Farm Credit Services of Western Arkansas, ACA

Quarterly Report
June 30, 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

Second quarter 2020 financial results remain strong for the Association despite the continued impact of the COVID-19 pandemic in our area. 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 are continuing the implementation of our business continuity plan. We are successfully serving customers via phone and electronically. We continue to have a segment of employees working remotely and continue to limit the total number of employees at any one branch location and our central office. We anticipate opportunities to open our lobbies back up during the third quarter of 2020, but this is pending improved trends seen in the healthcare environment in Arkansas.

We continue to evaluate our internal controls over financial reporting due to new remote work arrangements and are confident our internal controls, as currently established, remain effective.

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. Additionally, we have recognized a need by some customers for an additional 90 days of deferment and are reviewing these on a case by case basis. 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.

At this time, we anticipate minor financial impact from COVID-19 in 2020. Currently we have not identified any losses in our portfolio as a result. All loans processed through our loan servicing actions remain strongly collateralized and are expected to be collected.

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 have seen a slight decline in net interest income as interest rates have declined rapidly. 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.

Mid-Year Patronage Distribution

These unprecedented times call for unprecedented actions. On June 1, 2020, our board of directors declared a $5.0 million dollar patronage payment to put cash in members' hands when they need it the most. Our staff moved swiftly to get checks calculated and out the door by June 26. This patronage was based on profits to-date in 2020. Members received a portion of their current-year patronage cash early. It is anticipated additional patronage will be distributed in February 2021 for profits earned July- December 2020 as part of our normal patronage distribution process.

*Members qualifying for less than $100 in patronage mid-year will receive their share in the anticipated February 2021 patronage distribution.

Specific Production Conditions

At the end of June 2020 there were 6 counties in the state rated at abnormally dry in the northwest corner of the state. April temperatures were slightly cooler than the mean temperature. April precipitation was 6.41 inches on average in Little Rock which is up 1.27 inches from the normal value of 5.14 inches precipitation in April. May temperatures were warmer than normal values. Precipitation in May was 6.04 inches in Little Rock, which is 1.17 inches more than the normal value of 4.87 inches for May. June temperatures were cooler than the mean temperature for June. Precipitation for June was 6.73 inches in Little Rock, which is 3.08 inches more than the normal value of 3.65 inches for the month of June in Little Rock.

The United States-Mexico-Canada Agreement (USMCA) which was officially ratified by each country as of March 13, 2020, took effect on July 1, 2020, with Agriculture being one of the major sectors being affected. All agricultural products that had zero tariffs under North American Free Trade Agreement (NAFTA) will continue to have zero tariffs under USMCA with the new agreement adding provisions on biotechnology, geographical indicators, and sanitary and phytosanitary measures with the goal of providing broader market opportunities. The global health crisis is damaging the ability of individuals and firms to produce goods and services while simultaneously changing the consumption behavior of consumers and businesses across the globe. Due to this the real per capita Gross Domestic Product (GDP) is forecast to decline by 5.5% in fiscal year 2020 relative to the year prior. The adjusted forecast amounts to a reduction in economic activity of $1.8 trillion during 2020. The diversified U.S. economy will help to mitigate the economic downturn facing many businesses, however the economy's reliance on consumer spending will be a critical issue going forward. The first country to implement public health-necessitated lockdowns, China, has begun to reopen its economy. Portions of China's economy are expected to grow while still being negatively affected by the global slowdown, especially with respect to international trade; China's forecasted GDP per capita growth rate is 0.4% for 2020 down from 5.7% in 2019.

Row crops: Considerable gains are likely for soybean shipments to China next year as they benefit under the terms of a January 2020 trade agreement to purchase more U.S. agricultural products, although market conditions to initiate any big sales to China by the end of the summer have not developed.

Unreserved selling by Brazilian farmers could maintain a price premium for U.S. soybean exports for much of the summer, by the first half of 2020/2021 the rapid depletion of Brazilian old-crop stocks will expedite a switchover in China's suppliers.

