Farm Credit of Northwest Florida, ACA

SECOND QUARTER 2020

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CERTIFICATION

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

Ricky K. Bitner
Chief Executive Officer

John P. Mottice
Chief Financial Officer

Cindy S. Eade
Chairperson of the Board

August 7, 2020

Farm Credit of Northwest Florida, ACA

Report on Internal Control Over Financial Reporting

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

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of June 30, 2020. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of June 30, 2020, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of June 30, 2020.

Ricky K. Bitner
Ricky K. Bitner
Chief Executive Officer

John P. Mottice
Chief Financial Officer

August 7, 2020

Farm Credit of Northwest Florida, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Farm Credit of Northwest Florida, ACA (the Association) for the period ending June 30, 2020. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2019 Annual Report of the Association.

IMPACT OF THE COVID-19 GLOBAL PANDEMIC

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

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

One of the primary responsibilities of AgFirst Farm Credit Bank (AgFirst or the Bank) is to maintain sufficient liquidity to fund the lending operations of the District associations, in addition to its own needs. The Bank's primary source of liquidity is its ability to issue Systemwide Debt Securities through the Funding Corporation. If the effects of COVID-19 were to create market disruptions that caused the Funding Corporation to be unable to continue to issue Systemwide Debt Securities at reasonable rates and desired terms, the Bank and the Association's business, operating results, or financial condition would likely be adversely affected.

The Association relies on business processes that largely depend on people, technology, and the use of complex systems and models to manage its business, including access to information systems and models as well as information, applications, payment systems, and other services provided by third parties. In response to the challenges presented by the COVID-19 pandemic, the Association has modified its business practices to focus on protecting its employees and the public while continuing to fulfill its critical mission and maintaining its regular business operations in support of the farmers, ranchers, and agricultural business of America.

On March 23, 2020, the Association activated its business continuity plan and has been operating uninterrupted since then with many of its employees working remotely from their homes. The continuation of these work-from-home measures introduces additional operational risk and inefficiencies. These risks include, but are not limited to, greater cybersecurity risks, increased privacy and disclosure hazards, strain on the local technology networks for remote operations and potential impairment of the ability to perform critical functions, all of which could adversely affect the Association's business, results of operations, and financial condition.

The Association continues to monitor the attempts by third parties to gain unauthorized access to its network and information systems through cyber-attacks. Despite the increased cybersecurity risks presented by a workforce that is operating remotely, the Association had not experienced any known cyber-attacks or other known privacy or data security incidents through the date of this report that negatively affected the confidentiality, integrity, or availability of the Association's information resources.

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

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

COVID-19 SUPPORT PROGRAMS

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

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

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

The CARES Act also appropriated $349 billion for the Paycheck Protection Program (PPP), a guaranteed loan program administered by the U.S. Small Business Administration (SBA), which commenced on April 3, 2020. The purpose of the program is to support payroll and certain other financial needs of small businesses during the COVID-19 pandemic. Agricultural producers, farmers and ranchers with 500 or fewer employees or that fit within the revenue-based sized standard are eligible for PPP loans. Loan applicants who are eligible to receive financing under the Farm Credit Act and FCA regulations are able to apply for PPP loans from the Association. At the time it was passed, the CARES Act provided for loan forgiveness if an employer used at least 75% of the loan for payroll costs and would be reduced proportionally by any reduction in full-time equivalent employees compared to the prior year and a 25% or greater reduction in full-time equivalent employee compensation. Loan payments required under the program can be deferred for up to six months.

On April 23, 2020, Congress passed the PPP and Health Care Enhancement Act that provided $484 billion in additional funding to replenish and supplement key programs under the CARES Act. The Act provided an additional $310 billion for PPP, $60 billion for small business disaster loans and grants, $75 billion for hospital and health care providers and $25 billion for testing.

On June 5, 2020, the President of the United States signed the Paycheck Protection Program Flexibility Act of 2020, which amended the CARES Act. Specifically, the bill establishes a minimum maturity of five years for a paycheck protection loan with a remaining balance after forgiveness. The bill also extends the "covered period" during which a loan recipient may use such funds for certain expenses while remaining eligible for forgiveness. The extension is up to 24 weeks from the date of origination or December 31, 2020, whichever occurs first. The bill also reduces the payroll cost requirements from 75% to 60% and raises the non-payroll portion of a forgivable loan amount from 25% up to 40%.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for the financing of short- and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities including forestry, row crops, livestock, peanuts, horticulture, dairies and rural homes. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on any single commodity.

