**Farm Credit Illinois, 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 Illinois, ACA and its subsidiaries, Farm Credit Illinois, FLCA and Farm Credit Illinois, 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

The September 11, 2020, World Agricultural Supply and Demand Estimate outlook for corn indicates reduced production, larger exports and smaller ending stocks. Corn production was pegged at 14.9 billion bushels, down substantially on a lower yield forecast and reduced harvested area. Corn ending stocks were reduced 253 million bushels from last month with projected corn price raised $0.40 per bushel to $3.50 per bushel. The soybean outlook included lower numbers across the board for beginning stocks, production and ending stocks. Soybean production is shown at 4.3 billion bushels, down 112 million bushels after a 1.4 bushel drop in the yield estimate to 51.9 bushels per acre. The forecast soybean price was raised $0.90 per bushel to $9.25 per bushel.

The September 11, 2020, Illinois Crop Production report forecasts harvested acreage for both corn and soybeans will be up 5% from 2019. The estimated corn yield for 2020 is 203.0 bushels per acre, up from 181.0 bushels per acre last year. Soybean yield is projected at 62.0 bushels per acres, up from 54.0 bushels per acre in 2019.

The Illinois Crop Progress and Condition report released September 28, 2020, indicates corn is near average regarding maturity but harvest is running behind at 13% complete, compared with the 5-year average of 24%. Soybean maturity is slightly behind average and harvest has been slower as a result, with 11% of acres harvested compared to an average of 16%. The percentage of both corn and soybeans rated good to excellent is well ahead of last year at this point in the season.

December corn futures rose throughout much of the third quarter from a low in early August of $3.20 per bushel to $3.85 per bushel on September 30, 2020. Likewise, November soybean futures were near $8.54 per bushel in early August with a quarter-end close at $10.22 per bushel. Markets had an additional bump with the United States Department of Agriculture Quarterly Grain Stocks report released September 30, 2020. The report indicated corn and soybean stocks well below trade estimates by roughly 12% and 9%, respectively.

According to information provided by University of Illinois agricultural economists, the Illinois corn production estimate for 2020 is 12 bushels above trendline yield. Illinois is projected to have the highest soybean yield in the nation at 62 bushels per acre which would be 5 bushels above trendline. With higher yield projections and considerably improved price expectations over the last 6-8 weeks, the outlook for Illinois grain farm income has brightened. In addition to yield and price improvement, payments for the second round of Coronavirus Food Assistance Program have been announced. The revised budgets for central Illinois high-productivity farmland show gross revenue from corn at $885 per acre and soybeans at $707 per acre. These figures are up from $814 per acre and $676 per acre from the July 21, 2020 estimates, respectively. For farms in a 50/50 corn and soybean rotation, this represents an increase of nearly 7% in gross income expectations during the 3rd quarter. Given the same corn and soybean rotation, farmer return after cash rent is now projected to be $56 per acre for 2020 versus $23 per acre from 2019.

## LOAN PORTFOLIO

### Loan Portfolio

Total loans were $4.2 billion at September 30, 2020, a decrease of $69.5 million from December 31, 2019. The decrease was primarily due to the sale of participation interests in real estate loans of $190.0 million to the AgriBank Asset Pool program on September 1, 2020. This decrease was partially offset by growth in the real estate mortgage and agribusiness portfolios.

The U.S. government has instituted various programs in support of the COVID-19 economic recovery. In early 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Among other provisions, the CARES Act and congressional approval made available for small businesses approximately $660.0 billion under the Paycheck Protection Program (PPP), which is a guaranteed loan program administered by the U.S. Small Business Administration (SBA). We obtained approval from the SBA in April 2020 to participate as a lender in the PPP. Loan applicants with 500 or fewer employees or who fit within the revenue-based size standard and who are eligible to receive financing under the Farm Credit Act and the Farm Credit Administration (FCA) Regulations are able to borrow from our association under this program. The PPP provided for loan forgiveness under limited circumstances and loan payments were deferred up to six months. Since beginning the program, we have successfully processed $12.5 million in PPP loans for customers with primarily production and intermediate-term type loans. As of September 30, 2020, no loans have been forgiven and nearly all payments have been deferred.

