 at June 30, 2020. The 10.98 percent decrease in fees for financially related services is the result of a decrease in fee income earned on the sale of leases.

The patronage refunds from other Farm Credit institutions increased $768 from $6,349 at June 30, 2019 to $7,117 at June 30, 2020. The increase of 12.10 percent is due to an increase in the average balance of loans sold to AgFirst and other Farm Credit institutions which resulted in a higher patronage refund amount accrued.

Gains on the sale of rural home loans increased $145 from $1,180 at June 30, 2019 to $1,325 at June 30, 2020. Gains increased due to the increase in loan volume compared to the prior period.

Gains on the sale of premises and equipment increased $60 from $40 for the period ending June 30, 2019 to $100 at June 30, 2020. The gains were recorded when Association automobiles were replaced in 2020.

Losses on other transactions totaled $324 for the six months ended June 30, 2020 compared to a loss of $206 for the same period in 2019. The loss recorded in the 2020 reporting period is primarily related to the allowance entry for unfunded commitments.

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

Other noninterest income increased $60 from $76 at June 30, 2019 compared to $136 at June 30, 2020. The variance of 78.95 percent is due to volume premiums paid by AgFirst for secondary market activity. In 2019, the Association earned $69 in volume premiums and for the period ending June 30, 2020 the Association has earned $114 in volume premiums.

Noninterest expense for the six months ended June 30, 2020, increased $831 compared to the same period of 2019 from $19,436 to $20,267. Salaries and employee benefits expense increased $906 between the two reporting periods. The 6.42 percent increase in salaries and employee benefits is tied to the payout of annual leave approved by the Board in response to

the COVID-19 Pandemic. The Association accrues for the 2020 incentive payment based upon plan results which are included in salary and benefit expense. The Association evaluated 2020 performance measures for incentive purposes and determined that some employees could earn incentive in 2020. Based upon this information, the Association will continue to accrue for incentive. The expense associated with the incentive accrual balance as of June 30, 2020 is $1,710. Association results will be re-evaluated prior to the end of the fourth quarter 2020 to determine the most accurate accrual for the 2020 incentive plan.

Occupancy and equipment expense at June 30, 2020 was $1,182 compared to $1,192 for the same period in 2019. The decrease is tied to lower costs associated with repairs, maintenance, cost of space and depreciation.

The Insurance Fund premium decreased from $588 at June 30, 2019 to $537 at June 30, 2020. The decrease of $51 or 8.67 percent is due to the lower insurance fund premium rate in 2020 compared to 2019.

Losses on the sale or write-down of other property owned totaled $220 for the six months ending June 30, 2020. When compared to the same period in 2019, losses on other property owned totaled $91. The losses or write-downs were required after new contracts, sale closings, and/or new appraisals were obtained and the book value needed to more accurately reflect the current market value.

Other operating expenses decreased $143 from $3,461 at June 30, 2019 compared to $3,318 at June 30, 2020. The decrease is primarily due to a decrease in travel, and public & member relationship expenses.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at June 30, 2020 was $1,498,897 as compared to $1,481,914 at December 31, 2019. The $16,983 increase, or 1.15 percent, is directly tied to an increase in loan volume.

CAPITAL RESOURCES

Total members' equity at December 31, 2019 totaled $410,834. At June 30, 2020 total members' equity had decreased by $6,890 to $403,944. The decrease in total members' equity is due to the increase in Unallocated retained earnings offset by a decrease in Allocated retained earnings between the two reporting periods. At December 31, 2019 Allocated retained earnings totaled $131,801 compared to $111,835 at June 30, 2020. The decrease is due to the revolvement of the 2014 series of allocated surplus in the first quarter of 2020. At December 31, 2019, Unallocated retained earnings totaled $269,553 and increased to $282,422. The increase in Unallocated retained earnings is due to the decision to retain a portion of the 2019 earnings for capital purposes and year to date 2020 earnings.

Total Capital stock and participation certificates were $10,212 on June 30, 2020 compared to $10,012 on December 31, 2019. The increase is attributed to the purchase of new stock and participation certificates for new borrowing entities offset by the retirement of stock and participation certificates on loans liquidated in the normal course of business.

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

- The CET1 ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- The total capital ratio is tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The tier 1 leverage ratio is tier 1 capital, divided by average assets less regulatory deductions to tier 1 capital.
- The UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions

including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions to tier 1 capital.

