
Puerto Rico Farm Credit, ACA

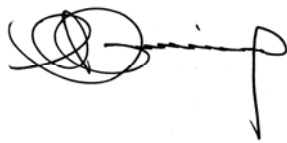
FIRST QUARTER 2020

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2020 quarterly report of Puerto Rico Farm Credit, 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.



Antonio E. Marichal
Chairman of Board of Directors and
Chairman of the Audit Committee



Ricardo L. Fernández
Chief Executive Officer

May 8, 2020

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 March 31, 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 March 31, 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 March 31, 2020.



Ricardo L. Fernández
Chief Executive Officer

May 8, 2020

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

(dollars in thousands)

The following commentary reviews the consolidated financial condition and results of operations of Puerto Rico Farm Credit, ACA (Association) for the period ended March 31, 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. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

The Association obtains funding through a borrowing relationship with AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected by the financial condition and results of operations of the Bank.

Impacts of the COVID-19 Global Pandemic

The novel coronavirus ("COVID-19") pandemic is creating extensive disruptions to the global economy and to the lives of individuals throughout the world. Governments, businesses, and the public are taking unprecedented actions to contain the spread of COVID-19 and to mitigate its effects, including quarantines, travel bans and restrictions, shelter in place orders, closures of businesses and schools, fiscal stimulus, and legislation designed to deliver monetary aid and other relief. The scope, duration and full effects of COVID-19 are rapidly evolving and still not fully known, but it is clear that the pandemic and related efforts to contain it have disrupted global economic activity, adversely affected the functioning of financial markets, significantly increased unemployment levels and economic and market uncertainty, and disrupted trade and supply chains.

The Association recognizes that the COVID-19 pandemic may create 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 Bank's primary responsibilities 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 businesses in our territory. On March 16, 2020, the Association activated its business continuity plan and has been operating uninterrupted since then with most of its employees working remotely from their homes. Because the technology in employees' homes may not be as robust as in the Association's offices and could cause the networks, information systems, applications and other tools available to employees to be more limited or less reliable than the Association's in-office technology, 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 continued 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, would not be considered as troubled debt restructurings if made on a good faith basis in response to the national emergency.

The Association has developed and is refining payment deferral programs for borrowers directly affected by market disruptions caused by the COVID-19 pandemic. 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 \$9.6 billion of funding targeted to livestock and dairy producers, \$3.9 billion for row crop producers, \$2.1 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 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 borrow from the Association. The CARES Act provides for loan forgiveness if an employer uses 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 PPP and Health Care Enhancement Act that provides \$484 billion in additional funding to replenish and supplement key programs under the CARES Act. The Act provides 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.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing short

and intermediate-term loans and long-term real estate mortgage loans. The Association also maintains a portfolio of purchased loans, originated by other Farm Credit System entities and non-system entities. The Association's predominant chartered territory (CT) agricultural commodities were dairy, fruits (including plantains and coffee) and rural housing which totaled approximately \$67,249 or 44.69 percent of the gross principal balance, net of sold loans, at March 31, 2020.

The gross loan volume of the Association at March 31, 2020 was \$149,488, a decrease of \$1,540 or 1.02 percent as compared to \$151,028 at December 31, 2019. Loans originated within the Association's chartered territory were lower by approximately \$2,478 and participation purchased loans increased by approximately \$938. The loan volume decrease was a result of paydowns in chartered territory loans partially offset by new participation purchased loans.

Net loans at March 31, 2020 totaled \$147,930 as compared to \$149,383 at December 31, 2019. Net loans made up 95.12 percent of total assets at March 31, 2020, as compared to 94.73 percent at December 31, 2019.

Non-accrual loans totaled \$5,902 or 3.95 percent of total loans at March 31, 2020, compared to \$6,445 or 4.27 percent of total loans at December 31, 2019. Nonaccrual loans decreased \$543 during the three months of 2020 primarily due to three CT nonaccrual loans reinstated to accrual status and two CT nonaccrual loans transferred to other property owned.

The overall delinquency rate for the accruing loan portfolio increased during the first quarter 2020. Management expects that high risk loans may increase by the end of the year due to the COVID-19 pandemic economic impacts.

