2020

THIRD QUARTERLY REPORT

AgPreference, ACA

The shareholders' investment in AgPreference, ACA is materially affected by the financial condition and results of operations of CoBank, ACB, (CoCank). The 2019 CoBank Annual Report to Shareholders, and the CoBank quarterly shareholders' reports are available free of charge by accessing CoBank's website, www.cobank.com, or may be obtained at no charge by contacting us at AgPreference, ACA, 3120 North Main, Altus, Oklahoma 73522-8090, or calling 580-482-3030 or 1-800-727-3276.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Unaudited)

The following discussion summarizes the financial position and results of operations of AgPreference, ACA for the nine months ended September 30, 2020, with comparisons to prior periods. You should read these comments along with the accompanying financial statements and footnotes and the 2019 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

ECONOMIC CONDITIONS

The third quarter saw typical summer conditions return with hot temperatures and spotty rainfall for the trade territory, resulting in some parts returning to drought conditions. The Oklahoma drought monitor indicated western areas in D2 and D3 drought ratings in late August. Spotty rains provided some relief to small areas but generally dryer conditions for the trade territory were the norm.

The 2020 cotton crop has seen good development and is generally in average condition at present. Irrigation water was available in the Lugert-Altus Irrigation District on a limited basis with 11 inches allocated. Most well sourced irrigation was able to sustain during the season. Dryland cotton overall is in average to good condition. Farmers are preparing for fall harvest, which should start by the last week of September. Local cotton gins expect to receive cotton by October 1. The price of cotton remains stable to slightly increasing with present prices in the $0.60 to $0.65 per pound range.

Pasture and range conditions are overall in average condition. Hot and dry conditions during August saw western areas of Oklahoma move into drought conditions with pasture/forage brown and dry. Pond water was limited and many ponds were dry. As mentioned, the eastern side of our territory has seen the better rains with good pasture conditions while western counties have seen less rain & fair conditions. Rainfall in early September has improved overall conditions slightly. Long-term forecasts are for warmer and dryer than normal conditions over the next 90 days.

Wheat planting began in mid-September with farmers wanting wheat pasture for grazing being the first to start. Planted wheat acres are expected to be near average. Wheat prices have increased in recent weeks. Current wheat prices are in a range of $4.50 to $4.60 per bushel.

Livestock prices regained some stability caused by COVID-19 but levels remain slightly lower than prior year. Auctions saw smaller runs of cattle during the summer period; fall runs of weaning calves will start in the next 60 days. An average 800 lb. feeder steer price is currently $1.30-$1.40 per lb.

Area land markets continue to be stable with low interest rates being a primary factor. It remains to be seen if lower commodity prices and the current market instability will have an impact; however, most experts believe land values will experience some pressure.

The Federal Open Market Committee maintained the target rate of federal funds at 0 to ¼ percent effective September 16, 2020. The Committee continues to enact policy to maintain market stability during the COVID-19 pandemic with inflation and employment being two key factors they continue to monitor.

All commodity markets have experienced volatility and lower prices primarily due to the COVID-19 pandemic over the last six months. Markets have gained some stability but still remain depressed. It remains to be seen what the long-term effects of this pandemic will be on national and international economies; most projections are more negative and longer term than first thought.

The effects of the COVID-19 pandemic could have a material adverse effect on our Association's business, results of operations and financial condition. The COVID-19 pandemic rapidly evolved from a global public health crisis into a global economic crisis. Actions by government authorities to stem the spread of the disease shut down entire sectors of the global economy, forcing millions of people out of work, and precipitated a contraction in economic output. In the United States, the Federal Reserve deployed a full range of emergency monetary stimulus tools to ensure the financial system continued to function. The administration and Congress have also passed aggressive fiscal stimulus measures. As states and cities have re-opened, certain areas of the country have experienced a substantial increase in cases. It remains to be seen how effective these policy responses will be given the unique attributes of the continuing pandemic.