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

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

Ratio	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of June 30, 2020
Risk-adjusted ratios:		
CET1 Capital	7.00%	14.71%
Tier 1 Capital	8.50%	14.71%
Total Capital	10.50%	21.91%
Permanent Capital Ratio	7.00%	21.15%
Non-risk-adjusted:		
Tier 1 Leverage Ratio	5.0%	14.09%
UREE Leverage Ratio	1.5%	13.97%

REGULATORY MATTERS

On April 9, 2020, the Farm Credit Administration voted to delay publication of certain rules in the Federal Register that were previously approved until at least June 8, 2020 to allow both the Farm Credit Administration and the System to focus their efforts on responding to the COVID-19 pandemic. On June 1, 2020, the Farm Credit Administration extended the regulatory pause until at least July 10 and on July 16, it was determined that some regulatory activities would resume. Accordingly, the Farm Credit Administration will seek to publish its final rule on criteria to reinstate nonaccrual loans this summer. 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 Farm Credit Administration will also seek to publish final rules to: (1) amend the investment rule to allow System institutions to invest in certain USDA loan guarantees, (2) update the amortization rule and (3) amend regulations governing how the banks present association financial information in their annual report to shareholders.

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
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
• 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: 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 1-800-633-9091, ext. 2674, writing Bo Fennell, CFO, AgSouth Farm Credit, ACA, P.O. Box 718, Statesboro, GA 30459, or accessing the Association's website ***www.agsouthfc.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual report to Shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

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

AgSouth Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)		June 30, 2020		December 31, 2019
		(unaudited)		*(audited)*
Assets				
Cash	**$**	**2,071**	$	5,853
Investments in debt securities:				
Held to maturity (fair value of $4,568 and $5,307, respectively)		**4,042**		5,010
Loans		**1,867,152**		1,835,096
Allowance for loan losses		**(16,519)**		(16,361)
Net loans		**1,850,633**		1,818,735
Loans held for sale		**1,079**		1,182
Accrued interest receivable		**17,922**		18,827
Equity investments in other Farm Credit institutions		**24,440**		24,527
Premises and equipment, net		**22,119**		21,332
Other property owned		**1,749**		4,019
Accounts receivable		**7,403**		22,120
Other assets		**2,245**		2,172
Total assets	**$**	**1,933,703**	$	1,923,777
Liabilities				
Notes payable to AgFirst Farm Credit Bank	**$**	**1,498,897**	$	1,481,914
Accrued interest payable		**3,491**		4,078
Patronage refunds payable		**559**		11,532
Accounts payable		**1,020**		1,721
Advanced conditional payments		**—**		24
Other liabilities		**25,792**		13,674
Total liabilities		**1,529,759**		1,512,943
Commitments and contingencies (Note 8)				
Members' Equity				
Capital stock and participation certificates		**10,212**		10,012
Retained earnings				
Allocated		**111,835**		131,801
Unallocated		**282,422**		269,553
Accumulated other comprehensive income (loss)		**(525)**		(532)
Total members' equity		**403,944**		410,834
Total liabilities and members' equity	**$**	**1,933,703**	$	1,923,777