Beginning March 2020, we implemented a loan modification program for borrowers with acceptable credit quality who have experienced financial difficulty related to COVID-19, which after proper approval, allows for payment deferral up to 12 months or updated amortization of payments without extension of maturity. We have estimated that $13.0 million to $24.0 million of outstanding principal may be impacted by our loan modification program. Total loan modifications due to pandemic servicing were insignificant for the nine months ended September 30, 2020.

### Portfolio Credit Quality

The credit quality of our portfolio improved from December 31, 2019. Adversely classified loans decreased to 2.1% of the portfolio at September 30, 2020, from 2.6% 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. No environmental adjustment to the allowance for loan losses has been made as a result of the pandemic at September 30, 2020.

### Risk Assets

**Components of Risk Assets**

| (dollars in thousands)<br>As of: | **September 30, 2020** | December 31, 2019 |
|---|---|---|
| Loans: | | |
| Nonaccrual | **$ 3,744** | $ 4,392 |
| Accruing restructured | **37** | 40 |
| Accruing loans 90 days or more past due | **--** | 2,201 |
| Total risk loans | **3,781** | 6,633 |
| Other property owned | **--** | -- |
| Total risk assets | **$ 3,781** | $ 6,633 |
| Total risk loans as a percentage of total loans | **0.1%** | 0.2% |
| Nonaccrual loans as a percentage of total loans | **0.1%** | 0.1% |
| Current nonaccrual loans as a percentage of total nonaccrual loans | **80.4%** | 72.2% |
| Total delinquencies as a percentage of total loans | **0.0%** | 0.2% |

Note: Accruing loans include accrued interest receivable.

### Allowance for Loan Losses

The change in the allowance was primarily due to large paydowns of agribusiness loans and risk rating improvement of numerous substandard loans to better align with other system institution's classification. The sale of participation interests in real estate loans to the Agribank Asset Pool program also contributed to the decrease.

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 | **0.2%** | 0.2% |
| Nonaccrual loans | **205.3%** | 198.1% |
| Total risk loans | **203.3%** | 131.1% |

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2020.

## RESULTS OF OPERATIONS

**Profitability Information**

| (dollars in thousands) For the nine months ended September 30 | 2020 | 2019 |
|---|---|---|
| Net income | **$ 67,380** | $ 55,134 |
| Return on average assets | **2.0%** | 1.7% |
| Return on average members' equity | **8.6%** | 7.4% |

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 nine months ended September 30 | 2020 | 2019 | Increase (decrease) in net income |
|---|---|---|---|
| Net interest income | **$ 75,998** | $ 71,513 | **$ 4,485** |
| (Reversal of) provision for loan losses | **(805)** | 142 | **947** |
| Non-interest income | **32,743** | 27,456 | **5,287** |
| Non-interest expense | **45,365** | 42,758 | **(2,607)** |
| (Benefit from) provision for income taxes | **(3,199)** | 935 | **4,134** |
| Net income | **$ 67,380** | $ 55,134 | **$ 12,246** |

### Net Interest Income

**Changes in Net Interest Income**

| (in thousands) For the nine months ended September 30 | 2020 vs 2019 |
|---|---|
| Changes in volume | **$ 2,867** |
| Changes in interest rates | **1,492** |
| Changes in nonaccrual income and other | **126** |
| Net change | **$ 4,485** |

### Non-Interest Income

The change in non-interest income was primarily due to patronage income, fee income, and other non-interest 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)<br>For the nine months ended September 30 | | 2020 | | 2019 |
|---|---|---|---|---|
| Wholesale patronage | **$** | **14,667** | $ | 12,418 |
| Pool program patronage | | **6,282** | | 5,079 |
| AgDirect partnership distribution | | **1,010** | | 882 |
| Other patronage | | **193** | | -- |
| Total patronage income | **$** | **22,152** | $ | 18,379 |
| Form of patronage distributions: | | | | |
| Cash | **$** | **22,152** | $ | 10,646 |
| Stock | | **--** | | 7,733 |
| Total patronage income | **$** | **22,152** | $ | 18,379 |

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 nine months of 2020 compared to the same period of 2019.

