Farm Credit Services of Western Arkansas, ACA

Quarterly Report
September 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

Third 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 fourth 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 have had 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. The timber industry has also been impacted. 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. 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.

Specific Production Conditions

At the end of September 2020 there were 9 counties in the state rated at abnormally dry in the northwest corner of the state. July temperatures were 7 degrees cooler than the mean temperature. July precipitation was 2.4 inches on average in Little Rock which is down 0.84 inches from the normal precipitation. August temperatures were 2 degrees cooler than normal values. Precipitation in August was 6.02 inches in Little Rock, which is 3.43 inches more than the normal. September temperatures were 2 degrees cooler than the mean temperature. Precipitation for September was 3.37 inches in Little Rock, which is 0.19 inches more than the normal value.

Announced near the end of September, Coronavirus Food Assistance Program (CFAP) 2, which follows CFAP 1 will aid many facets of the agriculture industry. Commodities eligible for the program are row crops, livestock, wool, specialty livestock, dairy, floriculture and nursery crops, aquaculture, broilers and eggs, and tobacco. Of note, cattle producers will receive $55 per head for the producer's owned inventory of eligible beef cattle, excluding breeding stock, on a day selected by the producer from April 16, 2020, to August 31, 2020, not to exceed $250,000 or 4,546 head per producer. Row crop producers can expect to see their eligible acres of the crop multiplied by $15 per acre or eligible acres of the crop multiplied by a nationwide crop marketing percentage, multiplied by a crop-specific payment rate, and then by the producer's weighted 2020 actual production history approved yield (if not available, 85% of the weighted 2019 agricultural risk coverage-county option benchmark yield for that crop will be used). As part of the Coronavirus Aid, Relief, and Economic Security Act, $5.0 million was granted to expand and upgrade Arkansas meat processing facilities. The grant was designed to increase meat packing capacity in Arkansas in order to provide Arkansas families, restaurants, and schools with high-quality, locally produced protein products. Each chosen applicant can receive up to $500,000. Of the 15 applicants, 12 are processing facilities within our territory.

Row Crops: Based on dry August conditions in several states the United States Department of Agriculture (USDA) Crop Production report decreased the national average soybean yield down to 51.9 bushels per acre from the previous 53.3 bushels per acre predicted in July. Over the month of August much of western Iowa endured below average precipitation, drought spread quickly eastward through August. This is when the majority of the pod development in soybeans occurs. This drought culminated in a plunge for the percentage rated in the good-to-excellent condition; resulting in a decrease from 83% to 50% rated good-to-excellent. As a result, the soybean crop has been scaled back by 112 million bushels to 4.313 billion bushels, in the last month the average farm price for soybeans has been raised to $9.25 per bushel compared to $8.35 in July.

Poultry: July broiler production is estimated at 3.7 billion pounds, which is a decrease of 3.5% year-over-year; led mainly by a 3.6% decrease in slaughter with a slight uptick in live weights. Preliminary data for August points to a year-over-year decrease in slaughter and an increase in average live weights.

Higher feed costs for both corn and soybean meal are expected to pressure industry margins and dampen production growth, which led to decreasing the 2021 production forecast to 45.020 billion pounds, an increase of about 1% relative to the 2020 production forecast.

Export volumes to China steadily increased for the first five months of 2020, reaching more than 82 million pounds in the month of May, but have since dropped off falling to 39 million pounds in July. Recent trends suggest that exports to Mexico may be improving, while shipments to Vietnam and Taiwan are also trending higher than 2019.

Wholesale bird prices averaged 66.1 cents per pound in August which is a decrease of 18.3% compared to August 2019. Based on expectations for slightly firmer prices, the third and fourth quarter price forecasts were increased to 67 and 66 cents per pound, respectively. Based on expectations for reduced production, and tighter supplies the 2021 price forecast was increased to 82 cents per pound, which is 16% higher than the 2020 price forecast of 70.9 cents per pound.

Cattle: As slaughter plants adjust to COVID-19 related protocols the pace of cattle slaughter continues to improve, an expected increase in the second half of 2020 pulled steer and heifer slaughter forward in 2021. As a result of the quicker-than-expected pace of slaughter the number of fed cattle projected to be slaughtered in the third quarter of 2020 was raised. This adjustment more than offsets fewer expected cows to be slaughtered and a reduction in average carcass weights for the quarter, based on recent slaughter data. More cows and bulls are expected to be slaughtered in the fourth quarter of 2020. As a result the 2020 beef production forecast was raised by 20 million pounds form last month to 27.0 billion pounds. The reduction in slaughter capacity in the second quarter continues to show up in year-over-year higher number of cattle on feed over 150 days as well as in the carcass weights of steers and heifers. The improved pace of slaughter, combined with an ample supply of fed cattle at heavier weights has led to higher than expected beef production in the third quarter when compared to 2019.