The gross loan volume of the Association as of June 30, 2020, was $280,832, a decrease of $3,348 or 1.18 percent as compared to $284,180 at December 31, 2019. Net loans outstanding (gross loans net of the allowance for loan losses) as of June 30, 2020, were $276,295, a decrease of $3,356 or 1.20 percent as compared to $279,651 at December 31, 2019. Net loans accounted for 97.02 percent of total assets as of June 30, 2020, as compared to 95.97 percent of total assets at December 31, 2019. The decrease in loan volume was due primarily to an increase in loan participations sold and decreases in participations purchased and nonaccrual loans, partially offset by an increase in originated loans.

Portfolio credit quality increased marginally during the first six months of 2020. Loans classified under the Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" were 97.43 percent of total loans and accrued interest as of June 30, 2020, as compared to 96.86 percent at December 31, 2019.

Nonaccrual loans were $1,419 as of June 30, 2020, a decrease of $414 or 22.59 percent as compared to $1,833 at December 31, 2019. The decrease reflects the liquidation of two accounts, the addition of two new accounts, and collections on multiple loans.

The Association maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. The Association's Risk Management Committee, which is comprised of senior management and a member of the Board of Directors, evaluates the adequacy of the allowance on a quarterly basis. The evaluation considers factors which include, but are not limited to, loan loss experience, portfolio quality, loan portfolio composition, commodity prices, agricultural production conditions, and general economic conditions.

The Association considered the potential impact of the COVID-19 pandemic in its evaluation of the allowance and determined that the level of the allowance for loan losses was adequate to provide for probable and estimable losses as of the report date. The Association will continue to evaluate the impact of the COVID-19 pandemic on the level of the allowance in future periods.

The allowance for loan losses as of June 30, 2020, was $4,537, an increase of $8 from $4,529 at December 31, 2019. Activity during the first six months of 2020 reflected recoveries of $38, charge-offs of $30 and no provision for or reversal of the allowance. The allowance for loan losses as of June 30, 2020, was considered by management to be adequate to cover probable and estimable losses inherent in the loan portfolio. The allowance represented 1.62 percent of gross loan volume as of June 30, 2020.

Other property owned was $35 as of June 30, 2020, an increase of $31 compared to $4 at December 31, 2019. During the first six months of 2020, activity included the acquisition and sale of equipment. Other property owned as of June 30, 2020, consisted of equipment.

Accounts receivable were $1,028 as of June 30, 2020, a decrease of $2,060 or 66.71 percent as compared to $3,088 at December 31, 2019. Accounts receivable consist of general receivables as well as patronage receivables from AgFirst and other Farm Credit institutions. The decrease was due primarily to the fact that patronage receivables at December 31, 2019 included four quarters of accrued patronage as well as special patronage from AgFirst, as compared to two quarters of accrued patronage at June 30, 2020.

RESULTS OF OPERATIONS

For the three months ending June 30, 2020

Net income for the three months ending June 30, 2020, totaled $1,271, as compared to net income of $1,347 for the same period in 2019, a decrease of $76 or 5.64 percent. Components of the decrease in net income are discussed further in the following paragraphs.

Interest income for the three months ending June 30, 2020, was $3,612, a decrease of $252 or 6.52 percent as compared to $3,864 for the same period in 2019. The decrease was due primarily to lower average interest rates, partially offset by higher average loans outstanding and increased interest income on nonaccrual loans.

Interest expense for the three months ending June 30, 2020, was $1,355, a decrease of $323 or 19.25 percent as compared to $1,678 for the same period in 2019. The decrease was due primarily to lower average interest rates on the Association's notes payable to AgFirst, partially offset by higher average balances.

Net interest income before provision (or reversal) for loan losses for the three months ending June 30, 2020, was $2,257, an increase of $71 or 3.25 percent as compared to $2,186 for the same period in 2019. The increase was due primarily to higher average loans outstanding, higher average net interest spread, and increased interest income on nonaccrual loans.

There was no provision for or reversal of the allowance for loan losses for the three months ending June 30, 2020, as compared to a reversal of $115 for the three months ending June 30, 2019.

Noninterest income for the three months ending June 30, 2020, totaled $627, an increase of $48 or 8.29 percent as compared to $579 for the same period in 2019. Increased loan fees and gains on sales of rural home loans were partially offset by decreased patronage refunds, other noninterest income, and losses on other transactions.

Noninterest expense for the three months ending June 30, 2020, totaled $1,613, an increase of $80 or 5.22 percent as compared to $1,533 for the same period in 2019. The increase reflects higher salaries and employee benefits, partially offset by lower occupancy and equipment expense, Insurance Fund premiums, other operating expenses, and gains on other property owned.