The COVID-19 pandemic has heightened many risks, including credit risk, liquidity risk, market risk, and operational risk. The effectiveness of our mitigation efforts and the extent to which COVID-19 affects our business, results of operations and financial condition may depend on factors beyond our control.

The U.S. government has initiated various programs in support of the COVID-19 economic recovery. In late March 2020, Congress passed the Coronavirus Aid, Relief and Economic Security (CARES) Act. Among other provisions, the CARES Act made funds available for small businesses under the Paycheck Protection Program (PPP), which is a guaranteed loan program administered by the Small Business Administration (SBA). Congress also provided additional funding for small business disaster loans and direct payments to farmers and ranchers as a result of the COVID-19 pandemic as well as making purchases of agriculture products. The impact of these and other U.S. government support programs and stimulus on the broader agricultural economy and our customers in particular is uncertain at this time. Our Association has performed servicing actions (change of payments, deferrals, extensions and re-amortizations or interest conversions) on loans that have experienced stress due to the COVID-19 pandemic.

MERGER

On March 3, 2020 and March 4, 2020, respectively, the boards of directors of Farm Credit of Western Oklahoma, ACA and AgPreference, ACA approved a letter of intent to pursue a merger. CoBank has granted approval of the planned merger and a conditional approval from the Farm Credit Administration has also been granted. In addition, the stockholders of both Associations will also be required to approve the merger. Detailed disclosure packages, including voting ballots, will be mailed to all stockholders in the coming weeks in order for stockholders to cast their votes. Stockholder meetings will be held to provide all stockholders with an opportunity to have their questions regarding the merger answered. If approved, the merger will be effective January 1, 2021.

LOAN PORTFOLIO

Loans outstanding at September 30, 2020, totaled $250.3 million, an increase of $11.3 million, or 4.75%, from loans of $239.0 million at December 31, 2019. The increase was primarily due to new loans.

Although the overall credit quality of our loan portfolio remained strong during the first nine months of 2020, economic conditions in the broader economy deteriorated rapidly beginning in March 2020 and continue to be uncertain. The spread of COVID-19 around the world, particularly in the U.S., has caused volatility and unfavorable conditions in the U.S. and international markets. There is significant uncertainty around the magnitude and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies. As such, it is uncertain the level of impact COVID-19 will have on our credit quality. If the effect of COVID-19 results in repayment shortfalls on loans in our portfolio, we could incur credit losses. At this time, we believe the credit quality impacts within our loan portfolio resulting from the COVID-19 business disruptions will be mixed with certain industries negatively impacted.

RESULTS OF OPERATIONS

Net income for the nine months ended September 30, 2020, was $1.1 million, a decrease of $1.2 million, or 51.02%, from the same period ended one year ago. The decrease was primarily due to decreases in net interest income and patronage distribution from Farm Credit Institutions, a change in the provision for credit losses and an increase in other noninterest expenses.

Net interest income for the nine months ended September 30, 2020, was $4.5 million, a decrease of $466 thousand, or 9.33%, compared with the nine months ended September 30, 2019. Net interest income decreased as a result of decrease in interest income on loans.

The provision for credit losses for the nine months ended September 30, 2020, was $18 thousand, a change of $85 thousand from a credit loss reversal of $67 thousand for the same period ended one year ago. The provision for loan losses in 2020 also includes an additional level of reserves to reflect inherent losses in our loan portfolio resulting from deterioration in the macro environment and business disruptions related to COVID-19.

Noninterest income decreased $187 thousand during the first nine months of 2020 compared with the first nine months in 2019 primarily due to decreases in patronage distribution from CoBank and mineral income. Also included in noninterest income is a refund of $54 thousand from Farm Credit System Insurance Corporation (FCSIC), a decrease of $6 thousand compared with the refund in 2019. The refunds are our portion of excess funds above the secure base amount in the FCSIC Allocated Insurance Reserve Accounts. Refer to the 2019 Annual Report to Shareholders for additional information.