**Fee Income:** The increase in fee income was primarily due to prepayment penalty fees, and PPP loan program fees, which were offset by fees paid to AgriBank.

**Other Non-interest Income:** The increase in other non-interest income was primarily related to fees received on rural home mortgage originations.

### Non-Interest Expense

The change in non-interest expense was primarily related to an increase in salaries and employee benefits expense and loan servicing expense, offset by a reduction in purchased services, travel, and public relations.

### (Benefit from) Provision for Income Taxes

The change in (benefit from) provision for income taxes was due to a change in tax laws under the CARES Act, which allows the Association to now carryback net operating losses from 2018 through 2020 to offset net operating gains during periods 2013 through 2015.

## 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 July 31, 2022. 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 unallocated surplus. At September 30, 2020, gross loans are funded 81.0% by the direct note and 19.0% by unallocated surplus.

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.

Total members' equity increased $67.2 million from December 31, 2019, primarily due to net income for the period. 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 10 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 8 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 | **19.5%** | 20.0% | 4.5% | 2.5% | 7.0% |
| Tier 1 capital ratio | **19.5%** | 20.0% | 6.0% | 2.5% | 8.5% |
| Total capital ratio | **19.7%** | 20.2% | 8.0% | 2.5% | 10.5% |
| Permanent capital ratio | **19.6%** | 20.1% | 7.0% | N/A | 7.0% |
| Non-risk-adjusted: | | | | | |
| Tier 1 leverage ratio | **20.8%** | 21.4% | 4.0% | 1.0% | 5.0% |
| Unallocated retained earnings and equivalents leverage ratio | **22.5%** | 23.0% | 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 12 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. The amendment is not expected to have a material impact to our financial statements.

## 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 will continue to purchase services from SunStream. We purchase various services from SunStream, which include tax reporting services, technology services, and insurance services.

### COVID-19

In March 2020, the World Health Organization declared the 2019 outbreak of COVID-19 a pandemic, which continues to spread globally. The extent to which the virus impacts our operations depends on the unpredictable progression of the outbreak, including the longevity and severity of the virus and its continued impact on capital and financial markets. Possible effects may include, but are not limited to, disruption to member cash flows due to threatened global demand, access to funding markets impacting liquidity, and employee absenteeism.

Despite volatility and uncertainty in the market, we have weathered the significant initial challenges presented by the current operating environment. We continue to operate by using a work-from-home structure with a limited number of staff on-site. Our lobbies reopened to members on June 1. Our business continuity response has allowed us to continue to serve our mission and the remote work environment has allowed us to continue to maintain the health of our employees and operate without loss of key functions due to illness. We have not had any significant changes to internal controls over financial reporting due to working remotely or due to limited staff.

**CERTIFICATION**

The undersigned have reviewed the September 30, 2020, Quarterly Report of Farm Credit Illinois, 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.