Considerable pressure will remain on the level of soybean prices, even bigger South American soybean crops and an accumulation of stocks in China, the world's top consumer, could suppress a sustained price rally.

The 2020/2021 U.S. corn crop is forecast to be a record high 16.0 billion bushels, corn use is also projected at a record level as food, seed, and industrial (FSI) use, feed and residual use and exports increase from the 2019/2020 COVID-19 impacted levels.

Corn planted area is projected at 97.0 million acres based on the March 31 National Agricultural Statistics Service Prospective Planting report. If realized, this would produce a record-high corn crop of 15,995 million bushels at the projected weather-adjusted trend yield of 178.5 bushels per acre.

The 2020/2021 U.S. rice crop is projected at 216.2 million cwt, up 31.5 million cwt from a year prior, due to both larger area planted and higher yield.

Progress of the 2020/2021 U.S. rice crop remains behind normal in the Delta, a result of persistent rain and wet conditions. At the week ending May 10, 2020, 70% of the U.S. rice crop was reported planted, which is well ahead of last year's rain-delayed 53% but slightly behind the U.S. 5-year average of 75%.

In the Delta, the Arkansas crop was reported at 67% planted by May 10, up from the rain-delayed 51% a year prior.

Poultry: In April, the COVID-19 pandemic caused supply-side disruptions to the broiler industry; processing plant operations were impacted as workforce absenteeism, enhanced safety measures, and temporary plant closures significantly reduced processing volumes.

Preliminary weekly slaughter data indicates that broiler processing volumes began decreasing rapidly in early April, falling to a low of 150 million birds a week for the week ending April 18, significantly lower than the average of 169 million birds per week reached in the first quarter of 2020.

Hatchery data indicates that U.S. broiler producers intend to significantly scale back production, likely in response to lower demand expectations and in part to ease pressure on plant workers.

Eggs set and chick placements began decreasing sharply in the beginning of April; while eggs set remain below 2019, numbers have increased since late April and chick placements have begun to increase as well.

Wholesale bird prices averages 53.52 cents per pound in April, which is down 45.2% relative to last year and the lowest price on record since the data series began in 2009. Weekly prices began strengthening the second half of the month, likely reflecting the tighter supplies and improved demand relative to the prior weeks. Although prices have strengthened, they are expected to remain soft for the remainder of 2020.

Cattle: Since early April, COVID-19 infections of animal processing plant labor forces have disrupted beef, pork, broiler, and turkey production in the U.S.

While beef production had its strongest levels in early 2020, slaughter levels are expected to restrict beef production for the rest of the year due to COVID-19 challenges at meat packing facilities, however slaughter capacity is expected to recover in 2021 and beef production is expected to set a record.

Beef exports in first quarter 2020 reached record levels, but tighter expected domestic supplies and global economic uncertainty drags down the forecast for the rest of 2020.

The beef production forecast for the second quarter of 2020 was lowered by 1.3 billion pounds to 5.6 billion pounds, 17% below last year and the lowest for the quarter since 1990.

The buildup of fed cattle supplies that are market-ready is expected to have a substantial and lasting effect on fed cattle prices, prices will remain low as the supply of market-ready cattle remains above the sector's ability to process them, and the supply issue is expected to linger through 2021.

As a consequence of lower fed cattle prices and of having to keep cattle on feed longer as packing facilities adjust slaughter schedules lower, feedlot margins are being squeezed which in turn will mean feedlot buyers will be less willing to bid aggressively for feeder cattle.

Timber: At the end of the second quarter of 2020 the state average on pine sawtimber was $23.62/ton with pine pulpwood at $5.96/ton, mixed hardwood sawtimber was $35.85/ton, and hardwood pulpwood $8.23/ton.