We received mineral income of $116 thousand during the first nine months of 2020, which is distributed to us quarterly by CoBank. The decrease for the nine months ended September 30, 2020, compared with first nine months of 2019 is primarily the result of a significant drop in crude oil and natural gas prices and production volumes in the third quarter of 2020.

During the first nine months of 2020, noninterest expense increased $458 thousand to $4.3 million, primarily due to an increase in purchase services for legal and accounting.

CAPITAL RESOURCES

Our shareholders' equity at September 30, 2020, was $54.0 million, an increase from $53.0 million at December 31, 2019. This increase is due to net income offset slightly by net stock retirements.

FUTURE OF LIBOR

In 2017, the United Kingdom's Financial Conduct Authority, announced its intention to stop persuading or compelling the group of major banks that sustains LIBOR to submit rate quotations after 2021. As a result, it is uncertain whether LIBOR will continue to be quoted after 2021. We continue to analyze potential risks associated with the LIBOR transition, including financial, operational, legal, tax, reputational and compliance risks. At this time we are unable to predict whether or when LIBOR will cease to be available or if SOFR or any other alternative reference rate will become the benchmark to replace LIBOR. Refer to the 2019 Annual Report for further information.

The undersigned certify they have reviewed this report, this report has been prepared in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of his or her knowledge and belief.

Lonnie Olson
Chairman of the Board
November 2, 2020

Cecil H. Sheperson
President & Chief Executive Officer
November 2, 2020

Jana Turner
Chief Financial Officer
November 2, 2020

Consolidated Statement of Condition

(Dollars in Thousands)

	September 30 2020 UNAUDITED	December 31 2019 AUDITED
ASSETS		
Loans	**$ 250,295**	$ 238,954
Less allowance for loan losses	**551**	498
Net loans	**249,744**	238,456
Cash	**1,115**	717
Accrued interest receivable	**4,233**	4,664
Investment in CoBank, ACB	**8,311**	8,310
Premises and equipment, net	**1,271**	1,376
Prepaid benefit expense	**1,106**	960
Other assets	**1,057**	1,363
Total assets	**$ 266,837**	$ 255,846
LIABILITIES		
Note payable to CoBank, ACB	**$ 210,354**	$ 198,653
Advance conditional payments	**648**	2,386
Accrued interest payable	**357**	427
Patronage distributions payable	**-**	594
Accrued benefits liability	**117**	117
Reserve for unfunded commitments	**68**	89
Other liabilities	**1,222**	610
Total liabilities	**212,766**	202,876
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Protected borrower stock	**10**	10
Capital stock	**346**	355
Unallocated retained earnings	**53,715**	52,605
Total shareholders' equity	**54,071**	52,970
Total liabilities and shareholders' equity	**$ 266,837**	$ 255,846

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

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

UNAUDITED	For the three months ended September 30 **2020**	2019	For the nine months ended September 30 **2020**	2019
INTEREST INCOME				
Loans	**$ 2,713**	$ 3,221	**$ 8,404**	$ 9,958
Total interest income	**2,713**	3,221	**8,404**	9,958
INTEREST EXPENSE				
Note payable to CoBank, ACB	**1,139**	1,622	**3,859**	4,938
Other	**2**	5	**16**	25
Total interest expense	**1,141**	1,627	**3,875**	4,963
Net interest income	**1,572**	1,594	**4,529**	4,995
Provision for credit losses/(Credit loss reversal)	**19**	62	**18**	(67)
Net interest income after provision for credit losses/credit loss reversal	**1,553**	1,532	**4,511**	5,062
NONINTEREST INCOME				
Loan fees	**39**	43	**175**	152
Patronage distribution from Farm Credit institutions	**185**	204	**533**	630
Farm Credit Insurance Fund distribution	**-**	-	**54**	60
Mineral income	**25**	52	**116**	171
Other noninterest income	**8**	8	**56**	108
Total noninterest income	**257**	307	**934**	1,121
NONINTEREST EXPENSE				
Salaries and employee benefits	**576**	537	**1,784**	1,928
Occupancy and equipment	**31**	42	**95**	144
Purchased services from AgVantis, Inc.	**241**	229	**726**	686
Farm Credit Insurance Fund premium	**48**	40	**114**	123
Supervisory and examination costs	**19**	23	**66**	68
Other noninterest expense	**496**	249	**1,521**	899
Total noninterest expense	**1,411**	1,120	**4,306**	3,848
Income before income taxes	**399**	719	**1,139**	2,335
Provision for income taxes	**14**	15	**29**	69
Net income/Comprehensive income	**$ 385**	$ 704	**$ 1,110**	$ 2,266