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

AgSouth Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended June 30, 2020	For the Three Months Ended June 30, 2019	For the Six Months Ended June 30, 2020	For the Six Months Ended June 30, 2019
Interest Income				
Loans	**$ 26,453**	$ 27,624	**$ 53,491**	$ 54,513
Investments	**73**	85	**156**	171
Total interest income	**26,526**	27,709	**53,647**	54,684
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**10,594**	12,323	**21,981**	24,163
Total interest expense	**10,594**	12,323	**21,981**	24,163
Net interest income	**15,932**	15,386	**31,666**	30,521
Provision for loan losses	**453**	905	**709**	905
Net interest income after provision for loan losses	**15,479**	14,481	**30,957**	29,616
Noninterest Income				
Loan fees	**1,651**	967	**2,743**	1,821
Fees for financially related services	**92**	169	**462**	519
Patronage refunds from other Farm Credit institutions	**3,675**	3,234	**7,117**	6,349
Gains (losses) on sales of rural home loans, net	**725**	670	**1,325**	1,180
Gains (losses) on sales of premises and equipment, net	**78**	40	**100**	40
Gains (losses) on other transactions	**(97)**	(123)	**(324)**	(206)
Insurance Fund refunds	**—**	—	**339**	366
Other noninterest income	**77**	37	**136**	76
Total noninterest income	**6,201**	4,994	**11,898**	10,145
Noninterest Expense				
Salaries and employee benefits	**7,872**	6,926	**15,010**	14,104
Occupancy and equipment	**510**	486	**1,182**	1,192
Insurance Fund premiums	**273**	297	**537**	588
(Gains) losses on other property owned, net	**50**	7	**220**	91
Other operating expenses	**1,425**	1,695	**3,318**	3,461
Total noninterest expense	**10,130**	9,411	**20,267**	19,436
Income before income taxes	**11,550**	10,064	**22,588**	20,325
Provision for income taxes	**19**	—	**19**	—
Net income	**$ 11,531**	$ 10,064	**$ 22,569**	$ 20,325
Other comprehensive income net of tax				
Employee benefit plans adjustments	**3**	—	**7**	—
Comprehensive income	**$ 11,534**	$ 10,064	**$ 22,576**	$ 20,325

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

AgSouth Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2018	$ 9,567	$ 126,003	$ 254,648	$ (226)	$ 389,992
Cumulative effect of change in accounting principle			8		8
Comprehensive income			20,325		20,325
Capital stock/participation certificates issued/(retired), net	266				266
Retained earnings retired		(20,478)			(20,478)
Patronage distribution adjustment		265	(378)		(113)
Balance at June 30, 2019	$ 9,833	$ 105,790	$ 274,603	$ (226)	$ 390,000
Balance at December 31, 2019	**$ 10,012**	**$ 131,801**	**$ 269,553**	**$ (532)**	**$ 410,834**
Comprehensive income			**22,569**	**7**	**22,576**
Capital stock/participation certificates issued/(retired), net	**200**				**200**
Patronage distribution					
Cash			**(8,000)**		**(8,000)**
Retained earnings retired		**(21,157)**			**(21,157)**
Patronage distribution adjustment		**1,191**	**(1,700)**		**(509)**
Balance at June 30, 2020	**$ 10,212**	**$ 111,835**	**$ 282,422**	**$ (525)**	**$ 403,944**

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

AgSouth Farm Credit, ACA

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements

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

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

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

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

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

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

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

Accounting Standards Updates (ASUs) Issued During the Period and Effective in Future Periods
The following ASU was issued by the Financial Accounting Standards Board (FASB) since the most recent year end:

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

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

Potential effects of ASUs issued in previous periods:

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

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

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

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

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

- In November 2019, the FASB issued ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842). On the basis of feedback obtained from outreach with stakeholders and monitoring of implementation, the Board has gained a greater understanding about the implementation challenges encountered by all types of entities when adopting a major Update. The challenges are often magnified for private companies, smaller public companies, and not-for-profit organizations. In response to those issues and requests to defer certain major Updates not yet effective for all entities, the Board developed a philosophy to extend and simplify how effective dates are staggered between larger public companies (bucket one) and all other entities (bucket two). Credit Losses guidance in ASU 2016-13 will be effective for all bucket two entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.

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

Accounting Standards Effective During the Period

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

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

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

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

- In March 2020, the FASB issued ASU 2020-03 Codification Improvements to Financial Instruments. The amendments represent changes to clarify or improve the Codification that were not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments addressing issues one through five, related to Topics 320, 470 and 820, are effective for 2020. The adoption of the guidance had no impact on the statements of financial condition and results of operations. The amendments addressing issues six and seven will be adopted and evaluated for impact along with ASU 2016-13 as discussed above.

- In August 2018, the FASB issued ASU 2018-15 Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this Update. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The amendments were applied prospectively to all implementation costs incurred after the date of adoption. Adoption of this guidance had no impact on the statements of financial condition and results of operations.

Recent Accounting Policy Elections

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

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

The Association elected the practical expedients from the Interagency Statement on Loan Modifications and Reporting for Financial Institutions - Working with Customers Affected by the Coronavirus (Revised) issued on April 7, 2020 which provides that a lender can conclude that a borrower is not experiencing financial difficulty if either (1) short-term modifications are made in response to COVID-19, such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant related to loans in which the borrower is less than 30 days past due on its contractual payments at the time a modification program is implemented, or (2) the modification or deferral program is mandated by the federal government or a state government. Accordingly, any loan modification made in response to the COVID-19 pandemic that meets either of these practical expedients would not be considered a TDR because the borrower is not experiencing financial difficulty. The Association's modification program began on March 31, 2020.