When compared to last year pine sawtimber for the second quarter of 2020 was down $1.27/ton, pine pulpwood was down $0.79/ton, mixed hardwood sawtimber was up $0.84/ton, and hardwood pulpwood was down $7.68/ton.

There was very little movement between first quarter and second quarter of 2020, with pine sawtimber, pine chip-n-saw, mixed hardwood sawtimber, and hardwood pulpwood all decreasing less than $2.00/ton.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.5 billion at June 30, 2020, an increase of $101.3 million from December 31, 2019. The increase was due to normal growth in our loan portfolio, the impact of a lower interest rate environment, and great opportunities to support our current and new customers.

Portfolio Credit Quality

The credit quality of our portfolio improved slightly from December 31, 2019. Adversely classified loans decreased to 1.4% of the portfolio at June 30, 2020, from 1.6% of the portfolio at 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 June 30, 2020, $56.9 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**June 30, 2020**	December 31, 2019
Loans:		
Nonaccrual	**$ 9,208**	$ 9,520
Accruing restructured	**3,377**	3,618
Accruing loans 90 days or more past due	**--**	--
Total risk loans	**12,585**	13,138
Other property owned	**573**	--
Total risk assets	**$ 13,158**	$ 13,138
Total risk loans as a percentage of total loans	**0.8%**	0.9%
Nonaccrual loans as a percentage of total loans	**0.6%**	0.7%
Current nonaccrual loans as a percentage of total nonaccrual loans	**65.9%**	64.0%
Total delinquencies as a percentage of total loans	**0.4%**	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 June 30, 2020, and December 31, 2019.

The increase in other property owned is due to normal activity, which resulted in a few properties transferring to other property owned during the first half 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:	**June 30, 2020**	December 31, 2019
Allowance as a percentage of:		
Loans	**0.2%**	0.2%
Nonaccrual loans	**32.1%**	27.0%
Total risk loans	**23.5%**	19.6%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2020. Allowance for loan losses has increased slightly since December 31, 2019, primarily due to general growth in our portfolio.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the six months ended June 30,	**2020**	2019
Net income	**$ 14,950**	$ 13,491
Return on average assets	**1.9%**	1.9%
Return on average members' equity	**9.6%**	9.2%

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 six months ended June 30,	**2020**	2019	**Increase (decrease) in net income**
Net interest income	**$ 21,761**	$ 20,624	**$ 1,137**
Provision for credit losses	**406**	180	**(226)**
Non-interest income	**5,791**	4,595	**1,196**
Non-interest expense	**12,082**	11,548	**(534)**
Provision for income taxes	**114**	--	**(114)**
Net income	**$ 14,950**	$ 13,491	**$ 1,459**

Net Interest Income

Changes in Net Interest Income

(in thousands) For the six months ended June 30,	**2020 vs 2019**
Changes in volume	**$ 1,769**
Changes in interest rates	**(559)**
Changes in nonaccrual income and other	**(73)**
Net change	**$ 1,137**

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. Our provision for credit loss increased due to the general growth and normal fluctuations in our portfolio.

Non-Interest Income

The change in non-interest income was primarily due to increases in 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 six months ended June 30,		**2020**		2019
Wholesale patronage	**$**	**3,283**	$	2,718
Pool program patronage		**208**		260
AgDirect partnership distribution		**151**		176
Total patronage income	**$**	**3,642**	$	3,154
Form of patronage distributions:				
Cash	**$**	**3,642**	$	1,455
Stock		**--**		1,699
Total patronage income	**$**	**3,642**	$	3,154

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 six 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.

Non-Interest Expense

The increase in non-interest expense is primarily due to increases in salaries and employee benefits expense.