For the six months ending June 30, 2020

Net income for the six months ending June 30, 2020, totaled $2,537 as compared to net income of $2,644 for the same period in 2019, a decrease of $107 or 4.05 percent. Components of the decrease in net income are discussed further in the following paragraphs.

Interest income for the six months ending June 30, 2020, was $7,336, a decrease of $451 or 5.79 percent as compared to $7,787 for the same period in 2019. The decrease was due primarily to lower average interest rates, partially offset by higher average loans outstanding and increased interest income on nonaccrual loans.

Interest expense for the six months ending June 30, 2020, was $2,876, a decrease of $482 or 14.35 percent as compared to $3,358 for the same period in 2019. The decrease was due primarily to lower average interest rates and lower average balances on the Association's notes payable to AgFirst.

Net interest income before provision (or reversal) for loan losses for the six months ending June 30, 2020, was $4,460, an increase of $31 or 0.70 percent as compared to $4,429 for the same period in 2019. The increase was due primarily to higher average loans outstanding, higher average net interest spread, and increased interest income on nonaccrual loans.

There was no provision for or reversal of the allowance for loan losses for the six months ending June 30, 2020, as compared to a reversal of $151 for the six months ending June 30, 2019.

Noninterest income for the six months ending June 30, 2020, totaled $1,302, an increase of $161 or 14.11 percent as compared to $1,141 for the same period in 2019. Increased loan fees, patronage refunds and gains on sales of rural home loans were partially offset by increased losses on sales of premises and equipment and other transactions, and decreased Insurance Fund refunds from the Farm Credit System Insurance Corporation.

Noninterest expense for the six months ending June 30, 2020, totaled $3,225, an increase of $148 or 4.81 percent as compared to $3,077 for the same period in 2019. The increase reflects higher salaries and employee benefits, partially offset by lower occupancy and equipment expense, Insurance Fund premiums, losses on other property owned, and other operating expenses.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst through the General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association.

Notes payable to AgFirst as of June 30, 2020, were $194,998, a decrease of $5,281 or 2.64 percent as compared to $200,279 at December 31, 2019. The decrease is primarily the result of decreased loan volume, accrued interest receivable, and accounts receivable. The Association had no lines of credit with third parties as of June 30, 2020.

CAPITAL RESOURCES

Total members' equity as of June 30, 2020, was $86,555, an increase of $2,580 or 3.07 percent as compared to $83,975 at December 31, 2019. Total capital stock and participation certificates were $1,176 as of June 30, 2020, an increase of $44 or 3.89 percent as compared to $1,132 at December 31, 2019.

FCA regulations require all Farm Credit institutions to maintain minimum capital ratios. Effective January 1, 2017, the regulatory capital requirements for Farm Credit System banks and associations were modified. The new regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. New regulations replaced core surplus and total surplus ratios with common equity tier 1 (CET1) capital, tier 1 capital and total capital risk-based capital ratios. The new regulations also include a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio remains in effect.

As of June 30, 2020, the Association was in compliance with all minimum regulatory capital ratios.

The following table sets forth the minimum regulatory capital ratios, which were effective January 1, 2017 and the Association's capital ratios as of June 30, 2020:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of June 30, 2020
Risk-adjusted ratios:				
CET1 Capital Ratio	4.5%	2.5%	7.0%	28.24%
Tier 1 Capital Ratio	6.0%	2.5%	8.5%	28.24%
Total Capital Ratio	8.0%	2.5%	10.5%	29.50%
Permanent Capital Ratio	7.0%	0.0%	7.0%	28.60%
Non risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	29.08%
UREE Leverage Ratio	1.5%	0.0%	1.5%	28.65%

** The capital conservation buffers have a 3 year phase-in period and will become fully effective January 1, 2020. Risk-adjusted ratio minimums will increase 0.625% each year until fully phased in. There is no phase-in period for the tier 1 leverage ratio.*

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

REGULATORY MATTERS

On April 9, 2020, the Farm Credit Administration voted to delay publication of certain rules in the Federal Register that were previously approved until at least June 8, 2020 to allow both the Farm Credit Administration and the System to focus their efforts on responding to the COVID-19 pandemic. On June 1, 2020, the Farm Credit Administration extended the regulatory pause until at least July 10 and on July 16, it was determined that some regulatory activities would resume. Accordingly, the Farm Credit Administration will seek to publish its final rule on criteria to reinstate nonaccrual loans this summer. This rule clarifies the factors that System institutions should consider when categorizing high-risk loans and placing them in nonaccrual status. The rule also revises the criteria by which loans are reinstated to accrual status, and revises the application of the criteria to certain loans in nonaccrual status to distinguish between the types of risk that cause loans to be placed in nonaccrual status.