July 2020 beef imports totaled 377 million pounds up 41% year-over-year. July's imports were the second largest to June 2005. Similar to June 2005, July's increase of 110 million pounds year-over-year was motivated by strong demand for processing-grade beef. The U.S. received shipments from the top four beef suppliers, Australia, Canada, New Zealand, and Mexico. Beef exports were down 8% or 22 million pounds year-over-year, totaling 252 million pounds in July. Beef exports have been down year-over-year for four consecutive months. Most of the decline was attributable to Mexico's year-over-year reduction in beef shipments for the U.S. of 20.0 million pounds which is partly caused by higher U.S. beef prices.

Timber: At the end of the third quarter of 2020 the state average on pine sawtimber was $23.26/ton with pine pulpwood at $5.84/ton, mixed hardwood sawtimber was $32.29/ton, and hardwood pulpwood $7.22/ton. When compared to last year pine sawtimber for third quarter 2020 was up $0.13/ton, pine pulpwood was down $0.79/ton, mixed hardwood sawtimber was down $0.80/ton, and hardwood pulpwood was down $7.94/ton. There was very little movement between second and third quarters of 2020, with pine sawtimber, and hardwood pulpwood all decreasing less than $1.01/ton. Mixed hardwood sawtimber has decreased $3.56/ton between second and third quarter as well as pine chip-n-saw increasing $1.32/ton.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.6 billion at September 30, 2020, an increase of $124.6 million from December 31, 2019. The increase was primarily due to normal growth in our loan portfolio and opportunities to support our customers.

Portfolio Credit Quality

The credit quality of our portfolio improved slightly from December 31, 2019. Adversely classified loans decreased to 1.3% of the portfolio at September 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 September 30, 2020, $54.7 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**September 30, 2020**	December 31, 2019
Loans:		
Nonaccrual	**$ 7,825**	$ 9,520
Accruing restructured	**3,325**	3,618
Accruing loans 90 days or more past due	**--**	--
Total risk loans	**11,150**	13,138
Other property owned	**573**	--
Total risk assets	**$ 11,723**	$ 13,138
Total risk loans as a percentage of total loans	**0.7%**	0.9%
Nonaccrual loans as a percentage of total loans	**0.5%**	0.7%
Current nonaccrual loans as a percentage of total nonaccrual loans	**51.8%**	64.0%
Total delinquencies as a percentage of total loans	**0.5%**	0.4%

Note: Accruing loans include accrued interest receivable.

Our risk assets have decreased 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.

The decrease in nonaccrual loans was primarily due to the sale and charge off of one large credit and normal fluctuations in our portfolio. Nonaccrual loans remained at an acceptable level at September 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 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:	**September 30, 2020**	December 31, 2019
Allowance as a percentage of:		
Loans	**0.1%**	0.2%
Nonaccrual loans	**27.1%**	27.0%
Total risk loans	**19.0%**	19.6%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2020. Allowance for loan losses has decreased since December 31, 2019, primarily due to a charge of on one credit.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the nine months ended September 30		2020		2019
Net income	$	**22,760**	$	20,621
Return on average assets		**1.9%**		1.9%
Return on average members' equity		**9.7%**		9.3%

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 nine months ended September 30		2020		2019		Increase (decrease) in net income
Net interest income	$	**33,062**	$	31,110	$	**1,952**
Provision for credit losses		**166**		193		**27**
Non-interest income		**8,607**		6,800		**1,807**
Non-interest expense		**18,628**		17,096		**(1,532)**
Provision for income taxes		**115**		--		**(115)**
Net income	$	**22,760**	$	20,621	$	**2,139**

Net Interest Income

Changes in Net Interest Income

(in thousands) For the nine months ended September 30		2020 vs 2019
Changes in volume	$	**2,786**
Changes in interest rates		**(706)**
Changes in nonaccrual income and other		**(128)**
Net change	$	**1,952**

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 nine months ended September 30		2020		2019
Wholesale patronage	$	**5,117**	$	4,122
Pool program patronage		**305**		353
AgDirect partnership distribution		**214**		240
Other patronage		**190**		--
Total patronage income	$	**5,826**	$	4,715
Form of patronage distributions:				
Cash	$	**5,826**	$	2,140
Stock		**--**		2,575
Total patronage income	$	**5,826**	$	4,715

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 nine months ended September 30, 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.