Provision for Income Taxes

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

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable was scheduled to mature on May 31, 2021. However, it was renewed early for $1.6 billion with a maturity date of May 31, 2023. 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 June 30, 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 $10.0 million from December 31, 2019, primarily due to net income for the period partially offset by patronage distributions**.** 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 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:	**June 30, 2020**	December 31, 2019	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**18.8%**	20.0%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**18.8%**	20.0%	6.0%	2.5%	8.5%
Total capital ratio	**19.0%**	20.2%	8.0%	2.5%	10.5%
Permanent capital ratio	**18.9%**	20.0%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**18.2%**	19.5%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**18.4%**	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 are 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. Our entire investment in SunStream was called on April 1, 2020, at which time $280 thousand was paid in cash and the remainder is due in January 2021. As of June 30, 2020, our investment in SunStream was $503 thousand.

CERTIFICATION

The undersigned have reviewed the June 30, 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

August 6, 2020

CONSOLIDATED STATEMENTS OF CONDITION

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

As of:		June 30, 2020		December 31, 2019
ASSETS				
Loans	**$**	**1,530,160**	$	1,428,851
Allowance for loan losses		**2,955**		2,571
Net loans		**1,527,205**		1,426,280
Investment in AgriBank, FCB		**34,839**		32,252
Accrued interest receivable		**11,671**		11,120
Other assets		**23,404**		20,757
Total assets	**$**	**1,597,119**	$	1,490,409
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**1,249,605**	$	1,146,921
Accrued interest payable		**6,999**		8,087
Deferred tax liabilities, net		**495**		347
Patronage distribution payable		**224**		10,300
Other liabilities		**24,864**		19,856
Total liabilities		**1,282,187**		1,185,511
Contingencies and commitments (Note 4)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**5,740**		5,570
Unallocated surplus		**309,609**		299,884
Accumulated other comprehensive loss		**(417)**		(556)
Total members' equity		**314,932**		304,898
Total liabilities and members' equity	**$**	**1,597,119**	$	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		Six Months Ended	
For the period ended June 30,	**2020**	2019	**2020**	2019
Interest income	**$ 18,002**	$ 18,619	**$ 36,866**	$ 36,809
Interest expense	**6,999**	8,233	**15,105**	16,185
Net interest income	**11,003**	10,386	**21,761**	20,624
Provision for credit losses	**93**	12	**406**	180
Net interest income after provision for credit losses	**10,910**	10,374	**21,355**	20,444
Non-interest income				
Patronage income	**1,945**	2,015	**3,642**	3,154
Financially related services income	**5**	7	**9**	12
Fee income	**959**	607	**1,519**	984
Allocated Insurance Reserve Accounts distribution	**--**	--	**282**	288
Other non-interest income	**243**	67	**339**	157
Total non-interest income	**3,152**	2,696	**5,791**	4,595
Non-interest expense				
Salaries and employee benefits	**3,797**	3,453	**7,616**	7,064
Other operating expense	**2,405**	2,189	**4,463**	4,480
Other non-interest expense	**--**	4	**3**	4
Total non-interest expense	**6,202**	5,646	**12,082**	11,548
Income before income taxes	**7,860**	7,424	**15,064**	13,491
Provision for income taxes	**68**	--	**114**	--
Net income	**$ 7,792**	$ 7,424	**$ 14,950**	$ 13,491
Other comprehensive income				
Employee benefit plans activity	**$ 69**	$ 6	**$ 139**	$ 13
Total other comprehensive income	**69**	6	**139**	13
Comprehensive income	**$ 7,861**	$ 7,430	**$ 15,089**	$ 13,504

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	Total Members' Equity
Balance at December 31, 2018	$ 5,390	$ 282,289	$ (278)	$ 287,401
Net income	--	13,491	--	13,491
Other comprehensive income	--	--	13	13
Unallocated surplus designated for patronage distributions	--	(4,526)	--	(4,526)
Capital stock and participation certificates issued	284	--	--	284
Capital stock and participation certificates retired	(226)	--	--	(226)
Balance at June 30, 2019	$ 5,448	$ 291,254	$ (265)	$ 296,437
Balance at December 31, 2019	$ 5,570	$ 299,884	$ (556)	$ 304,898
Net income	**--**	**14,950**	**--**	**14,950**
Other comprehensive income	**--**	**--**	**139**	**139**
Unallocated surplus designated for patronage distributions	**--**	**(5,225)**	**--**	**(5,225)**
Capital stock and participation certificates issued	**409**	**--**	**--**	**409**
Capital stock and participation certificates retired	**(239)**	**--**	**--**	**(239)**
Balance at June 30, 2020	**$ 5,740**	**$ 309,609**	**$ (417)**	**$ 314,932**

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 six months ended June 30, 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).

