Farm Credit Services of Western Arkansas, ACA

Quarterly Report
March 31, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Services of Western Arkansas, ACA and its subsidiaries, Farm Credit Services of Western Arkansas, FLCA and Farm Credit Services of Western Arkansas, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2019 (2019 Annual Report).

Due to the nature of our financial relationship with AgriBank, FCB (AgriBank), the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of AgriBank financial reports or additional copies of our report, contact us at:

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FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2019 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

Coronavirus (COVID-19) Impacts

First quarter 2020 financial results are strong for the association despite the introduction of the COVID-19 pandemic near quarter end. COVID-19 manifested in western Arkansas in mid-March and our Association followed state directives to limit person-to-person contact by closing our lobbies to customers on March 18. We immediately implemented our business continuity plan including testing critical functions offsite and testing employee access to our virtual private network (VPN) to limit cyber security concerns. Consequently, we immediately transitioned to serving customers via phone and electronically. Within days we began directing a segment of employees to work remotely and continued to further limit the total number of employees at any one branch location and our central office, as warranted by state authorities.

We had little time to prepare for business changes facilitated by COVID-19, but transitioned easily. We immediately evaluated our internal controls over financial reporting due to new remote work arrangements and determined our internal controls, as currently established, remain effective. We shared best practices when working from home, including steps to limit cyber related incidents. Our largest constraint was accessing needed computer equipment, but was rectified with the purchase of additional laptop computers and equipment. Changes impacting demand may lead to a potential decline in credit quality. We believe this issue will be best handled through special loan servicing options and have prepared credit staff to handle these requests. Early on we created a special COVID-19 deferral program to aid our monthly pay customers who may be more immediately impacted by the effects of the pandemic.

We anticipate that we will have members affected by the COVID-19 crisis and have prepared for an anticipated increase in loan servicing requests by creating a COVID-19 Special Loan Servicing Program, which includes deferral of principal and interest payments for up to 90 days on monthly pay customers. While still too early to know, member impacts may include loss of off-farm income and decreased farm income. For example, a number of integrators have increased out-times between flocks as a result of lower food service demand due to restaurant and school closures, the same is true for beef. Less demand influences market prices, which translate back to the farmer/customer. The timber industry is impacted for many of the same reasons. We anticipate this diminished demand impacting producers through 2020.

While we anticipate minor financial impact from COVID-19 in 2020, it is too early to predict the total impact. Beginning in early to mid-March we began experiencing an increase in loan conversions as a result of declining interest rates. We did more conversions than normal during this period.

We expect a slight decline in interest income as interest rates have declined. We anticipate offsetting that decline with increased growth, a trend we are already experiencing.

At this time we do not anticipate a material impact to our capital and financial resources as a result of COVID-19 economic impact.

Specific Production Conditions

At the end of the first quarter of 2020, there were no counties in the state of Arkansas with any form of drought conditions. The last time any county in Arkansas had a drought rating was the week of February 11, 2020. January 2020 temperatures were 3.6 degrees warmer than the mean temperature. February 2020 temperatures were 0.7 degrees warmer than the mean temperature and March 2020 was 3.8 degrees lower than the mean temperature. January 2020 precipitation was up 3.29 inches from the normal 3.55 inches for a total of 6.84 inches. February 2020 precipitation was also high coming in at 6.02 inches, which is 2.36 inches more than the normal 3.66 inches. March 2020 had total precipitation of 5.42 inches, which is 0.74 inches above the normal 4.68 inches. Total rainfall for the first quarter in Little Rock was 18.28 inches.

Row crops: Soybean prices ranged from $8.24 to $8.84 per bushel on a new crop basis. Prices ranged from $8.47 to $9.10 per bushel on a cash crop basis.

After the United States Department of Agriculture (USDA) Ag Outlook Forum in February the agency pegged baseline corn acreage for 2020 at 94 million acres, 85 million acres on soybeans, and 43 million acres on wheat. These figures represent an increase from 2019, which had 20 million acres in prevented plant acreage.