The Farm Credit Administration will also seek to publish final rules to: (1) amend the investment rule to allow System institutions to invest in certain USDA loan guarantees, (2) update the amortization rule and (3) amend regulations governing how the banks present association financial information in their annual report to shareholders.

On September 23, 2019, the Farm Credit Administration issued a proposed rule that would ensure the System's capital requirements, including certain regulatory disclosures, reflect the current expected credit losses methodology, which revises the accounting for credit losses under U.S. generally accepted accounting principles. The proposed rule identifies which credit loss allowances under the Current Expected Credit Losses (CECL) methodology in the Financial Accounting Standards Board's "Measurement of Credit Losses on Financial Instruments" are eligible for inclusion in a System institution's regulatory capital. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-maturity debt securities would be included in a System institution's Tier 2 capital up to 1.25 percent of the System institution's total risk weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not be eligible for inclusion in a System institution's Tier 2 capital. In addition, the proposed regulation does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution's regulatory capital ratios. The public comment period ended on November 22, 2019.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Consolidated Financial Statements, and the 2019 Annual Report to Shareholders for recently issued accounting pronouncements. Additional information is provided in the following table.

The following ASU was issued by the Financial Accounting Standards Board (FASB):

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to an expected loss model. • The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted.	• Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. • The new guidance is expected to result in a change in allowance for credit losses due to several factors, including: 1. The allowance related to loans and commitments will most likely change because it will then cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on any debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts at the adoption date. • The guidance is expected to be adopted in first quarter 2023.

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 850-526-4910 ext. 118, or writing John Mottice, Chief Financial Officer, Farm Credit of Northwest Florida, ACA, P.O. Box 7000, Marianna, FL 32447, or accessing the website, *www.farmcredit-fl.com*. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Farm Credit of Northwest Florida, ACA

Consolidated Balance Sheets

(dollars in thousands)	June 30, 2020 (unaudited)	December 31, 2019 (audited)
Assets		
Loans	**$ 280,832**	$ 284,180
Allowance for loan losses	**(4,537)**	(4,529)
Net loans	**276,295**	279,651
Loans held for sale	**296**	614
Accrued interest receivable	**1,885**	2,719
Equity investments in other Farm Credit institutions	**3,348**	3,370
Premises and equipment, net	**1,779**	1,828
Other property owned	**35**	4
Accounts receivable	**1,028**	3,088
Other assets	**123**	115
Total assets	**$ 284,789**	$ 291,389
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 194,998**	$ 200,279
Accrued interest payable	**474**	571
Patronage refunds payable	**218**	4,523
Accounts payable	**287**	270
Other liabilities	**2,257**	1,771
Total liabilities	**198,234**	207,414
Commitments and contingencies (Note 7)		
Members' Equity		
Capital stock and participation certificates	**1,176**	1,132
Retained earnings		
Allocated	**37,243**	37,244
Unallocated	**48,136**	45,599
Total members' equity	**86,555**	83,975
Total liabilities and members' equity	**$ 284,789**	$ 291,389

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

Farm Credit of Northwest Florida, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended June 30, 2020	For the Three Months Ended June 30, 2019	For the Six Months Ended June 30, 2020	For the Six Months Ended June 30, 2019
Interest Income				
Loans	**$ 3,608**	$ 3,850	**$ 7,326**	$ 7,763
Other	**4**	14	**10**	24
Total interest income	**3,612**	3,864	**7,336**	7,787
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**1,352**	1,672	**2,870**	3,348
Other	**3**	6	**6**	10
Total interest expense	**1,355**	1,678	**2,876**	3,358
Net interest income	**2,257**	2,186	**4,460**	4,429
Provision for (reversal of allowance for) loan losses	**—**	(115)	**—**	(151)
Net interest income after provision for (reversal of allowance for) loan losses	**2,257**	2,301	**4,460**	4,580
Noninterest Income				
Loan fees	**61**	12	**83**	26
Patronage refunds from other Farm Credit institutions	**455**	470	**958**	925
Gains (losses) on sales of rural home loans, net	**104**	74	**190**	107
Gains (losses) on sales of premises and equipment, net	**—**	—	**(1)**	—
Gains (losses) on other transactions	**(6)**	6	**(9)**	(5)
Insurance Fund refunds	**—**	—	**49**	56
Other noninterest income	**13**	17	**32**	32
Total noninterest income	**627**	579	**1,302**	1,141
Noninterest Expense				
Salaries and employee benefits	**1,167**	1,022	**2,319**	2,109
Occupancy and equipment	**64**	79	**134**	146
Insurance Fund premiums	**38**	43	**76**	87
(Gains) losses on other property owned, net	**(1)**	12	**2**	20
Other operating expenses	**345**	377	**694**	715
Total noninterest expense	**1,613**	1,533	**3,225**	3,077
Net income	**$ 1,271**	$ 1,347	**$ 2,537**	$ 2,644
Other comprehensive income	**—**	—	**—**	—
Comprehensive income	**$ 1,271**	$ 1,347	**$ 2,537**	$ 2,644