Certain amounts in prior periods' financial statements have been reclassified to conform to the current period's presentation.

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 do not expect to 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:	**June 30, 2020**		December 31, 2019	
	Amount	%	Amount	%
Real estate mortgage	**$ 1,011,782**	**66.1%**	$ 938,325	65.7%
Production and intermediate-term	**204,525**	**13.4%**	197,799	13.8%
Agribusiness	**209,339**	**13.7%**	183,486	12.8%
Other	**104,514**	**6.8%**	109,241	7.7%
Total	**$ 1,530,160**	**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 June 30, 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	**$ 1,633**	**$ 2,255**	**$ 3,888**	**$ 1,015,607**	**$ 1,019,495**
Production and intermediate-term	**1,289**	**550**	**1,839**	**205,933**	**207,772**
Agribusiness	**--**	**--**	**--**	**209,912**	**209,912**
Other	**--**	**--**	**--**	**104,652**	**104,652**
Total	**$ 2,922**	**$ 2,805**	**$ 5,727**	**$ 1,536,104**	**$ 1,541,831**

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 June 30, 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:	**June 30, 2020**	December 31, 2019
Volume with specific allowance	**$ 2,951**	$ 3,301
Volume without specific allowance	**9,634**	9,837
Total risk loans	**$ 12,585**	$ 13,138
Total specific allowance	**$ 943**	$ 897
For the six months ended June 30,	**2020**	2019
Income on accrual risk loans	**$ 83**	$ 100
Income on nonaccrual loans	**214**	287
Total income on risk loans	**$ 297**	$ 387
Average risk loans	**$ 13,247**	$ 11,763

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 June 30, 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) Six months ended June 30,	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 six months ended June 30, 2020, or 2019 in which the modification was within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:	June 30, 2020	December 31, 2019
Accrual status:		
Real estate mortgage	$ 707	$ 725
Production and intermediate-term	756	905
Agribusiness	1,914	1,988
Total TDRs in accrual status	$ 3,377	$ 3,618
Nonaccrual status:		
Real estate mortgage	$ 767	$ 778
Production and intermediate-term	631	631
Agribusiness	--	--
Total TDRs in nonaccrual status	$ 1,398	$ 1,409
Total TDRs:		
Real estate mortgage	$ 1,474	$ 1,503
Production and intermediate-term	1,387	1,536
Agribusiness	1,914	1,988
Total TDRs	$ 4,775	$ 5,027

There were no commitments to lend to borrowers whose loans have been modified in a TDR at June 30, 2020.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Six months ended June 30,	2020	2019
Balance at beginning of period	$ 2,571	$ 2,444
Provision for loan losses	444	196
Loan recoveries	29	23
Loan charge-offs	(89)	(104)
Balance at end of period	$ 2,955	$ 2,559

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 six months ended June 30,	2020	2019
Reversal of credit losses	**$ (38)**	$ (16)
As of:	**June 30, 2020**	December 31, 2019
Accrued credit losses	**$ 177**	$ 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 $695 thousand at June 30, 2020, and $610 thousand at December 31, 2019.

The investment was evaluated for impairment. The investment was not impaired at June 30, 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 June 30, 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 June 30, 2020**	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	**$ --**	**$ --**	**$ 2,108**	**$ 2,108**
Other property owned	**--**	**--**	**659**	**659**
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 August 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.