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

UNAUDITED	Protected Borrower Stock	Capital Stock	Unallocated Retained Earnings	Total Shareholders' Equity
Balance at December 31, 2018	$ 10	$ 364	$ 50,697	$ 51,071
Net income/Comprehensive income			2,266	2,266
Stock issued	-	10		10
Stock retired	-	(17)		(17)
Balance at September 30, 2019	$ 10	$ 357	$ 52,963	$ 53,330
Balance at December 31, 2019	$ 10	$ 355	$ 52,605	$ 52,970
Net income/Comprehensive income			1,110	1,110
Stock issued	-	16		16
Stock retired	-	(25)		(25)
Balance at September 30, 2020	**$ 10**	**$ 346**	**$ 53,715**	**$ 54,071**

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

NOTES TO FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of AgPreference, ACA (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2019, are contained in the 2019 Annual Report to Shareholders. These unaudited third quarter 2020 financial statements should be read in conjunction with the 2019 Annual Report to Shareholders.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2019, as contained in the 2019 Annual Report to Shareholders.

In the opinion of management, the unaudited financial information is complete and reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2020. Descriptions of the significant accounting policies are included in the 2019 Annual Report to Shareholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

Recently Adopted or Issued Accounting Pronouncements

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. The Association has adopted this relief for qualifying loan modifications.

In December 2019, the Financial Accounting Standards Board (FASB) issued guidance entitled "Simplifying the Accounting for Income Taxes." This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted and the institution adopted this guidance on January 1, 2020. The adoption of this guidance did not materially impact the Association's financial condition or results of operations, nor will the guidance impact the presentation of taxes for prior periods in the 2020 interim or year-end financial statements.

In August 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost." The guidance aligns 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 this guidance. This guidance became effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The adoption of this guidance did not materially impact the Association's financial condition or its results of operations.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans." The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the Association's financial condition or its results of operations, but will impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance became effective for interim and annual periods beginning after December 15, 2019. Early adoption was permitted and an entity was permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The Association early adopted the removal and modified disclosures during the fourth quarter of 2018. The adoption of this guidance did not impact the Association's financial condition or its results of operations, but will impact the fair value measurements disclosures.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." 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. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. On October 16, 2019, the FASB approved deferral of the effective date for certain entities for this guidance by two years, which will result in the new credit loss standard becoming effective for interim and annual reporting periods beginning after December 15, 2022. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on its financial condition and its results of operations.

NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

(dollars in thousands)	**September 30, 2020**	December 31, 2019
Real estate mortgage	**$ 186,067**	$ 183,033
Production and intermediate-term	**35,577**	34,396
Agribusiness	**24,908**	19,976
Rural Infrastructure	**3,627**	1,416
Rural residential real estate	**116**	133
Total loans	**$ 250,295**	$ 238,954

The Association purchases and sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at September 30, 2020:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
(dollars in thousands)	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ 4,515	$ 1,641	$ 99,000	$ -	$ 103,515	$ 1,641
Production and intermediate-term	2,182	-	111	-	2,293	-
Agribusiness	12,125	4,002	-	-	12,125	4,002
Rural infrastructure	3,627	-	-	-	3,627	-
Total	$ 22,449	$ 5,643	$ 99,111	$ -	$ 121,560	$ 5,643

One credit quality indicator utilized by the Association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality.
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness.
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan.
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable.
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of:

	September 30, 2020	December 31, 2019
Real estate mortgage		
Acceptable	**94.67%**	95.31%
OAEM	**3.46%**	2.97%
Substandard	**1.87%**	1.72%
Total	**100.00%**	100.00%
Production and intermediate-term		
Acceptable	**91.10%**	89.74%
OAEM	**5.37%**	7.77%
Substandard	**3.53%**	2.49%
Total	**100.00%**	100.00%
Agribusiness		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%
Rural infrastructure		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%
Rural residential real estate		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%
Total Loans		
Acceptable	**94.76%**	94.91%
OAEM	**3.34%**	3.41%
Substandard	**1.90%**	1.68%
Total	**100.00%**	100.00%

High risk assets consist of impaired loans and other property owned. These nonperforming assets (including related accrued interest) and related credit quality are as follows:

(dollars in thousands)	**September 30, 2020**	December 31, 2019
Nonaccrual loans		
Real estate mortgage	**$ 1,367**	$ 1,610
Production and intermediate-term	**257**	475
Total nonaccrual loans	**$ 1,624**	$ 2,085
Total impaired loans	**$ 1,624**	$ 2,085
Total high risk assets	**$ 1,624**	$ 2,085

The Association had no accruing restructured loans, no accruing loans 90 days past due and no other property owned for the periods presented.

Additional impaired loan information is as follows:

	September 30, 2020			December 31, 2019		
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with a related allowance for loan losses:						
Production and intermediate-term	**$ 256**	**$ 251**	**$ 57**	$ 474	$ 469	$ 57
Total	**$ 256**	**$ 251**	**$ 57**	$ 474	$ 469	$ 57
Impaired loans with no related allowance for loan losses:						
Real estate mortgage	**$ 1,367**	**$ 1,571**	**$ -**	$ 1,610	$ 1,754	$ -
Production and intermediate-term	**1**	**214**	**-**	1	218	-
Total	**$ 1,368**	**$ 1,785**	**$ -**	$ 1,611	$ 1,972	$ -
Total impaired loans:						
Real estate mortgage	**$ 1,367**	**$ 1,571**	**$ -**	$ 1,610	$ 1,754	$ -
Production and intermediate-term	**257**	**465**	**57**	475	687	57
Total	**$ 1,624**	**$ 2,036**	**$ 57**	$ 2,085	$ 2,441	$ 57

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

(dollars in thousands)	**For the Three Months Ended September 30, 2020** Average Impaired Loans	**For the Three Months Ended September 30, 2020** Interest Income Recognized	For the Three Months Ended September 30, 2019 Average Impaired Loans	For the Three Months Ended September 30, 2019 Interest Income Recognized
Impaired loans with a related allowance for loan losses:				
Production and intermediate-term	**$ 271**	**$ -**	$ 436	$ -
Total	**$ 271**	**$ -**	$ 436	$ -
Impaired loans with no related allowance for loan losses:				
Real estate mortgage	**$ 1,445**	**$ 3**	$ 1,361	$ -
Production and intermediate-term	**-**	**-**	1	1
Total	**$ 1,445**	**$ 3**	$ 1,362	$ 1
Total impaired loans:				
Real estate mortgage	**$ 1,445**	**$ 3**	$ 1,361	$ -
Production and intermediate-term	**271**	**-**	437	1
Total	**$ 1,716**	**$ 3**	$ 1,798	$ 1