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

Farm Credit of Northwest Florida, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings: Allocated	Retained Earnings: Unallocated	Total Members' Equity
Balance at December 31, 2018	$ 1,050	$ 40,321	$ 42,435	$ 83,806
Comprehensive income			2,644	2,644
Capital stock/participation certificates issued/(retired), net	43			43
Retained earnings retired		(1)		(1)
Balance at June 30, 2019	$ 1,093	$ 40,320	$ 45,079	$ 86,492
Balance at December 31, 2019	**$ 1,132**	**$ 37,244**	**$ 45,599**	**$ 83,975**
Comprehensive income			**2,537**	**2,537**
Capital stock/participation certificates issued/(retired), net	**44**			**44**
Retained earnings retired		**(1)**		**(1)**
Balance at June 30, 2020	**$ 1,176**	**$ 37,243**	**$ 48,136**	**$ 86,555**

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

Farm Credit of Northwest Florida, ACA

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 5, *Fair Value Measurement*). Actual results could differ from those estimates.

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

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

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

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

Potential effects of ASUs issued in previous periods:

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

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

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

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

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

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

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

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

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

- In March 2020, the FASB issued ASU 2020-04 Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. In response to concerns about structural risks of interbank offered rates (IBORs), and, particularly, the risk of cessation of the London Interbank Offered Rate (LIBOR), regulators around the world have undertaken reference rate reform initiatives to identify alternative reference rates that are more observable or transaction-based and less susceptible to manipulation. The amendments in this Update provide optional guidance for a limited time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The amendments provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The guidance applies only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. The expedients and exceptions do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022. The amendments are elective and were effective upon issuance for all entities. Adoption of this guidance had no impact on the statements of financial condition and results of operations.

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

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

Recent Accounting Policy Elections

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

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

The Association elected the practical expedients from the Interagency Statement on Loan Modifications and Reporting for Financial Institutions - Working with Customers Affected by the Coronavirus (Revised) issued on April 7, 2020 which provides that a lender can conclude that a borrower is not experiencing financial difficulty if either (1) short-term modifications are made in response to COVID-19, such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant related to loans in which the borrower is less than 30 days past due on its contractual payments at the time a modification program is implemented, or (2) the modification or deferral program is mandated by the federal government or a state government. Accordingly, any loan modification made in response to the COVID-19 pandemic that meets either of these practical expedients would not be considered a TDR because the borrower is not experiencing financial difficulty. The Association's modification program began on April 3, 2020.

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

Note 2 — Loans and Allowance for Loan Losses

The Association maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified. See Note 3, *Loans and Allowance for Loan Losses*, from the latest Annual Report for further discussion.

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

A summary of loans outstanding at period end follows:

	June 30, 2020	December 31, 2019
Real estate mortgage	$ 199,430	$ 200,755
Production and intermediate-term	59,900	62,040
Loans to cooperatives	939	786
Processing and marketing	8,362	7,280
Farm-related business	3,542	3,907
Communication	–	1,337
Power and water/waste disposal	1,205	1,205
Rural residential real estate	6,411	5,827
International	1,043	1,043
Total loans	$ 280,832	$ 284,180

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

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

	June 30, 2020							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 17,735	$ 48,384	$ –	$ 343	$ 193	$ –	$ 17,928	$ 48,727
Production and intermediate-term	2,945	12,476	–	–	–	–	2,945	12,476
Loans to cooperatives	947	–	–	–	–	–	947	–
Processing and marketing	8,226	17	–	–	–	–	8,226	17
Farm-related business	264	228	–	–	–	–	264	228
Power and water/waste disposal	1,211	–	–	–	–	–	1,211	–
International	1,045	–	–	–	–	–	1,045	–
Total	$ 32,373	$ 61,105	$ –	$ 343	$ 193	$ –	$ 32,566	$ 61,448