Eric J. Mosbey
Chairperson of the Board
Farm Credit Illinois, ACA

Aaron S. Johnson
President and Chief Executive Officer
Farm Credit Illinois, ACA

Kelly D. Loschen
Chief Financial Officer
Farm Credit Illinois, ACA

November 9, 2020

# CONSOLIDATED STATEMENTS OF CONDITION

*Farm Credit Illinois, ACA*
*(in thousands)*
*(Unaudited)*

| As of: | | **September 30, 2020** | | December 31, 2019 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Loans | **$** | **4,216,940** | $ | 4,286,417 |
| Allowance for loan losses | | **7,686** | | 8,699 |
| Net loans | | **4,209,254** | | 4,277,718 |
| Investment in AgriBank, FCB | | **137,515** | | 118,610 |
| Investment securities | | **51,549** | | 9,559 |
| Accrued interest receivable | | **54,964** | | 56,687 |
| Deferred tax assets, net | | **2,082** | | -- |
| Other assets | | **68,620** | | 58,953 |
| Total assets | **$** | **4,523,984** | $ | 4,521,527 |
| **LIABILITIES** | | | | |
| Note payable to AgriBank, FCB | **$** | **3,414,985** | $ | 3,441,433 |
| Accrued interest payable | | **12,452** | | 21,393 |
| Patronage distribution payable | | **--** | | 28,078 |
| Other liabilities | | **11,103** | | 12,409 |
| Total liabilities | | **3,438,540** | | 3,503,313 |
| Contingencies and commitments (Note 5) | | | | |
| **MEMBERS' EQUITY** | | | | |
| Capital stock and participation certificates | | **7,572** | | 7,489 |
| Unallocated surplus | | **1,078,893** | | 1,011,847 |
| Accumulated other comprehensive loss | | **(1,021)** | | (1,122) |
| Total members' equity | | **1,085,444** | | 1,018,214 |
| Total liabilities and members' equity | **$** | **4,523,984** | $ | 4,521,527 |

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

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

*Farm Credit Illinois, ACA*
*(in thousands)*
*(Unaudited)*

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| *For the period ended September 30* | **2020** | 2019 | **2020** | 2019 |
| **Interest income** | **$ 39,157** | $ 46,959 | **$ 125,665** | $ 139,599 |
| **Interest expense** | **12,452** | 22,440 | **49,667** | 68,086 |
| Net interest income | **26,705** | 24,519 | **75,998** | 71,513 |
| **(Reversal of) provision for loan losses** | **(844)** | 185 | **(805)** | 142 |
| Net interest income after (reversal of) provision for loan losses | **27,549** | 24,334 | **76,803** | 71,371 |
| **Non-interest income** | | | | |
| Patronage income | **8,182** | 6,411 | **22,152** | 18,379 |
| Financially related services income | **2,166** | 2,482 | **6,086** | 5,659 |
| Fee income | **551** | 942 | **2,749** | 2,228 |
| Allocated Insurance Reserve Accounts distribution | **--** | -- | **835** | 939 |
| Other non-interest income | **427** | 73 | **921** | 251 |
| Total non-interest income | **11,326** | 9,908 | **32,743** | 27,456 |
| **Non-interest expense** | | | | |
| Salaries and employee benefits | **8,919** | 7,906 | **26,370** | 23,848 |
| Other operating expense | **6,459** | 5,792 | **18,995** | 18,873 |
| Other non-interest expense | **--** | -- | **--** | 37 |
| Total non-interest expense | **15,378** | 13,698 | **45,365** | 42,758 |
| Income before income taxes | **23,497** | 20,544 | **64,181** | 56,069 |
| **(Benefit from) provision for income taxes** | **(25)** | 171 | **(3,199)** | 935 |
| Net income | **$ 23,522** | $ 20,373 | **$ 67,380** | $ 55,134 |
| **Other comprehensive income** | | | | |
| Employee benefit plans activity | **$ 28** | $ 29 | **$ 101** | $ 92 |
| Total other comprehensive income | **28** | 29 | **101** | 92 |
| Comprehensive income | **$ 23,550** | $ 20,402 | **$ 67,481** | $ 55,226 |