(dollars in thousands)	**For the Nine Months Ended September 30, 2020** Average Impaired Loans	**For the Nine Months Ended September 30, 2020** Interest Income Recognized	For the Nine Months Ended September 30, 2019 Average Impaired Loans	For the Nine Months Ended September 30, 2019 Interest Income Recognized
Impaired loans with a related allowance for loan losses:				
Production and intermediate-term	**$ 334**	**$ -**	$ 160	$ -
Total	**$ 334**	**$ -**	$ 160	$ -
Impaired loans with no related allowance for loan losses:				
Real estate mortgage	**$ 1,525**	**$ 7**	$ 3,131	$ 72
Production and intermediate-term	**3**	**-**	55	3
Total	**$ 1,528**	**$ 7**	$ 3,186	$ 75
Total impaired loans:				
Real estate mortgage	**$ 1,525**	**$ 7**	$ 3,131	$ 72
Production and intermediate-term	**337**	**-**	215	3
Total	**$ 1,862**	**$ 7**	$ 3,346	$ 75

The following tables provide an age analysis of past due loans (including accrued interest).

September 30, 2020 *(dollars in thousands)*	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans	Recorded Investment Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 2,281	$ 713	$ 2,994	$ 186,279	$ 189,273	$ -
Production and intermediate-term	1,099	256	1,355	35,156	36,511	-
Agribusiness	-	-	-	25,001	25,001	-
Rural infrastructure	-	-	-	3,627	3,627	-
Rural residential real estate	-	-	-	116	116	-
Total	$ 3,380	$ 969	$ 4,349	$ 250,179	$ 254,528	$ -

December 31, 2019 *(dollars in thousands)*	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans	Recorded Investment Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ -	$ 293	$ 293	$ 186,035	$ 186,328	$ -
Production and intermediate-term	6	475	481	35,150	35,631	-
Agribusiness	-	-	-	20,110	20,110	-
Rural infrastructure	-	-	-	1,416	1,416	-
Rural residential real estate	-	-	-	133	133	-
Total	$ 6	$ 768	$ 774	$ 242,844	$ 243,618	$ -

A summary of changes in the allowance for loan losses is as follows:

(dollars in thousands)	Balance at June 30, 2020	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2020
Real estate mortgage	$ 194	$ -	$ -	$ (11)	$ 183
Production and intermediate-term	282	-	5	49	336
Agribusiness	28	-	-	(7)	21
Rural infrastructure	2	-	-	9	11
Rural residential real estate	-	-	-	-	-
Total	$ 506	$ -	$ 5	$ 40	$ 551

(dollars in thousands)	Balance at December 31, 2019	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2020
Real estate mortgage	$ 182	$ -	$ -	$ 1	$ 183
Production and intermediate-term	262	-	14	60	336
Agribusiness	44	-	-	(23)	21
Rural infrastructure	9	-	-	2	11
Rural residential real estate	1	-	-	(1)	-
Total	$ 498	$ -	$ 14	$ 39	$ 551

(dollars in thousands)	Balance at June 30, 2019	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2019
Real estate mortgage	$ 262	$ -	$ -	$ (75)	$ 187
Production and intermediate-term	290	-	-	27	317
Agribusiness	17	-	-	19	36
Rural infrastructure	11	-	-	(1)	10
Rural residential real estate	1	-	-	-	1
Total	$ 581	$ -	$ -	$ (30)	$ 551

(dollars in thousands)	Balance at December 31, 2018	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2019
Real estate mortgage	$ 270	$ -	$ -	$ (83)	$ 187
Production and intermediate-term	387	3	-	(67)	317
Agribusiness	25	-	-	11	36
Rural infrastructure	19	-	-	(9)	10
Rural residential real estate	1	-	-	-	1
Total	$ 702	$ 3	$ -	$ (148)	$ 551