	December 31, 2019							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 18,906	$ 49,165	$ –	$ 393	$ 195	$ –	$ 19,101	$ 49,558
Production and intermediate-term	3,457	6,307	–	–	–	–	3,457	6,307
Loans to cooperatives	790	–	–	–	–	–	790	–
Processing and marketing	7,121	–	–	–	–	–	7,121	–
Farm-related business	264	–	–	–	–	–	264	–
Communication	1,340	–	–	–	–	–	1,340	–
Power and water/waste disposal	1,211	–	–	–	–	–	1,211	–
International	1,045	–	–	–	–	–	1,045	–
Total	$ 34,134	$ 55,472	$ –	$ 393	$ 195	$ –	$ 34,329	$ 55,865

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

	June 30, 2020			
	Due Less Than 1 Year	Due 1 Through 5 Years	Due After 5 Years	Total
Real estate mortgage	$ 8,973	$ 36,610	$ 153,847	$ 199,430
Production and intermediate-term	6,262	36,713	16,925	59,900
Loans to cooperatives	–	939	–	939
Processing and marketing	229	2,710	5,423	8,362
Farm-related business	–	2,879	663	3,542
Power and water/waste disposal	–	1,205	–	1,205
Rural residential real estate	3	364	6,044	6,411
International	–	98	945	1,043
Total loans	$ 15,467	$ 81,518	$ 183,847	$ 280,832
Percentage	5.51%	29.03%	65.46%	100.00%

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

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

	June 30, 2020	December 31, 2019
Real estate mortgage:		
Acceptable	96.61%	96.40%
OAEM	2.25	1.58
Substandard/doubtful/loss	1.14	2.02
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	93.89%	93.30%
OAEM	1.86	0.82
Substandard/doubtful/loss	4.25	5.88
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	99.86%	100.00%
OAEM	–	–
Substandard/doubtful/loss	0.14	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	68.21%	70.89%
OAEM	–	–
Substandard/doubtful/loss	31.79	29.11
	100.00%	100.00%

	June 30, 2020	December 31, 2019
Communication:		
Acceptable	–%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	–%	100.00%
Power and water/waste disposal:		
Acceptable	–%	–%
OAEM	–	100.00
Substandard/doubtful/loss	100.00	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	98.58%	98.31%
OAEM	0.09	0.12
Substandard/doubtful/loss	1.33	1.57
	100.00%	100.00%
International:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	95.43%	95.15%
OAEM	2.00	1.71
Substandard/doubtful/loss	2.57	3.14
	100.00%	100.00%

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

	June 30, 2020				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 751	$ 345	$ 1,096	$ 199,667	$ 200,763
Production and intermediate-term	135	357	492	59,901	60,393
Loans to cooperatives	–	–	–	939	939
Processing and marketing	–	–	–	8,381	8,381
Farm-related business	–	–	–	3,552	3,552
Power and water/waste disposal	–	–	–	1,206	1,206
Rural residential real estate	154	–	154	6,285	6,439
International	–	–	–	1,044	1,044
Total	$ 1,040	$ 702	$ 1,742	$ 280,975	$ 282,717

	December 31, 2019									
	30 Through 89 Days Past Due		90 Days or More Past Due		Total Past Due		Not Past Due or Less Than 30 Days Past Due		Total Loans	
Real estate mortgage	$	570	$	582	$	1,152	$	201,659	$	202,811
Production and intermediate-term		65		288		353		62,287		62,640
Loans to cooperatives		–		–		–		786		786
Processing and marketing		–		–		–		7,310		7,310
Farm-related business		222		–		222		3,698		3,920
Communication		–		–		–		1,338		1,338
Power and water/waste disposal		–		–		–		1,206		1,206
Rural residential real estate		–		–		–		5,844		5,844
International		–		–		–		1,044		1,044
Total	$	857	$	870	$	1,727	$	285,172	$	286,899

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

	June 30, 2020		December 31, 2019	
Nonaccrual loans:				
Real estate mortgage	$	529	$	786
Production and intermediate-term		851		1,005
Rural residential real estate		39		42
Total	$	1,419	$	1,833
Accruing restructured loans:				
Real estate mortgage	$	1,614	$	1,659
Production and intermediate-term		134		168
Total	$	1,748	$	1,827
Accruing loans 90 days or more past due:				
Total	$	–	$	–
Total nonperforming loans	$	3,167	$	3,660
Other property owned		35		4
Total nonperforming assets	$	3,202	$	3,664
Nonaccrual loans as a percentage of total loans		0.51%		0.64%
Nonperforming assets as a percentage of total loans and other property owned		1.14%		1.29%
Nonperforming assets as a percentage of capital		3.70%		4.36%