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

# CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

*Farm Credit Illinois, ACA*
*(in thousands)*
*(Unaudited)*

| | Capital Stock and Participation Certificates | Unallocated Surplus | Accumulated Other Comprehensive Loss | Total Members' Equity |
|---|---|---|---|---|
| Balance at December 31, 2018 | $ 7,554 | $ 964,705 | $ (709) | $ 971,550 |
| Net income | -- | 55,134 | -- | 55,134 |
| Other comprehensive income | -- | -- | 92 | 92 |
| Unallocated surplus designated for patronage distributions | -- | (167) | -- | (167) |
| Capital stock and participation certificates issued | 321 | -- | -- | 321 |
| Capital stock and participation certificates retired | (393) | -- | -- | (393) |
| Balance at September 30, 2019 | $ 7,482 | $ 1,019,672 | $ (617) | $ 1,026,537 |
| Balance at December 31, 2019 | $ 7,489 | $ 1,011,847 | $ (1,122) | $ 1,018,214 |
| Net income | **--** | **67,380** | **--** | **67,380** |
| Other comprehensive income | **--** | **--** | **101** | **101** |
| Unallocated surplus designated for patronage distributions | **--** | **(334)** | **--** | **(334)** |
| Capital stock and participation certificates issued | **511** | **--** | **--** | **511** |
| Capital stock and participation certificates retired | **(428)** | **--** | **--** | **(428)** |
| **Balance at September 30, 2020** | **$ 7,572** | **$ 1,078,893** | **$ (1,021)** | **$ 1,085,444** |

*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 Illinois, ACA and its subsidiaries Farm Credit Illinois, FLCA and Farm Credit Illinois, 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 | **$** | **2,373,816** | **56.3%** | $ | 2,489,082 | 58.1% |
| Production and intermediate-term | | **679,833** | **16.1%** | | 706,237 | 16.5% |
| Agribusiness | | **868,801** | **20.6%** | | 815,280 | 19.0% |
| Other | | **294,490** | **7.0%** | | 275,818 | 6.4% |
| Total | **$** | **4,216,940** | **100.0%** | $ | 4,286,417 | 100.0% |

The other category is primarily composed of rural infrastructure and agricultural export finance related loans and certain assets originated under the mission related investment authority.

## Delinquency

**Aging Analysis of Loans**

| (in thousands)<br>**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 | Accruing Loans 90 Days or More Past Due |
|---|---|---|---|---|---|---|
| Real estate mortgage | **$ 644** | **$ 518** | **$ 1,162** | **$ 2,413,469** | **$ 2,414,631** | **$ --** |
| Production and intermediate-term | **--** | **213** | **213** | **690,888** | **691,101** | **--** |
| Agribusiness | **--** | **--** | **--** | **871,090** | **871,090** | **--** |
| Other | **--** | **--** | **--** | **294,772** | **294,772** | **--** |
| Total | **$ 644** | **$ 731** | **$ 1,375** | **$ 4,270,219** | **$ 4,271,594** | **$ --** |

| 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 | Accruing Loans 90 Days or More Past Due |
|---|---|---|---|---|---|---|
| Real estate mortgage | $ 3,573 | $ 2,958 | $ 6,531 | $ 2,521,712 | $ 2,528,243 | $ 2,201 |
| Production and intermediate-term | 431 | 409 | 840 | 719,328 | 720,168 | -- |
| Agribusiness | -- | 17 | 17 | 818,374 | 818,391 | -- |
| Other | -- | -- | -- | 276,263 | 276,263 | -- |
| Total | $ 4,004 | $ 3,384 | $ 7,388 | $ 4,335,677 | $ 4,343,065 | $ 2,201 |

Note: Accruing loans include accrued interest receivable.

## 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)<br>As of: | **September 30, 2020** | December 31, 2019 |
|---|---|---|
| Volume with specific allowance | **$ 132** | $ 104 |
| Volume without specific allowance | **3,649** | 6,529 |
| Total risk loans | **$ 3,781** | $ 6,633 |
| Total specific allowance | **$ 132** | $ 104 |
| For the nine months ended September 30 | **2020** | 2019 |
| Income on accrual risk loans | **$ 45** | $ 27 |
| Income on nonaccrual loans | **402** | 276 |
| Total income on risk loans | **$ 447** | $ 303 |
| Average risk loans | **$ 5,115** | $ 7,569 |

Note: Accruing loans include accrued interest receivable.