Without forecast changes for the month of March for U.S. soybean supply and demand there is sustained pressure on domestic prices. Larger crops and exchange rate weakness in South America are tempering the impact of this year's U.S. soybean stocks reduction. In March the USDA lowered the U.S. 2019/20 average price by 5.0 cents per bushel to $8.70.

Support has also eroded for domestic soybean oil prices with inventory accumulation and a slide in global palm oil prices. The sudden decrease in crude oil prices undermines what the biodiesel market may bid for soybean oil. The February monthly average price for soybean oil fell to 30.3 cents per pound from the January average of 33.0 cents per pound. The USDA reduced its forecast of the 2019/20 average soybean oil price by 2.0 cents per pound this month to 31.5 cents to reflect this trend.

Corn prices ranged $3.31 to $3.61 per bushel on a cash crop basis, with the high coming from West Memphis.

Corn usage between December 1, 2019, and March 1, 2020, totaled 3.44 billion bushels. The March 1, 2020, estimated inventory level of 7.95 billion bushels were slightly lower than trade estimates, any positive price impacts were offset by the increase in corn acreage.

Wheat ranged from $5.68 to $5.99 per bushel with the low occurring at the Little Rock elevator for new wheat.

Quarterly wheat stock data released by USDA found wheat inventories at the 1.4 billion bushel mark as of March 1, 2020. Usage from December 2019 inventories totaled 422 million bushels, a figure that is likely to increase in the next quarter as a spike in consumer demand amid COVID-19 related consumer stock piling of bread, flour, and pasta.

Poultry: Mid-March boneless skinless breast meat was $129.33 per hundredweight while breast meat line run was too few to report. While leg quarters were $31.84 to $34.03 per hundredweight on average depending on quantity.

January broiler production is estimated at nearly 4 billion pounds which is an increase of 6.5% year over year, led by increased slaughter (up 3.9% year over year), and heavier bird weights (up 2.6%).

As the industry faces record broiler production, record cold storage inventories, and historically low broiler prices, these market conditions raise questions about how long the projected rate of growth will continue. Beyond the first quarter, indicators for the broiler breeding flock do not imply intentions by producers to slow growth down. Broiler exports totaled 596 million pounds in January, which is an increase of 2.7% year over year. Exports continued to decrease in Cuba (due in part to foreign exchange constraints), and to Angola due to depreciating local currency. Shipments increased relative to a year prior, those markets being: Vietnam, the Philippines, Mexico, and Georgia.

Meat department sales excluding deli meat were up 76.9% for the week ending March 15, 2020, when compared to the same time period in 2019. In absolute dollars the five biggest winners for the week of March 15 were ground beef (+$179.1 million), chicken breast (+$89.5 million), pork loin (+$36.9 million), chuck (+$36.6 million), and ribeyes (+$31.6 million).

With much of the chicken sent to China destined for fast-food outlet use, COVID-19 tamps down demand in a way not experienced with pork, which is generally sold directly at groceries. People in China are opting to cook their own meals rather than eating out at crowded restaurants, the surplus meat is being sent onward to Australia where oversupply has already driven down the cost of some popular meat items by approximately 33%.

Cattle: Based on the pace of fed cattle slaughter and heavier expected cattle dressed weights the 2020 beef production forecast was raised by 240 million pounds to a new total of 27.7 billion pounds.

Steer and heifer dressed weights were up 26 and 13 pounds, respectively above values from the same time period in 2019; winter in 2019 was seen as the first winter in three years in which weather events did not significantly affect cattle performance in feedlots.

Fed cattle prices have been trending downward when they should be trending seasonally upward, prices typically peak in the spring; the first quarter is typically when the fewest fed cattle are slaughtered and carcass weights begin trending lighter. In a normal year it would be expected that heavier carcass weights and greater beef production might pressure fed cattle prices (absent any externalities). However, price signals indicated that the futures market may be encouraging feedlots to market cattle in the timeliest fashion possible.