The allowance for loan losses decreased \$87 to \$1,558 at March 31, 2020 from \$1,645 at December 31, 2019. The decrease was primarily due to a decrease in the general reserves for the CT Dairy and Tree Fruits industries partially offset by increases in reserves for CT impaired loans along with increases in general reserves for CT Processing industry and CT collateral risk. Management will continue to monitor certain risks, such as collateral risk and other factors that may increase the risk of the portfolio, such as climate conditions, government fiscal policy and overall economic conditions on the island. The total allowance for loan losses to outstanding loan volume decreased to 1.04 percent at March 31, 2020 from 1.09 percent at December 31, 2019.

During the first months of 2020, charge-offs of \$1 were primarily in the CT fruits industry. Also, recoveries of \$1 were mostly on CT nonaccrual loans reinstated to accrual status. The Association is actively marketing acquired properties and may incur additional accounting losses or gains as sales are completed.

Fiscal year 2019, which ended on June 30, 2019, was the first year the economy slightly improved and the central government increased its general fund net revenues by 41.2% against the previous year. This improvement was expected due to reconstruction funds being received after the hurricanes of 2017. However, not all the approved funds have been disbursed, causing the recovery to be slower than expected. That positive trend evaporated quickly when the island went on strike to oust the then governor of PR in July 2019. Then in early January of 2020, the island was hit by a streak of earthquakes that continue to this day. It caused power outages and other problems that halted economic activity temporarily. More recently the current pandemic is expected to lower economic activity in fiscal 2020 and 2021. The favorable outlook the Fiscal Planning Board and Government had for the next couple of years will have to be adjusted downward. It is difficult to estimate at this time what the total impact on the economy will be, but, Puerto Rico's economy will continue to struggle in the next 2-3 fiscal years.

The earthquakes early in the year have not caused significant disruptions to our farmers and only one borrower has lost their home as a result of damages to their house. Management assisted the member and does not expect to incur any losses. Management does not expect any deterioration in credit quality as a result of the earthquakes and continued seismic activity. The pandemic has caused economic activity to decline sharply and the ag industry is not exempt. At the end of April the Association had received deferments for 60-70 customers. The Board approved a pandemic relief program to assist our farmers during the pandemic through deferments and an emergency loan program to assist with short-term liquidity. Management is monitoring borrowers in the ornamental, plantain and other small crops to identify any long-term risks that could adversely impact the credit quality of the ACA. Management understands that the Association has sufficient capital to withstand considerable deterioration in credit quality as a result of continuing adverse economic conditions, pandemics or other natural disasters of large magnitude.

Through all this, the agricultural sector's outlook is stable. This should allow farmers to continue managing their operations profitably and maintain the credit quality of the Association's portfolio.

The local dairy industry is performing acceptably during the pandemic compared with the global dairy industry. Minimal production has been discarded and there is no anticipation that additional production will need to be discarded. Our dairy farmers continue to operate as usual and have received fair pricing close to normal circumstances. The Association will monitor events within the industry and assess their potential impact on the performance of the dairy portfolio. The Association lends almost 35% of total loans to this industry and has implemented risk management practices to mitigate concentration risk.

Other agricultural sectors do not represent significant risk for the association. Management monitors all sectors and does not

anticipate any adverse impact to the portfolio in 2020 due to problems in these other ag sectors.

The Association will continue to find creative ways to fulfill its public mission. Leadership of the ACA believes that agriculture is still viable on the island and has many opportunities ahead. However, the Board of Directors and Management remain cautious of the Association's ability to grow the portfolio under the prevailing economic and political environment.

RESULTS OF OPERATIONS

For the three months ended March 31, 2020

The Association recorded net income for the three months ended March 31, 2020 of \$651 as compared to \$677 for the same period in 2019. This \$26 decrease in net income is primarily attributed to a decrease in net interest income.

Net interest income was \$1,196 for the three months ended March 31, 2020 compared to \$1,374 for the same period in 2019, representing a decrease of \$178 or 12.95 percent mainly attributed to a decline in loan volume along with decreases in the Prime Rate.

Reversal of allowance for loan losses was \$87 for the three months ended March 31, 2020 compared to a reversal of allowance for loan losses of \$44 for the same period in 2019, an increase of \$43 or 97.73 percent. During the first quarter 2020, the reversal of allowance for loan losses was due to lower required general reserves offset by an increase in specific reserves.

Noninterest income for the three months ended March 31, 2020 totaled \$281 compared to \$264 for the same period of 2019, resulting in an increase of \$17 or 6.44 percent. This increase was mainly due to gains on sales of premises and equipment, net.