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

	June 30, 2020		December 31, 2019	
Impaired nonaccrual loans:				
Current as to principal and interest	$	564	$	922
Past due		855		911
Total	$	1,419	$	1,833
Impaired accrual loans:				
Restructured	$	1,748	$	1,827
90 days or more past due		–		–
Total	$	1,748	$	1,827
Total impaired loans	$	3,167	$	3,660
Additional commitments to lend	$	–	$	–

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

	June 30, 2020			Three Months Ended June 30, 2020		Six Months Ended June 30, 2020	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:							
Real estate mortgage	$ 262	$ 252	$ 1	$ 288	$ 10	$ 293	$ 12
Production and intermediate-term	842	1,011	110	926	31	942	41
Total	$ 1,104	$ 1,263	$ 111	$ 1,214	$ 41	$ 1,235	$ 53
With no related allowance for credit losses:							
Real estate mortgage	$ 1,881	$ 1,921	$ –	$ 2,069	$ 71	$ 2,105	$ 92
Production and intermediate-term	143	143	–	157	6	159	6
Rural residential real estate	39	73	–	43	1	43	2
Total	$ 2,063	$ 2,137	$ –	$ 2,269	$ 78	$ 2,307	$ 100
Total impaired loans:							
Real estate mortgage	$ 2,143	$ 2,173	$ 1	$ 2,357	$ 81	$ 2,398	$ 104
Production and intermediate-term	985	1,154	110	1,083	37	1,101	47
Rural residential real estate	39	73	–	43	1	43	2
Total	$ 3,167	$ 3,400	$ 111	$ 3,483	$ 119	$ 3,542	$ 153

	December 31, 2019			Year Ended December 31, 2019	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 263	$ 252	$ 2	$ 269	$ 13
Production and intermediate-term	591	594	83	603	28
Total	$ 854	$ 846	$ 85	$ 872	$ 41
With no related allowance for credit losses:					
Real estate mortgage	$ 2,182	$ 2,188	$ –	$ 2,228	$ 104
Production and intermediate-term	582	724	–	594	28
Rural residential real estate	42	74	–	43	2
Total	$ 2,806	$ 2,986	$ –	$ 2,865	$ 134
Total impaired loans:					
Real estate mortgage	$ 2,445	$ 2,440	$ 2	$ 2,497	$ 117
Production and intermediate-term	1,173	1,318	83	1,197	56
Rural residential real estate	42	74	–	43	2
Total	$ 3,660	$ 3,832	$ 85	$ 3,737	$ 175

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:								
Balance at March 31, 2020	$ 3,224	$ 942	$ 217	$ –	$ 20	$ 103	$ 17	$ 4,523
Charge-offs	(1)	(11)	–	–	–	–	–	(12)
Recoveries	25	1	–	–	–	–	–	26
Provision for loan losses	(24)	32	(8)	–	(1)	1	–	–
Balance at June 30, 2020	$ 3,224	$ 964	$ 209	$ –	$ 19	$ 104	$ 17	$ 4,537
Balance at December 31, 2019	$ 3,204	$ 983	$ 192	$ 21	$ 19	$ 93	$ 17	$ 4,529
Charge-offs	(1)	(29)	–	–	–	–	–	(30)
Recoveries	25	7	6	–	–	–	–	38
Provision for loan losses	(4)	3	11	(21)	–	11	–	–
Balance at June 30, 2020	$ 3,224	$ 964	$ 209	$ –	$ 19	$ 104	$ 17	$ 4,537
Balance at March 31, 2019	$ 3,229	$ 1,037	$ 174	$ 23	$ 24	$ 89	$ 15	$ 4,591
Charge-offs	–	(53)	–	–	–	–	–	(53)
Recoveries	21	67	–	–	–	18	–	106
Provision for loan losses	(109)	(10)	17	–	–	(13)	–	(115)
Balance at June 30, 2019	$ 3,141	$ 1,041	$ 191	$ 23	$ 24	$ 94	$ 15	$ 4,529
Balance at December 31, 2018	$ 3,184	$ 1,035	$ 166	$ 22	$ 23	$ 84	$ 15	$ 4,529
Charge-offs	(199)	(296)	–	–	–	–	–	(495)
Recoveries	239	367	–	–	–	40	–	646
Provision for loan losses	(83)	(65)	25	1	1	(30)	–	(151)
Balance at June 30, 2019	$ 3,141	$ 1,041	$ 191	$ 23	$ 24	$ 94	$ 15	$ 4,529
Allowance on loans evaluated for impairment:								
Individually	$ 1	$ 110	$ –	$ –	$ –	$ –	$ –	$ 111
Collectively	3,223	854	209	–	19	104	17	4,426
Balance at June 30, 2020	$ 3,224	$ 964	$ 209	$ –	$ 19	$ 104	$ 17	$ 4,537
Individually	$ 2	$ 83	$ –	$ –	$ –	$ –	$ –	$ 85
Collectively	3,202	900	192	21	19	93	17	4,444
Balance at December 31, 2019	$ 3,204	$ 983	$ 192	$ 21	$ 19	$ 93	$ 17	$ 4,529
Recorded investment in loans evaluated for impairment:								
Individually	$ 2,143	$ 985	$ –	$ –	$ –	$ 39	$ –	$ 3,167
Collectively	198,620	59,408	12,872	–	1,206	6,400	1,044	279,550
Balance at June 30, 2020	$ 200,763	$ 60,393	$ 12,872	$ –	$ 1,206	$ 6,439	$ 1,044	$ 282,717
Individually	$ 2,445	$ 1,173	$ –	$ –	$ –	$ 42	$ –	$ 3,660
Collectively	200,366	61,467	12,016	1,338	1,206	5,802	1,044	283,239
Balance at December 31, 2019	$ 202,811	$ 62,640	$ 12,016	$ 1,338	$ 1,206	$ 5,844	$ 1,044	$ 286,899