Due to COVID-19 there is much uncertainty in the cattle market, live cattle contracts lost 25% of their value between mid-January and the third week of March. The bigger issue in cattle markets this spring is the behavior of the cattle futures market, money was running scarce and live cattle futures were caught up in the dynamic. Future prices were dropping more rapidly than cash prices which put feedlot managers in a poor negotiating position according to John Anderson, the head of the Department of Agricultural Economics and Agribusiness with the Division of Agriculture. Another thought according to John Anderson regarding the impact of COVID-19 on the beef market is that “panic buying is not the same thing as an increase in demand, it might look like it, but it’s really not. Essentially, it is pulling demand from later periods ahead to today. It creates a short-term shortage.”

Timber: At the end of the first quarter of 2020 the state average on pine sawtimber was $23.63/ton with pine pulpwood at $5.69/ton, mixed hardwood sawtimber was $37.83/ton, and hardwood pulpwood $8.60/ton.

When compared to last year pine sawtimber for the first quarter of 2020 was down $1.96/ a ton, pine pulpwood was down $3.31/ton, mixed hardwood sawtimber was down $0.42/ton, and hardwood pulpwood was down $6.56/ton.

A wet first quarter of 2020 restricted wood supply, causing the south-wide average stumpage price to increase for three major pine products. However, hardwood prices for both sawtimber and pulpwood decreased for the first quarter.

The upward movement in pine stumpage prices was in line with the seasonal, wintertime trends that have shown stumpage increases quarter over quarter in the first quarter in 8 of the last 11 years for both pine sawtimber and pine pulpwood. However, late in the quarter markets were affected by the COVID-19 outbreak, dampening the seasonal upswings.

The COVID-19 outbreak in March affected production and overall wood demand across the south, which caused delivered prices to decrease for all five major products even though the first quarter was a wet, supply-constrained first quarter.

U.S. residential building construction started strong in early 2020, housing starts through February were 226,200 units which was up 35% compared to the same period in 2019. However experts anticipate a substantial decline in housing starts for March due to the COVID-19 outbreak.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.5 billion at March 31, 2020, an increase of $57.6 million from December 31, 2019. The increase was primarily due to normal growth in our loan portfolio and great opportunities to support our customers. We also saw strong growth in our capital markets loan portfolio.

Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2019. Adversely classified loans were 1.6% of the portfolio at March 31, 2020, and December 31, 2019. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. At March 31, 2020, $56.8 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**March 31, 2020**	December 31, 2019
Loans:		
Nonaccrual	**$ 9,595**	$ 9,520
Accruing restructured	**3,598**	3,618
Accruing loans 90 days or more past due	**--**	--
Total risk loans	**13,193**	13,138
Other property owned	**448**	--
Total risk assets	**$ 13,641**	$ 13,138
Total risk loans as a percentage of total loans	**0.9%**	0.9%
Nonaccrual loans as a percentage of total loans	**0.6%**	0.7%
Current nonaccrual loans as a percentage of total nonaccrual loans	**66.5%**	64.0%
Total delinquencies as a percentage of total loans	**1.1%**	0.4%

Note: Accruing loans include accrued interest receivable.

Our risk assets have not changed significantly from December 31, 2019, and have remained at acceptable levels. Total risk loans as a percentage of total loans were well within our established risk management guidelines.

Nonaccrual loans remained at an acceptable level at March 31, 2020, and December 31, 2019.

The increase in other property owned is due to normal activity, which resulted in one property transferring to other property owned during the first quarter of 2020. Other property owned is recorded in “Other assets” in the Consolidated Statements of Condition.