We had no 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)<br>Nine months ended September 30 | **2020** | | 2019 | |
|---|---|---|---|---|
| | Pre-modification | Post-modification | Pre-modification | Post-modification |
| Real estate mortgage | **$ 95** | **$ 95** | $ -- | $ -- |
| Production and intermediate-term | **47** | **47** | -- | -- |
| Total | **$ 142** | **$ 142** | $ -- | $ -- |

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 write-down of the investment.

The primary type of modification was payment deferrals.

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)<br>As of: | **September 30, 2020** | December 31, 2019 |
|---|---|---|
| Accrual status: | | |
| Real estate mortgage | **$ --** | $ -- |
| Production and intermediate-term | **37** | 40 |
| Total TDRs in accrual status | **$ 37** | $ 40 |
| Nonaccrual status: | | |
| Real estate mortgage | **$ 95** | $ -- |
| Production and intermediate-term | **53** | 10 |
| Total TDRs in nonaccrual status | **$ 148** | $ 10 |
| Total TDRs: | | |
| Real estate mortgage | **$ 95** | $ -- |
| Production and intermediate-term | **90** | 50 |
| Total TDRs | **$ 185** | $ 50 |

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)<br>Nine months ended September 30 | **2020** | 2019 |
|---|---|---|
| Balance at beginning of period | **$ 8,699** | $ 8,798 |
| (Reversal of) provision for loan losses | **(805)** | 142 |
| Loan recoveries | **141** | 18 |
| Loan charge-offs | **(349)** | (790) |
| Balance at end of period | **$ 7,686** | $ 8,168 |

## NOTE 3: INVESTMENT SECURITIES

We held investment securities of $51.5 million at September 30, 2020, and $9.6 million at December 31, 2019. Our investment securities consisted of securities containing loans guaranteed by the Small Business Administration (SBA). All of our investments securities were fully guaranteed by the SBA at September 30, 2020, and December 31, 2019.

The investment securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. No investments within the portfolio were impaired at September 30, 2020, or December 31, 2019.

**Additional Investment Securities Information**

| (dollars in thousands)<br>As of: | **September 30, 2020** | December 31, 2019 |
|---|---|---|
| Amortized cost | **$ 51,549** | $ 9,559 |
| Unrealized gains | **474** | 14 |
| Unrealized losses | **(33)** | (11) |
| Fair value | **$ 51,990** | $ 9,562 |
| Weighted average yield | **1.9%** | 2.1% |

Investment income is recorded in “Interest income” in the Consolidated Statements of Comprehensive Income and totaled $614 thousand for the nine months ended September 30, 2020. We did not have investment income for the nine months ended September 30, 2019.

**Contractual Maturities of Investment Securities**

| (in thousands)<br>**As of September 30, 2020** | | Amortized Cost |
|---|---|---|
| Five to ten years | | **34,287** |
| More than ten years | | **17,262** |
| Total | **$** | **51,549** |

## NOTE 4: OTHER INVESTMENTS

We and other Farm Credit Institutions are among the limited partners for Rural Business Investment Companies (RBICs). Our total commitment is $9.0 million with varying commitment end dates through December 2029. Certain commitments may have an option to extend under certain circumstances. Our investment in the RBICs are recorded in "Other assets" in the Consolidated Statements of Condition, and totaled $1.8 million at September 30, 2020, and $1.0 million at December 31, 2019.

The investments were evaluated for impairment. No investments were impaired at September 30, 2020, or December 31, 2019.

## NOTE 5: 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 6: 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 or non-recurring basis at September 30, 2020, or December 31, 2019.

## NOTE 7: SUBSEQUENT EVENTS

We have evaluated subsequent events through November 9, 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.