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

Note 2 — Loans and Allowance for Loan Losses

The Association maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is

performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified. See Note 3, *Loans and Allowance for Loan Losses*, from the latest Annual Report for further discussion.

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

A summary of loans outstanding at period end follows:

	June 30, 2020	December 31, 2019
Real estate mortgage	$ 1,401,444	$ 1,364,772
Production and intermediate-term	344,722	350,390
Processing and marketing	23,753	21,951
Farm-related business	24,128	25,608
Rural residential real estate	72,700	71,960
Other (including Mission Related)	405	415
Total loans	$ 1,867,152	$ 1,835,096

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

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

June 30, 2020	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 7,176	$ 142,981	$ 376	$ 9,126	$ –	$ –	$ 7,552	$ 152,107
Production and intermediate-term	409	188,501	1,547	–	3,483	–	5,439	188,501
Processing and marketing	–	107,853	244	26,550	–	–	244	134,403
Farm-related business	2,764	8,322	–	–	–	–	2,764	8,322
Total	$ 10,349	$ 447,657	$ 2,167	$ 35,676	$ 3,483	$ –	$ 15,999	$ 483,333

December 31, 2019	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 5,954	$ 152,114	$ 386	$ 9,127	$ –	$ –	$ 6,340	$ 161,241
Production and intermediate-term	1,056	88,188	1,531	–	3,730	–	6,317	88,188
Processing and marketing	–	106,685	309	27,960	–	–	309	134,645
Farm-related business	3,860	12,674	–	–	–	–	3,860	12,674
Total	$ 10,870	$ 359,661	$ 2,226	$ 37,087	$ 3,730	$ –	$ 16,826	$ 396,748

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

June 30, 2020	Due Less Than 1 Year	Due 1 Through 5 Years	Due After 5 Years	Total
Real estate mortgage	$ 33,495	$ 199,396	$ 1,168,553	$ 1,401,444
Production and intermediate-term	170,728	145,008	28,986	344,722
Processing and marketing	4,851	7,795	11,107	23,753
Farm-related business	2,644	12,512	8,972	24,128
Rural residential real estate	4,022	4,720	63,958	72,700
Other (including Mission Related)	–	–	405	405
Total loans	$ 215,740	$ 369,431	$ 1,281,981	$ 1,867,152
Percentage	11.55%	19.79%	68.66%	100.00%

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

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

	June 30, 2020	December 31, 2019
Real estate mortgage:		
Acceptable	98.10%	97.51%
OAEM	1.10	1.71
Substandard/doubtful/loss	0.80	0.78
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	95.77%	95.35%
OAEM	2.86	2.97
Substandard/doubtful/loss	1.37	1.68
	100.00%	100.00%
Processing and marketing:		
Acceptable	93.85%	92.45%
OAEM	–	–
Substandard/doubtful/loss	6.15	7.55
	100.00%	100.00%
Farm-related business:		
Acceptable	89.39%	88.27%
OAEM	2.95	8.42
Substandard/doubtful/loss	7.66	3.31
	100.00%	100.00%

	June 30, 2020	December 31, 2019
Rural residential real estate:		
Acceptable	98.24%	98.34%
OAEM	0.92	0.82
Substandard/doubtful/loss	0.84	0.84
	100.00%	100.00%
Other (including Mission Related):		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	97.51%	96.94%
OAEM	1.43	1.99
Substandard/doubtful/loss	1.06	1.07
	100.00%	100.00%

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

	June 30, 2020				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 4,711	$ 3,557	$ 8,268	$ 1,405,589	$ 1,413,857
Production and intermediate-term	1,588	4,824	6,412	343,040	349,452
Processing and marketing	–	–	–	24,012	24,012
Farm-related business	363	837	1,200	23,071	24,271
Rural residential real estate	537	4	541	72,507	73,048
Other (including Mission Related)	–	–	–	410	410
Total	7,199	9,222	16,421	1,868,629	1,885,050