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans inherent in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Allowance Coverage Ratios

As of:	**March 31, 2020**	December 31, 2019
Allowance as a percentage of:		
Loans	**0.2%**	0.2%
Nonaccrual loans	**31.1%**	27.0%
Total risk loans	**22.6%**	19.6%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2020.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the three months ended March 31,		**2020**		2019
Net income	**$**	**7,158**	$	6,067
Return on average assets		**1.9%**		1.7%
Return on average members' equity		**9.3%**		8.4%

Changes presented in the profitability information chart relate directly to:

- Changes in income discussed in this section
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Funding, Liquidity, and Capital section

Changes in Significant Components of Net Income

(in thousands) For the three months ended March 31,		**2020**		2019		**Increase (decrease) in net income**
Net interest income	**$**	**10,758**	$	10,238	**$**	**520**
Provision for credit losses		**313**		168		**(145)**
Non-interest income		**2,639**		1,899		**740**
Non-interest expense		**5,880**		5,902		**22**
Provision for income taxes		**46**		--		**(46)**
Net income	**$**	**7,158**	$	6,067	**$**	**1,091**

Net Interest Income

Changes in Net Interest Income

(in thousands) For the three months ended March 31,		**2020 vs 2019**
Changes in volume	**$**	**781**
Changes in interest rates		**(219)**
Changes in nonaccrual income and other		**(42)**
Net change	**$**	**520**

Provision for Credit Losses

The change in the provision for credit losses was related to our estimate of losses in our portfolio for the applicable years.

Non-Interest Income

The change in non-interest income was primarily due to patronage income and fee income.

Patronage Income: We may receive patronage from AgriBank and other Farm Credit Institutions. Patronage distributions from AgriBank and other Farm Credit Institutions are declared solely at the discretion of each institution's Board of Directors.

Patronage Income

(in thousands) For the three months ended March 31,	**2020**	2019
Wholesale patronage	**$ 1,504**	$ 913
Pool program patronage	**109**	143
AgDirect partnership distribution	**84**	83
Total patronage income	**$ 1,697**	$ 1,139
Form of patronage distributions:		
Cash	**$ 1,697**	$ 1,139
Total patronage income	**$ 1,697**	$ 1,139

The increase in patronage income was primarily due to an increase in wholesale patronage, which is largely a result of a higher patronage rate for the first three months of 2020 compared to the same period of 2019.

Fee Income: The increase in fee income was primarily due to conversion and origination fees.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable is scheduled to mature on May 31, 2021. The note payable will be renegotiated no later than the maturity date. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

The components of cost of funds associated with our note payable include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity, and bank profit
- A risk premium component, if applicable

We were not subject to a risk premium at March 31, 2020, or December 31, 2019.

We continue to maintain our primary source of liquidity through our AgriBank line of credit. During recent market volatility certain adjustments to cost of our funding of longer term loans was impacted.

Total members' equity increased $4.7 million from December 31, 2019, primarily due to net income for the period partially offset by patronage distribution accruals. The change in accumulated other comprehensive loss is the amortization impact of prior service cost and unamortized gain/loss related to the Pension Restoration Plan. Refer to Note 9 in our 2019 Annual Report for more information on the Pension Restoration Plan.

The Farm Credit Administration (FCA) Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 7 in our 2019 Annual Report for a more complete description of these ratios.

Regulatory Capital Requirements and Ratios

As of:	**March 31, 2020**	December 31, 2019	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**19.2%**	20.0%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**19.2%**	20.0%	6.0%	2.5%	8.5%
Total capital ratio	**19.4%**	20.2%	8.0%	2.5%	10.5%
Permanent capital ratio	**19.2%**	20.0%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**18.7%**	19.5%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**18.8%**	19.6%	1.5%	N/A	1.5%

Capital ratios are directly impacted by the changes in capital, as more fully explained in this section, the changes in assets, as discussed in the Loan Portfolio section, and off-balance sheet commitments.