The Association maintains a separate reserve for unfunded commitments, which is included in Liabilities on the Association's Consolidated Statement of Condition. The related provision for the reserve for unfunded commitments is included as part of the provision for credit losses on the Consolidated Statement of Comprehensive Income, along with the provision for loan losses. A summary of changes in the reserve for unfunded commitments follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
(dollars in thousands)	**2020**	2019	**2020**	2019
Balance at beginning of period	**$ 89**	$ 83	**$ 89**	$ 94
(Reversal of)/Provision for reserve for unfunded commitment	**(21)**	92	**(21)**	81
Total	**$ 68**	$ 175	**$ 68**	$ 175

Additional information on the allowance for loan losses follows:

	Allowance for Loan Losses Ending Balance at September 30, 2020		Recorded Investments in Loans Outstanding Ending Balance at September 30, 2020	
(dollars in thousands)	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ -	$ 183	$ 1,367	$ 187,906
Production and intermediate-term	57	279	257	36,254
Agribusiness	-	21	-	25,001
Rural infrastructure	-	11	-	3,627
Rural residential real estate	-	-	-	116
Total	$ 57	$ 494	$ 1,624	$ 252,904

(dollars in thousands)	Allowance for Loan Losses Ending Balance at December 31, 2019		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2019	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ -	$ 182	$ 1,610	$ 184,718
Production and intermediate-term	57	205	475	35,156
Agribusiness	-	44	-	20,110
Rural infrastructure	-	9	-	1,416
Rural residential real estate	-	1	-	133
Total	$ 57	$ 441	$ 2,085	$ 241,533

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. The Association recorded no TDRs during the nine months ended September 30, 2020. The Association had no TDRs within the previous 12 months and for which there were subsequent payment defaults during 2020 and 2019.

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

(dollars in thousands)	Loans modified as TDRs		TDRs in Nonaccrual Status*	
	September 30, 2020	December 31, 2019	**September 30, 2020**	December 31, 2019
Real estate mortgage	**$ 253**	$ 351	**$ 253**	$ 351
Total	**$ 253**	$ 351	**$ 253**	$ 351

* Represents the portion of loans modified as TDRs (first column) that are in nonaccrual status.

NOTE 3 - CAPITAL

A summary of select capital ratios based on a three-month average and minimums set by the Farm Credit Administration follows.

	As of September 30, 2020	As of December 31, 2019	Regulatory Minimums	Capital Conservation Buffer	Total
Risk Adjusted:					
Common equity tier 1 ratio	21.28%	21.65%	4.5%	2.5%	7.0%
Tier 1 capital ratio	21.28%	21.65%	6.0%	2.5%	8.5%
Total capital ratio	21.57%	22.00%	8.0%	2.5%	10.5%
Permanent capital ratio	21.33%	21.71%	7.0%	-	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	17.88%	17.90%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	18.84%	18.86%	1.5%	-	1.5%

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

NOTE 4 - FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 of the 2019 Annual Report to Shareholders for a more complete description.

The Association had no assets or liabilities measured at fair value on a recurring basis at September 30, 2020 or December 31, 2019.

Assets measured at fair value on a non-recurring basis for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement Using			**Total Fair Value**
(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	
September 30, 2020				
Loans	**$ -**	**$ -**	**$ 199**	**$ 199**
December 31, 2019				
Loans	$ -	$ -	$ 417	$ 417

The Association had no liabilities measured at fair value on a non-recurring basis at September 30, 2020 or December 31, 2019.

Valuation Techniques

As more fully discussed in Note 2 of the 2019 Annual Report to Shareholders, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following presents a brief summary of the valuation techniques used by the Association for assets and liabilities, subject to fair value measurement.

Loans Evaluated for Impairment

For impaired loans measured on a non-recurring basis, the fair value is based upon the underlying collateral since the loans are collateral dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases, it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value of these loans would fall under Level 2 hierarchy if the process uses independent appraisals and other market-based information.

NOTE 5 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through November 2, 2020, which is the date the financial statements were issued, and no material subsequent events were identified.