	December 31, 2019				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 7,572	$ 3,313	$ 10,885	$ 1,365,719	$ 1,376,604
Production and intermediate-term	3,639	3,376	7,015	349,739	356,754
Processing and marketing	310	–	310	21,769	22,079
Farm-related business	1,458	403	1,861	23,969	25,830
Rural residential real estate	221	122	343	71,868	72,211
Other (including Mission Related)	–	–	–	416	416
Total	$ 13,200	$ 7,214	$ 20,414	$ 1,833,480	$ 1,853,894

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

	June 30, 2020	December 31, 2019
Nonaccrual loans:		
Real estate mortgage	$ 9,132	$ 9,030
Production and intermediate-term	7,600	7,415
Farm-related business	1,470	403
Rural residential real estate	224	174
Total	$ 18,426	$ 17,022
Accruing restructured loans:		
Real estate mortgage	$ 3,162	$ 4,434
Production and intermediate-term	644	444
Rural residential real estate	144	280
Total	$ 3,950	$ 5,158
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 22,376	$ 22,180
Other property owned	1,749	4,019
Total nonperforming assets	$ 24,125	$ 26,199
Nonaccrual loans as a percentage of total loans	0.99%	0.93%
Nonperforming assets as a percentage of total loans and other property owned	1.29%	1.42%
Nonperforming assets as a percentage of capital	5.97%	6.38%

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

	June 30, 2020	December 31, 2019
Impaired nonaccrual loans:		
Current as to principal and interest	$ 6,610	$ 5,647
Past due	11,816	11,375
Total	$ 18,426	$ 17,022
Impaired accrual loans:		
Restructured	$ 3,950	$ 5,158
90 days or more past due	–	–
Total	$ 3,950	$ 5,158
Total impaired loans	$ 22,376	$ 22,180
Additional commitments to lend	$ –	$ –

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

	June 30, 2020			Three Months Ended June 30, 2020		Six Months Ended June 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	$ 551	$ 539	$ 12	$ 512	$ 9	$ 519	$ 14
Production and intermediate-term	1,666	1,735	254	1,548	25	1,568	42
Farm-related business	723	774	219	672	11	681	19
Rural residential real estate	–	–	–	–	–	–	–
Total	$ 2,940	$ 3,048	$ 485	$ 2,732	$ 45	$ 2,768	$ 75
With no related allowance for credit losses:							
Real estate mortgage	$ 11,743	$ 13,940	$ –	$ 10,912	$ 178	$ 11,056	$ 299
Production and intermediate-term	6,578	8,390	–	6,113	100	6,194	168
Farm-related business	747	942	–	694	11	703	18
Rural residential real estate	368	425	–	342	6	346	9
Total	$ 19,436	$ 23,697	$ –	$ 18,061	$ 295	$ 18,299	$ 494
Total impaired loans:							
Real estate mortgage	$ 12,294	$ 14,479	$ 12	$ 11,424	$ 187	$ 11,575	$ 313
Production and intermediate-term	8,244	10,125	254	7,661	125	7,762	210
Farm-related business	1,470	1,716	219	1,366	22	1,384	37
Rural residential real estate	368	425	–	342	6	346	9
Total	$ 22,376	$ 26,745	$ 485	$ 20,793	$ 340	$ 21,067	$ 569