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 September 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 $15.4 million from December 31, 2019, primarily due to net income for the period, which was 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 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:	**September 30, 2020**	December 31, 2019	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**18.4%**	20.0%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**18.4%**	20.0%	6.0%	2.5%	8.5%
Total capital ratio	**18.6%**	20.2%	8.0%	2.5%	10.5%
Permanent capital ratio	**18.5%**	20.0%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**18.0%**	19.5%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**18.3%**	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, as discussed in Note 11 in our 2019 Annual Report.

REGULATORY MATTERS

Criteria to Reinstate Nonaccrual Loans

In August 2020, the FCA Board approved a final rule to revise how high-risk loans for Farm Credit System banks and associations are classified by clarifying the factors used to place loans in nonaccrual status and revising reinstatement criteria. The stated objectives of the revised requirements are to:

- Enhance the usefulness of high-risk loan categories
- Replace the subjective measure of "reasonable doubt" used for reinstating loans to accrual status with a measurable standard
- Improve the timely recognition of a change in a loan's status
- Update existing terminology and make other grammatical changes

The final rule became effective October 21, 2020. We have updated our policies, procedures, and other documentation to ensure compliance with the amended regulation. The impact of the revisions has not been material to our financial statements.

Investment Securities Eligibility

In August 2020, the FCA Board approved a final rule to amend the investment eligibility regulation. The final rule allows associations to purchase portions of loans in the secondary market that are fully and unconditionally guaranteed by the USDA.

The final rule is not yet effective, but will take effect 30 days after publication in the Federal Register during which either body of Congress is in session. Notice of the effective date will be published in the Federal Register. We are updating our policies, procedures, and other documentation to ensure compliance with the amended regulation. We currently do not have investment securities on our Consolidated Statements of Condition.

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 Farm Credit 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 September 30, 2020, our investment in SunStream was $503 thousand.

CERTIFICATION

The undersigned have reviewed the September 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

November 5, 2020

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Services of Western Arkansas, ACA

(in thousands)

(Unaudited)

As of:		September 30, 2020		December 31, 2019
ASSETS				
Loans	**$**	**1,553,499**	$	1,428,851
Allowance for loan losses		**2,120**		2,571
Net loans		**1,551,379**		1,426,280
Investment in AgriBank, FCB		**35,560**		32,252
Accrued interest receivable		**11,851**		11,120
Other assets		**23,345**		20,757
Total assets	**$**	**1,622,135**	$	1,490,409
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**1,273,070**	$	1,146,921
Accrued interest payable		**5,784**		8,087
Deferred tax liabilities, net		**450**		347
Patronage distribution payable		**2,815**		10,300
Other liabilities		**19,682**		19,856
Total liabilities		**1,301,801**		1,185,511
Contingencies and commitments (Note 4)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**5,848**		5,570
Unallocated surplus		**314,833**		299,884
Accumulated other comprehensive loss		**(347)**		(556)
Total members' equity		**320,334**		304,898
Total liabilities and members' equity	**$**	**1,622,135**	$	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		Nine Months Ended	
For the period ended September 30	**2020**	2019	**2020**	2019
Interest income	**$ 17,085**	$ 18,686	**$ 53,951**	$ 55,495
Interest expense	**5,784**	8,200	**20,889**	24,385
Net interest income	**11,301**	10,486	**33,062**	31,110
(Reversal of) provision for credit losses	**(240)**	13	**166**	193
Net interest income after (reversal of) provision for credit losses	**11,541**	10,473	**32,896**	30,917
Non-interest income				
Patronage income	**1,994**	1,561	**5,826**	4,715
Financially related services income	**8**	6	**17**	18
Fee income	**768**	607	**2,287**	1,591
Allocated Insurance Reserve Accounts distribution	**--**	--	**282**	288
Other non-interest income	**46**	33	**195**	188
Total non-interest income	**2,816**	2,207	**8,607**	6,800
Non-interest expense				
Salaries and employee benefits	**3,893**	3,287	**11,509**	10,351
Other operating expense	**2,645**	2,263	**7,108**	6,743
Other non-interest expense	**8**	--	**11**	2
Total non-interest expense	**6,546**	5,550	**18,628**	17,096
Income before income taxes	**7,811**	7,130	**22,875**	20,621
Provision for income taxes	**1**	--	**115**	--
Net income	**$ 7,810**	$ 7,130	**$ 22,760**	$ 20,621
Other comprehensive income				
Employee benefit plans activity	**$ 70**	$ 6	**$ 209**	$ 19
Total other comprehensive income	**70**	6	**209**	19
Comprehensive income	**$ 7,880**	$ 7,136	**$ 22,969**	$ 20,640