OTHER MATTERS

Relationships with Other Farm Credit Institutions

SunStream Business Services: SunStream Business Services (SunStream) was previously a division of AgriBank. Effective April 1, 2020, SunStream is a System service corporation and we will be a partial owner and continue to purchase services from SunStream. We purchase various services from SunStream, which include financial and retail systems, tax reporting services, technology services, and insurance services. As of April 1, 2020, our investment in SunStream was $503 thousand. The entire investment was called on April 1, 2020, at which time $280 thousand was paid in cash and the remainder is due in January 2021.

CERTIFICATION

The undersigned have reviewed the March 31, 2020, Quarterly Report of Farm Credit Services of Western Arkansas, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Kenny Brixey
Chairperson of the Board
Farm Credit Services of Western Arkansas, ACA

Brandon Haberer
President and Chief Executive Officer
Farm Credit Services of Western Arkansas, ACA

Lori Schumacher
Senior Vice President of Finance and Chief Financial Officer
Farm Credit Services of Western Arkansas, ACA

May 6, 2020

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Services of Western Arkansas, ACA
(in thousands)
(Unaudited)

As of:		March 31, 2020		December 31, 2019
ASSETS				
Loans	**$**	**1,486,467**	$	1,428,851
Allowance for loan losses		**2,984**		2,571
Net loans		**1,483,483**		1,426,280
Investment in AgriBank, FCB		**33,221**		32,252
Accrued interest receivable		**12,057**		11,120
Other assets		**21,219**		20,757
Total assets	**$**	**1,549,980**	$	1,490,409
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**1,208,919**	$	1,146,921
Accrued interest payable		**8,106**		8,087
Deferred tax liabilities, net		**491**		347
Patronage distribution payable		**2,600**		10,300
Other liabilities		**20,282**		19,856
Total liabilities		**1,240,398**		1,185,511
Contingencies and commitments (Note 4)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**5,609**		5,570
Unallocated surplus		**304,459**		299,884
Accumulated other comprehensive loss		**(486)**		(556)
Total members' equity		**309,582**		304,898
Total liabilities and members' equity	**$**	**1,549,980**	$	1,490,409

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Farm Credit Services of Western Arkansas, ACA
(in thousands)
(Unaudited)

	Three Months Ended			
For the period ended March 31,		**2020**		2019
Interest income	**$**	**18,864**	$	18,190
Interest expense		**8,106**		7,952
Net interest income		**10,758**		10,238
Provision for credit losses		**313**		168
Net interest income after provision for credit losses		**10,445**		10,070
Non-interest income				
Patronage income		**1,697**		1,139
Financially related services income		**4**		5
Fee income		**560**		377
Allocated Insurance Reserve Accounts distribution		**282**		288
Other non-interest income		**96**		90
Total non-interest income		**2,639**		1,899
Non-interest expense				
Salaries and employee benefits		**3,819**		3,611
Other operating expense		**2,058**		2,291
Other non-interest expense		**3**		--
Total non-interest expense		**5,880**		5,902
Income before income taxes		**7,204**		6,067
Provision for income taxes		**46**		--
Net income	**$**	**7,158**	$	6,067
Other comprehensive income				
Employee benefit plans activity	**$**	**70**	$	7
Total other comprehensive income		**70**		7
Comprehensive income	**$**	**7,228**	$	6,074

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Services of Western Arkansas, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive (Loss) Income	Total Members' Equity
Balance at December 31, 2018	$ 5,390	$ 282,289	$ (278)	$ 287,401
Net income	--	6,067	--	6,067
Other comprehensive income	--	--	7	7
Unallocated surplus designated for patronage distributions	--	(2,291)	--	(2,291)
Capital stock and participation certificates issued	123	--	--	123
Capital stock and participation certificates retired	(127)	--	--	(127)
Balance at March 31, 2019	$ 5,386	$ 286,065	$ (271)	$ 291,180
Balance at December 31, 2019	$ 5,570	$ 299,884	$ (556)	$ 304,898
Net income	**--**	**7,158**	**--**	**7,158**
Other comprehensive income	**--**	**--**	**70**	**70**
Unallocated surplus designated for patronage distributions	**--**	**(2,583)**	**--**	**(2,583)**
Capital stock and participation certificates issued	**161**	**--**	**--**	**161**
Capital stock and participation certificates retired	**(122)**	**--**	**--**	**(122)**
Balance at March 31, 2020	**$ 5,609**	**$ 304,459**	**$ (486)**	**$ 309,582**