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

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Rural Residential Real Estate	Other (including Mission Related)	Total
Activity related to the allowance for credit losses:						
Balance at March 31, 2020	$ 12,100	$ 3,304	$ 565	$ 623	$ 4	$ 16,596
Charge-offs	–	(550)	(104)	(5)	–	(659)
Recoveries	47	82	–	–	–	129
Provision for loan losses	(71)	355	161	8	–	453
Balance at June 30, 2020	$ 12,076	$ 3,191	$ 622	$ 626	$ 4	$ 16,519
Balance at December 31, 2019	$ 11,485	$ 3,868	$ 400	$ 604	$ 4	$ 16,361
Charge-offs	–	(720)	(105)	(5)	–	(830)
Recoveries	175	100	–	4	–	279
Provision for loan losses	416	(57)	327	23	–	709
Balance at June 30, 2020	$ 12,076	$ 3,191	$ 622	$ 626	$ 4	$ 16,519
Balance at March 31, 2019	$ 11,554	$ 2,840	$ 373	$ 546	$ 4	$ 15,317
Charge-offs	(90)	(397)	–	–	–	(487)
Recoveries	9	4	1	200	–	214
Provision for loan losses	481	552	19	(147)	–	905
Balance at June 30, 2019	$ 11,954	$ 2,999	$ 393	$ 599	$ 4	$ 15,949
Balance at December 31, 2018	$ 11,485	$ 3,032	$ 385	$ 538	$ 4	$ 15,444
Charge-offs	(137)	(607)	–	–	–	(744)
Recoveries	113	23	2	206	–	344
Provision for loan losses	493	551	6	(145)	–	905
Balance at June 30, 2019	$ 11,954	$ 2,999	$ 393	$ 599	$ 4	$ 15,949
Allowance on loans evaluated for impairment:						
Individually	$ 12	$ 254	$ 219	$ –	$ –	$ 485
Collectively	12,064	2,937	403	626	4	16,034
Balance at June 30, 2020	$ 12,076	$ 3,191	$ 622	$ 626	$ 4	$ 16,519
Individually	$ –	$ 928	$ –	$ –	$ –	$ 928
Collectively	11,485	2,940	400	604	4	15,433
Balance at December 31, 2019	$ 11,485	$ 3,868	$ 400	$ 604	$ 4	$ 16,361
Recorded investment in loans evaluated for impairment:						
Individually	$ 12,363	$ 8,244	$ 1,470	$ 368	$ –	$ 22,445
Collectively	1,401,494	341,208	46,813	72,680	410	1,862,605
Balance at June 30, 2020	$ 1,413,857	$ 349,452	$ 48,283	$ 73,048	$ 410	$ 1,885,050
Individually	$ 13,596	$ 7,859	$ 403	$ 454	$ –	$ 22,312
Collectively	1,363,008	348,895	47,506	71,757	416	1,831,582
Balance at December 31, 2019	$ 1,376,604	$ 356,754	$ 47,909	$ 72,211	$ 416	$ 1,853,894

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

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

	Three Months Ended June 30, 2020				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	$ 1,504	$ –	$ 1,504	
Production and intermediate-term	–	186	–	186	
Total	$ –	$ 1,690	$ –	$ 1,690	
Post-modification:					
Real estate mortgage	$ –	$ 1,535	$ –	$ 1,535	$ –
Production and intermediate-term	–	186	–	186	–
Total	$ –	$ 1,721	$ –	$ 1,721	$ –

	Six Months Ended June 30, 2020				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 289	$ 1,504	$ –	$ 1,793	
Production and intermediate-term	–	616	–	616	
Total	$ 289	$ 2,120	$ –	$ 2,409	
Post-modification:					
Real estate mortgage	$ 290	$ 1,535	$ –	$ 1,825	$ –
Production and intermediate-term	–	653	–	653	(27)
Total	$ 290	$ 2,188	$ –	$ 2,478	$ (27)

	Three Months Ended June 30, 2019				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 13	$ 678	$ –	$ 691	
Production and intermediate-term	–	91	–	91	
Total	$ 13	$ 769	$ –	$ 782	
Post-modification:					
Real estate mortgage	$ 13	$ 678	$ –	$ 691	$ –
Production and intermediate-term	–	91	–	91	(39)
Total	$ 13	$ 769	$ –	$ 782	$ (39)

	Six Months Ended June 30, 2019				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 13	$ 921	$ –	$ 934	
Production and intermediate-term	171	149	–	320	
Total	$ 184	$ 1,070	$ –	$ 1,254	
Post-modification:					
Real estate mortgage	$ 13	$ 923	$ –	$ 936	$ –
Production and intermediate-term	164	182	–	346	(39)
Total	$ 177	$ 1,105	$ –	$ 1,282	$ (39)

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Real estate mortgage	$ 92	$ –	$ 385	$ –
Production and intermediate-term	13	–	178	–
Rural residential real estate	110	–	110	–
Total	$ 215	$ –	$ 673	$ –

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

	Total TDRs		Nonaccrual TDRs	
	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
Real estate mortgage	$ 6,713	$ 8,113	$ 3,551	$ 3,679
Production and intermediate-term	1,446	1,489	802	1,045
Farm-related business	3	3	3	3
Rural residential real estate	144	280	–	–
Total loans	$ 8,306	$ 9,885	$ 4,356	$ 4,727
Additional commitments to lend	$ –	$ –		