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. There were no new TDRs that occurred during the three and six month periods ended June 30, 2020 or June 30, 2019.

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

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the periods presented. Payment default is defined as a payment that was thirty days or more past due.

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

	Total TDRs		Nonaccrual TDRs	
	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
Real estate mortgage	$ 1,614	$ 1,659	$ –	$ –
Production and intermediate-term	593	750	459	582
Total loans	$ 2,207	$ 2,409	$ 459	$ 582
Additional commitments to lend	$ –	$ –		

The following table presents information as of period end:

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

Note 3 — Investments

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

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 0.99 percent of the issued stock of the Bank as of June 30, 2020, net of any reciprocal investment. As of that date, the Bank's assets totaled $35.7 billion and shareholders' equity totaled $2.6 billion. The Bank's earnings were $156 million for the first six months of 2020. In addition, the Association held investments of $556 related to other Farm Credit institutions.

Note 4 — Debt

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

Note 5 — Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

The classifications within the fair value hierarchy are as follows:

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability.

Level 3 inputs are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see the latest Annual Report to Shareholders.

There were no Level 3 assets or liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

Fair values are estimated at each period end date for assets and liabilities measured at fair value on a recurring basis. Other Financial Instruments are not measured at fair value in the statement of financial position, but their fair values are estimated as of each period end date. The following tables summarize the carrying amounts of these assets and liabilities at period end, and their related fair values.

	June 30, 2020				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust	$ 5	$ 5	$ –	$ –	$ 5
Recurring Assets	$ 5	$ 5	$ –	$ –	$ 5
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 993	$ –	$ –	$ 993	$ 993
Other property owned	35	–	–	39	39
Nonrecurring Assets	$ 1,028	$ –	$ –	$ 1,032	$ 1,032
Other Financial Instruments					
Assets:					
Cash	$ –	$ –	$ –	$ –	$ –
Loans	275,598	–	–	280,213	280,213
Other Financial Assets	$ 275,598	$ –	$ –	$ 280,213	$ 280,213
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 194,998	$ –	$ –	$ 197,986	$ 197,986
Other Financial Liabilities	$ 194,998	$ –	$ –	$ 197,986	$ 197,986

	December 31, 2019				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust	$ 3	$ 3	$ –	$ –	$ 3
Recurring Assets	$ 3	$ 3	$ –	$ –	$ 3
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 769	$ –	$ –	$ 769	$ 769
Other property owned	4	–	–	4	4
Nonrecurring Assets	$ 773	$ –	$ –	$ 773	$ 773
Other Financial Instruments					
Assets:					
Cash	$ –	$ –	$ –	$ –	$ –
Loans	279,496	–	–	279,346	279,346
Other Financial Assets	$ 279,496	$ –	$ –	$ 279,346	$ 279,346
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 200,279	$ –	$ –	$ 200,480	$ 200,480
Other Financial Liabilities	$ 200,279	$ –	$ –	$ 200,480	$ 200,480

Uncertainty in Measurements of Fair Value

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

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

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

Quoted market prices are generally not available for the instruments presented below.

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 1,032	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity

Note 6 — Employee Benefit Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Pension	$ 71	$ 54	$ 141	$ 112
401(k)	66	55	144	133
Other postretirement benefits	26	26	51	53
Total	$ 163	$ 135	$ 336	$ 298

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

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

Note 7 — Commitments and Contingent Liabilities

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions would not be material in relation to the financial position of the Association. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

Note 8 — Subsequent Events

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