Noninterest expense was \$913 for the three months ended March 31, 2020 as compared to \$1,005 for the same period in 2019, resulting in a decrease of \$92 or 9.15 percent. This decrease was primarily due to decreases of \$26 in salaries and employee benefits and \$61 in other operating expenses.

LIQUIDITY AND FUNDING SOURCES

Liquidity

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses, and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. Sufficient liquid funds have been available to meet all financial obligations.

Funding Sources

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement 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 notes. The variable rate notes are utilized by the Association to fund variable rate loan advances and operating fund requirements. The fixed rate notes are used specifically to fund fixed rate loan advances made by the Association.

The total notes payable to the Bank at March 31, 2020 was \$97,070 as compared to \$99,911 at December 31, 2019. The decrease of \$2,841 or 2.84 percent is primarily due to a decrease in loan volume outstanding during the period. The Association had no lines of credit outstanding with third parties as of March 31, 2020.

Funds Management

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to either the Prime Rate or the 90-day London Interbank Offered Rate (LIBOR). Fixed rate loans are priced based on the current cost of Farm Credit System debt of similar terms to maturity. The Association does not offer or include adjustable rate mortgages (ARMS) in its portfolio of loan products.

The majority of the interest rate risk in the Association balance sheet is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control interest rate risk associated with the loan portfolio.

CAPITAL RESOURCES

Total members' equity at March 31, 2020 increased by \$659 or 1.20 percent to \$55,421 from December 31, 2019 total of \$54,762. The increase was primarily attributable to year-to-date net income.

Total capital stock and participation certificates were \$438 at March 31, 2020 compared to \$430 at December 31, 2019. The increase of \$8 was the result of the capital stock and participation certificates issued on new loans originated in the normal course of business.

Unallocated retained earnings were \$54,983 at March 31, 2020 for an increase of \$651 or 1.20 percent from December 31,

2019 when unallocated retained earnings totaled \$54,332. The increase was due to 2020 year-to-date net income.

Key financial condition ratios were as follows:

	<u>3/31/2020</u>	<u>12/31/2019</u>
Total Members' Equity to Asset	35.64%	34.73%

Regulatory Capital Ratios

The Association's regulatory capital ratios are shown in the following table:

	Regulatory Minimum, Including Buffer*	3/31/2020	12/31/2019	3/31/2019
Permanent Capital Ratio	7.00%	37.44%	37.51%	38.73%
Common Equity Tier 1 (CET1) Capital Ratio	7.00%	37.01%	37.11%	38.29%
Tier 1 Capital Ratio	8.50%	37.01%	37.11%	38.29%
Total Regulatory Capital Ratio	10.50%	38.22%	38.25%	39.54%
Tier 1 Leverage Ratio	5.00%	34.88%	34.83%	34.70%
Unallocated Retained Earnings (URE) and URE Equivalents Leverage Ratio	1.50%	35.47%	35.50%	35.37%

**Includes fully phased-in capital conservation buffers effective on January 1, 2020.*

The FCA sets minimum regulatory capital adequacy requirements for System banks and associations. The requirements are based on regulatory ratios as defined by the FCA and include common equity tier 1 (CET1), tier 1, total capital, permanent capital, tier 1 leverage, and unallocated retained earnings (URE) and URE equivalents leverage ratios.

The permanent capital, CET1, tier 1, and total capital ratios are calculated by dividing the three-month average daily balance of the capital numerator, as defined by the FCA, by a risk-adjusted asset base. Unlike these ratios, the tier 1 leverage and URE and URE equivalents leverage ratios do not incorporate any risk-adjusted weighting of assets. Risk-adjusted assets refer to the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. Generally, higher credit conversion factors are applied to assets with more inherent risk. The tier 1 leverage and URE and URE equivalents leverage ratios are calculated by dividing the three-month average daily balance of the capital numerator, as defined by the FCA, by the three-month average daily balance of total assets adjusted for regulatory deductions.

If the capital ratios fall below the 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. For all periods presented, the Association exceeded minimum regulatory standards for all capital ratios. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

REGULATORY MATTERS

On April 9, 2020, the Farm Credit Administration voted to delay publication, until at least June 8, 2020, of its final rule on criteria to reinstate nonaccrual loans. Previously, on February 13, 2020, the Farm Credit Administration approved a rule that 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.