The following table presents information as of period end:

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

Note 3 — Investments

Investments in Debt Securities

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

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

	June 30, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 4,042	$ 526	$ –	$ 4,568	6.75%

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

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

	June 30, 2020		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	–	–	–
After five years through ten years	–	–	–
After ten years	4,042	4,568	6.75
Total	$ 4,042	$ 4,568	6.75%

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

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

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

the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

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

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

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

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

Equity Investments in Other Farm Credit System Institutions

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

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 7.19 percent of the issued stock of the Bank as of June 30, 2020 net of any reciprocal investment. As of that date, the Bank's assets totaled $35.7 billion and shareholders' equity totaled $2.6 billion. The Bank's earnings were $156 million for the first six months of 2020. In addition, the Association held investments of $4,088 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

Changes in Accumulated Other Comprehensive Income by Component *(a)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Employee Benefit Plans:				
Balance at beginning of period	$ (528)	$ (226)	$ (532)	$ (226)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	3	–	7	–
Net current period other comprehensive income	3	–	7	–
Balance at end of period	$ (525)	$ (226)	$ (525)	$ (226)

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*				
	Three Months Ended June 30,		Six Months Ended June 30,		
	2020	**2019**	**2020**	**2019**	**Income Statement Line Item**
Defined Benefit Pension Plans:					
Periodic pension costs	$ (3)	$ –	$ (7)	$ –	See Note 7.
Net amounts reclassified	$ (3)	$ –	$ (7)	$ –	

(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.

	June 30, 2020				
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 1,845	$ 1,845	$ –	$ –	$ 1,845
Recurring Assets	$ 1,845	$ 1,845	$ –	$ –	$ 1,845
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 2,455	$ –	$ –	$ 2,455	$ 2,455
Other property owned	1,749	–	–	2152	2,152
Nonrecurring Assets	$ 4,204	$ –	$ –	$ 4,607	$ 4,607
Other Financial Instruments					
Assets:					
Cash	$ 2,071	$ 2,071	$ –	$ –	$ 2,071
Investment securities, held-to-maturity	4,042	–	–	4,568	4,568
Loans	1,849,257	–	–	1,892,124	1,892,124
Other Financial Assets	$ 1,855,370	$ 2,071	$ –	$ 1,896,692	$ 1,898,763
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,498,897	$ –	$ –	$ 1,522,236	$ 1,522,236
Other Financial Liabilities	$ 1,498,897	$ –	$ –	$ 1,522,236	$ 1,522,236

	December 31, 2019				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 1,975	$ 1,975	$ –	$ –	$ 1,975
Recurring Assets	$ 1,975	$ 1,975	$ –	$ –	$ 1,975
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 2,721	$ –	$ –	$ 2,721	$ 2,721
Other property owned	4,019	–	–	4,460	4,460
Nonrecurring Assets	$ 6,740	$ –	$ –	$ 7,181	$ 7,181
Other Financial Instruments					
Assets:					
Cash	$ 5,853	$ 5,853	$ –	$ –	$ 5,853
Investment securities, held-to-maturity	5,010	–	–	5,307	5,307
Loans	1,817,196	–	–	1,830,735	1,830,735
Other Financial Assets	$ 1,828,059	$ 5,853	$ –	$ 1,836,042	$ 1,841,895
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,481,914	$ –	$ –	$ 1,484,797	$ 1,484,797
Other Financial Liabilities	$ 1,481,914	$ –	$ –	$ 1,484,797	$ 1,484,797

Uncertainty in Measurements of Fair Value

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

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

Investment Securities

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

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

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

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 4,607	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Investment securities, held-to-maturity	Discounted cash flow	Prepayment rates Risk-adjusted discount rate
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

Note 7 — Employee Benefit Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Pension	$ 1,057	$ 778	$ 2,081	$ 1,722
401(k)	322	290	672	599
Other postretirement benefits	223	227	450	461
Total	$ 1,602	$ 1,295	$ 3,203	$ 2,782

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

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

Note 8 — Commitments and Contingent Liabilities

From time to time, legal actions are pending against the Association in which claims for monetary damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association.

Note 9 — Subsequent Events

The Association evaluated subsequent events and determined that there were none requiring disclosure through August 7, 2020, which was the date the financial statements were issued.