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim Consolidated Statements of Condition and Consolidated Statements of Comprehensive Income. Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the three months ended March 31, 2020, are not necessarily indicative of the results to be expected for the year ending December 31, 2020. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2019 (2019 Annual Report).

The Consolidated Financial Statements present the consolidated financial results of Farm Credit Services of Western Arkansas, ACA and its subsidiaries Farm Credit Services of Western Arkansas, FLCA and Farm Credit Services of Western Arkansas, PCA. All material intercompany transactions and balances have been eliminated in consolidation.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business. While we are a nonpublic entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements in alignment with other System institutions.

Standard and effective date	Description	Adoption status and financial statement impact
In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13 “Financial Instruments - Credit Losses." The guidance was originally effective for non-U.S. Securities Exchange Commission filers for our first quarter of 2021. In November 2019, the FASB issued ASU 2019-10 which amends the mandatory effective date for this guidance for certain institutions. We have determined we qualify for the deferral of the mandatory effective date. As a result of the change, the standard is effective for our first quarter of 2023 and early adoption is permitted.	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	We are evaluating the deferral and have not yet determined if we will early adopt the standard. We have reviewed the accounting standard, selected and substantially completed development and testing of our system, and are in the process of drafting disclosures. Significant implementation matters yet to be addressed include drafting of accounting policies and designing processes and controls. We are currently unable to estimate the impact on our financial statements.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	**March 31, 2020**			December 31, 2019		
		Amount	%		Amount	%
Real estate mortgage	**$**	**957,092**	**64.3%**	$	938,325	65.7%
Production and intermediate-term		**207,431**	**14.0%**		197,799	13.8%
Agribusiness		**217,956**	**14.7%**		183,486	12.8%
Other		**103,988**	**7.0%**		109,241	7.7%
Total	**$**	**1,486,467**	**100.0%**	$	1,428,851	100.0%

The other category is primarily composed of rural infrastructure, rural residential real estate, and agricultural export finance related loans.

Delinquency

Aging Analysis of Loans

(in thousands) **As of March 31, 2020**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total
Real estate mortgage	**$ 4,993**	**$ 1,797**	**$ 6,790**	**$ 958,107**	**$ 964,897**
Production and intermediate-term	**4,965**	**660**	**5,625**	**205,274**	**210,899**
Agribusiness	**4,189**	**--**	**4,189**	**214,389**	**218,578**
Other	**39**	**--**	**39**	**104,111**	**104,150**
Total	**$ 14,186**	**$ 2,457**	**$ 16,643**	**$ 1,481,881**	**$ 1,498,524**

As of December 31, 2019	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total
Real estate mortgage	$ 2,432	$ 2,170	$ 4,602	$ 940,985	$ 945,587
Production and intermediate-term	201	809	1,010	200,005	201,015
Agribusiness	--	--	--	183,992	183,992
Other	41	--	41	109,336	109,377
Total	$ 2,674	$ 2,979	$ 5,653	$ 1,434,318	$ 1,439,971

Note: Accruing loans include accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest at March 31, 2020, or December 31, 2019.

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

Risk Loan Information

(in thousands) As of:	**March 31, 2020**	December 31, 2019
Volume with specific allowance	**$ 3,689**	$ 3,301
Volume without specific allowance	**9,504**	9,837
Total risk loans	**$ 13,193**	$ 13,138
Total specific allowance	**$ 1,005**	$ 897
For the three months ended March 31,	**2020**	2019
Income on accrual risk loans	**$ 46**	$ 51
Income on nonaccrual loans	**100**	142
Total income on risk loans	**$ 146**	$ 193
Average risk loans	**$ 13,221**	$ 11,501

Note: Accruing loans include accrued interest receivable.