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	--	20,621	--	20,621
Other comprehensive income	--	--	19	19
Unallocated surplus designated for patronage distributions	--	(6,790)	--	(6,790)
Capital stock and participation certificates issued	463	--	--	463
Capital stock and participation certificates retired	(339)	--	--	(339)
Balance at September 30, 2019	$ 5,514	$ 296,120	$ (259)	$ 301,375
Balance at December 31, 2019	$ 5,570	$ 299,884	$ (556)	$ 304,898
Net income	**--**	**22,760**	**--**	**22,760**
Other comprehensive income	**--**	**--**	**209**	**209**
Unallocated surplus designated for patronage distributions	**--**	**(7,811)**	**--**	**(7,811)**
Capital stock and participation certificates issued	**670**	**--**	**--**	**670**
Capital stock and participation certificates retired	**(392)**	**--**	**--**	**(392)**
Balance at September 30, 2020	**$ 5,848**	**$ 314,833**	**$ (347)**	**$ 320,334**

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 nine months ended September 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 March 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which provides relief from certain requirements under GAAP, was signed into law.	Section 4013 of the CARES Act gives entities temporary relief from the accounting and disclosure requirements for troubled debt restructurings (TDRs) and if certain criteria are met these loan modifications may not need to be classified as TDRs.	We have adopted this relief for qualifying loan modifications. However, modifications of this nature have not been material.
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 expect to adopt the standard as of January 1, 2023. 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:	**September 30, 2020**			December 31, 2019		
		Amount	%		Amount	%
Real estate mortgage	**$**	**1,035,852**	**66.7%**	$	938,325	65.7%
Production and intermediate-term		**203,836**	**13.1%**		197,799	13.8%
Agribusiness		**213,526**	**13.7%**		183,486	12.8%
Other		**100,285**	**6.5%**		109,241	7.7%
Total	**$**	**1,553,499**	**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 September 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	**$ 3,356**	**$ 1,850**	**$ 5,206**	**$ 1,038,737**	**$ 1,043,943**
Production and intermediate-term	**1,919**	**1,378**	**3,297**	**203,733**	**207,030**
Agribusiness	**--**	**--**	**--**	**213,989**	**213,989**
Other	**37**	**--**	**37**	**100,351**	**100,388**
Total	**$ 5,312**	**$ 3,228**	**$ 8,540**	**$ 1,556,810**	**$ 1,565,350**
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 September 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:	**September 30, 2020**	December 31, 2019
Volume with specific allowance	**$ 581**	$ 3,301
Volume without specific allowance	**10,569**	9,837
Total risk loans	**$ 11,150**	$ 13,138
Total specific allowance	**$ 208**	$ 897
For the nine months ended September 30	**2020**	2019
Income on accrual risk loans	**$ 120**	$ 151
Income on nonaccrual loans	**277**	404
Total income on risk loans	**$ 397**	$ 555
Average risk loans	**$ 12,740**	$ 11,748

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 September 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. There may be modifications made related to the COVID-19 pandemic or in the normal course of business that would not be considered TDRs.

TDR Activity

(in thousands) Nine months ended September 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 nine months ended September 30, 2020, or 2019 in which the modification was within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:	**September 30, 2020**	December 31, 2019
Accrual status:		
Real estate mortgage	**$ 687**	$ 725
Production and intermediate-term	**764**	905
Agribusiness	**1,874**	1,988
Total TDRs in accrual status	**$ 3,325**	$ 3,618
Nonaccrual status:		
Real estate mortgage	**$ 766**	$ 778
Production and intermediate-term	**631**	631
Agribusiness	**--**	--
Total TDRs in nonaccrual status	**$ 1,397**	$ 1,409
Total TDRs:		
Real estate mortgage	**$ 1,453**	$ 1,503
Production and intermediate-term	**1,395**	1,536
Agribusiness	**1,874**	1,988
Total TDRs	**$ 4,722**	$ 5,027

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

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Nine months ended September 30	**2020**	2019
Balance at beginning of period	**$ 2,571**	$ 2,444
Provision for loan losses	**329**	311
Loan recoveries	**36**	78
Loan charge-offs	**(816)**	(214)
Balance at end of period	**$ 2,120**	$ 2,619

The “(Reversal of) 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 nine months ended September 30	**2020**	2019
Reversal of credit losses	**$ (163)**	$ (118)
As of:	**September 30, 2020**	December 31, 2019
Accrued credit losses	**$ 52**	$ 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 $815 thousand at September 30, 2020, and $610 thousand at December 31, 2019.

The investment was evaluated for impairment. The investment was not impaired at September 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 September 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 September 30, 2020	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$ 392**	**$ 392**
Other property owned	**--**	**--**	**659**	**659**

As of December 31, 2019	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	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 November 5, 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.