We had no material commitments to lend additional money to borrowers whose loans were classified as risk loans at March 31, 2020.

Troubled Debt Restructurings (TDRs)

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

TDR Activity

(in thousands) Three months ended March 31,	2020		2019	
	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	$ --	$ --	$ 200	$ 214
Production and intermediate-term	--	--	269	180
Total	$ --	$ --	$ 469	$ 394

Pre-modification represents the outstanding recorded investment of the loan just prior to restructuring and post-modification represents the outstanding recorded investment of the loan immediately following the restructuring. The recorded investment in the loan is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment.

The primary types of modification included deferral of principal and interest rate reduction below market.

There were no TDRs that defaulted during the three months ended March 31, 2020, or 2019 in which the modification was within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:	March 31, 2020	December 31, 2019
Accrual status:		
Real estate mortgage	$ 726	$ 725
Production and intermediate-term	918	905
Agribusiness	1,954	1,988
Total TDRs in accrual status	$ 3,598	$ 3,618
Nonaccrual status:		
Real estate mortgage	$ 769	$ 778
Production and intermediate-term	631	631
Agribusiness	--	--
Total TDRs in nonaccrual status	$ 1,400	$ 1,409
Total TDRs:		
Real estate mortgage	$ 1,495	$ 1,503
Production and intermediate-term	1,549	1,536
Agribusiness	1,954	1,988
Total TDRs	$ 4,998	$ 5,027

There were no commitments to lend to borrowers whose loans have been modified in a TDR at March 31, 2020.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Three months ended March 31,	2020	2019
Balance at beginning of period	$ 2,571	$ 2,444
Provision for loan losses	398	193
Loan recoveries	25	2
Loan charge-offs	(10)	(97)
Balance at end of period	$ 2,984	$ 2,542

The “Provision for credit losses” in the Consolidated Statements of Comprehensive Income includes a provision for loan losses as presented in the previous chart, as well as a reversal of credit losses on unfunded commitments. The accrued credit losses on unfunded commitments are recorded in “Other liabilities” in the Consolidated Statements of Condition.

Credit Loss Information on Unfunded Commitments

(in thousands) For the three months ended March 31,		2020		2019
Reversal of credit losses	**$**	**(85)**	$	(25)
As of:		**March 31, 2020**		December 31, 2019
Accrued credit losses	**$**	**130**	$	215

NOTE 3: OTHER INVESTMENT

We and other Farm Credit Institutions are among the limited partners for a Rural Business Investment Company (RBIC). Our total commitment is $2.0 million through December 2020 with an option to extend under certain circumstances. Our investment in the RBIC is recorded in “Other assets” in the Consolidated Statements of Condition, and totaled $690 thousand at March 31, 2020, and $610 thousand at December 31, 2019.

The investment was evaluated for impairment. The investment was not impaired at March 31, 2020, or December 31, 2019.

NOTE 4: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

NOTE 5: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 in our 2019 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at March 31, 2020, or December 31, 2019.

Non-Recurring

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands) **As of March 31, 2020**	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	**$ --**	**$ --**	**$ 2,818**	**$ 2,818**
Other property owned	**--**	**--**	**515**	**515**

As of December 31, 2019	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ --	$ 2,524	$ 2,524
Other property owned	--	--	--	--

Valuation Techniques

Impaired loans: Represents the carrying amount of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset’s fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management’s knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as Level 3.

Other property owned: Represents the fair value of foreclosed assets measured based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the property and other matters, they are classified as Level 3.

NOTE 6: SUBSEQUENT EVENTS

We have evaluated subsequent events through May 6, 2020, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.