On September 18, 2019, the Farm Credit Administration issued a proposed rule to amend its investment regulations to allow System associations to purchase and hold the portion of certain loans that non-System lenders originate and sell in the secondary market, and that the USDA unconditionally guarantees or insures as to timely payment of principal and interest. The rule would authorize associations to buy investments to augment the liquidity of rural credit markets, reduce the capital burden on community banks and other non-System lenders who choose to sell their USDA guaranteed portions of loans, and to enhance the ability of associations to manage risk. The public comment period ended on November 18, 2019.

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.

OTHER MATTERS

The Association continues its service agreement with Farm Credit of Florida, ACA for a fee. These services include, but do not fully cover and are not limited to, accounting, reporting, risk management, human resources and, loan on-boarding and servicing. Both parties are in compliance with the terms of the agreement and expect to continue working under the agreement in 2020.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the 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
<i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i>	
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • 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: <ol style="list-style-type: none"> 1. The allowance related to loans and commitments will most likely increase to 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 its website, www.agfirst.com. Copies of the Association’s annual and quarterly reports are also available upon request free of charge by calling 1-800-981-3323, or writing Alice Rivera, Puerto Rico Farm Credit, ACA, PO Box 363649, San Juan, PR 00936-3649, or accessing the website, www.prfarmcredit.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 Association.

Puerto Rico Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2020 <i>(unaudited)</i>	December 31, 2019 <i>(audited)</i>
Assets		
Cash	\$ 101	\$ 158
Loans	149,488	151,028
Allowance for loan losses	(1,558)	(1,645)
Net loans	147,930	149,383
Accrued interest receivable	659	548
Equity investments in other Farm Credit institutions	1,498	1,481
Premises and equipment, net	1,130	1,131
Other property owned	3,795	3,491
Accounts receivable	251	1,391
Other assets	160	110
Total assets	\$ 155,524	\$ 157,693
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 97,070	\$ 99,911
Accrued interest payable	230	254
Patronage refunds payable	68	2,000
Accounts payable	77	175
Other liabilities	2,658	591
Total liabilities	100,103	102,931
Commitments and contingencies (Note 7)		
Members' Equity		
Capital stock and participation certificates	438	430
Unallocated retained earnings	54,983	54,332
Total members' equity	55,421	54,762
Total liabilities and members' equity	\$ 155,524	\$ 157,693

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

Puerto Rico Farm Credit, ACA
Consolidated Statements of
Comprehensive Income

(unaudited)

For the Three Months
Ended March 31,
2020 2019

(dollars in thousands)

	\$ 1,931	\$ 2,232
Interest Income		
Loans	\$ 1,931	\$ 2,232
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	735	858
Net interest income	1,196	1,374
Provision for (reversal of allowance for) loan losses	(87)	(44)
Net interest income after provision for (reversal of allowance for) loan losses	1,283	1,418
Noninterest Income		
Loan fees	27	31
Patronage refunds from other Farm Credit institutions	216	205
Gains (losses) on sales of premises and equipment, net	14	—
Gains (losses) on other transactions	4	5
Insurance Fund refunds	20	23
Total noninterest income	281	264
Noninterest Expense		
Salaries and employee benefits	432	458
Occupancy and equipment	42	58
Insurance Fund premiums	17	17
(Gains) losses on other property owned, net	14	3
Other operating expenses	408	469
Total noninterest expense	913	1,005
Net income	651	677
Other comprehensive income	—	—
Comprehensive income	\$ 651	\$ 677

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

Puerto Rico Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)

	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Total Members' Equity
Balance at December 31, 2018	\$ 453	\$ 54,112	\$ 54,565
Comprehensive income		677	677
Capital stock/participation certificates issued/(retired), net	(11)		(11)
Balance at March 31, 2019	\$ 442	\$ 54,789	\$ 55,231
Balance at December 31, 2019	\$ 430	\$ 54,332	\$ 54,762
Comprehensive income		651	651
Capital stock/participation certificates issued/(retired), net	8		8
Balance at March 31, 2020	\$ 438	\$ 54,983	\$ 55,421

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

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 Puerto Rico Farm Credit, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, 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

The following ASUs were issued by the Financial Accounting Standards Board (FASB) since the most recent year end:

- In March 2020, the FASB issued ASU 2020-03 Codification Improvements to Financial Instruments. The amendments in this Update represent changes to clarify or improve the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.
- 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 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, 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 6, 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:

	March 31, 2020	December 31, 2019
Real estate mortgage	\$ 58,767	\$ 62,625
Production and intermediate-term	41,540	40,982
Loans to cooperatives	1,221	1,049
Processing and marketing	26,967	24,998
Farm-related business	-	231
Communication	8,729	8,782
Power and water/waste disposal	1,205	1,204
Rural residential real estate	9,171	9,270
International	1,888	1,887
Total loans	\$ 149,488	\$ 151,028

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:

	March 31, 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	\$ 7,164	\$ 1,007	\$ -	\$ -	\$ 50	\$ -	\$ 7,214	\$ 1,007
Production and intermediate term	9,674	-	-	-	2,162	-	11,836	-
Loans to cooperatives	1,226	-	-	-	-	-	1,226	-
Processing and marketing	18,754	8,321	-	-	-	-	18,754	8,321
Communication	8,749	-	-	-	-	-	8,749	-
Power and water/waste disposal	1,211	-	-	-	-	-	1,211	-
International	1,892	-	-	-	-	-	1,892	-
Total	\$ 48,670	\$ 9,328	\$ -	\$ -	\$ 2,212	\$ -	\$ 50,882	\$ 9,328

	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	\$ 6,856	\$ 1,060	\$ -	\$ -	\$ 220	\$ -	\$ 7,076	\$ 1,060
Production and intermediate term	11,031	-	-	-	2,228	-	13,259	-
Loans to cooperatives	1,053	-	-	-	-	-	1,053	-
Processing and marketing	16,402	8,473	-	-	-	-	16,402	8,473
Farm-related business	-	-	-	-	222	-	222	-
Communication	8,804	-	-	-	-	-	8,804	-
Power and water/waste disposal	1,211	-	-	-	-	-	1,211	-
International	1,892	-	-	-	-	-	1,892	-
Total	\$ 47,249	\$ 9,533	\$ -	\$ -	\$ 2,670	\$ -	\$ 49,919	\$ 9,533

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

	March 31, 2020			
	Due Less Than 1 Year	Due 1 Through 5 Years	Due After 5 Years	Total
Real estate mortgage	\$ 6,899	\$ 27,725	\$ 24,143	\$ 58,767
Production and intermediate-term	5,193	32,148	4,199	41,540
Loans to cooperatives	–	1,221	–	1,221
Processing and marketing	1,919	12,248	12,800	26,967
Communication	–	6,103	2,626	8,729
Power and water/waste disposal	–	1,205	–	1,205
Rural residential real estate	21	704	8,446	9,171
International	–	177	1,711	1,888
Total loans	\$ 14,032	\$ 81,531	\$ 53,925	\$ 149,488
Percentage	9.39%	54.54%	36.07%	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:

	March 31, 2020	December 31, 2019		March 31, 2020	December 31, 2019
Real estate mortgage:			Communication:		
Acceptable	98.26%	97.69%	Acceptable	100.00%	100.00%
OAEM	0.30	0.10	OAEM	–	–
Substandard/doubtful/loss	1.44	2.21	Substandard/doubtful/loss	–	–
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Power and water/waste disposal:		
Acceptable	87.49%	87.33%	Acceptable	–%	–%
OAEM	3.24	3.35	OAEM	100.00	100.00
Substandard/doubtful/loss	9.27	9.32	Substandard/doubtful/loss	–	–
	100.00%	100.00%		100.00%	100.00%
Loans to cooperatives:			Rural residential real estate:		
Acceptable	97.37%	100.00%	Acceptable	93.93%	93.85%
OAEM	2.63	–	OAEM	1.03	1.07
Substandard/doubtful/loss	–	–	Substandard/doubtful/loss	5.04	5.08
	100.00%	100.00%		100.00%	100.00%
Processing and marketing:			International:		
Acceptable	100.00%	100.00%	Acceptable	100.00%	100.00%
OAEM	–	–	OAEM	–	–
Substandard/doubtful/loss	–	–	Substandard/doubtful/loss	–	–
	100.00%	100.00%		100.00%	100.00%
Farm-related business:			Total loans:		
Acceptable	–%	100.00%	Acceptable	94.64%	94.43%
OAEM	–	–	OAEM	1.91	1.81
Substandard/doubtful/loss	–	–	Substandard/doubtful/loss	3.45	3.76
	–%	100.00%		100.00%	100.00%

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

	March 31, 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	\$ 1,359	\$ 780	\$ 2,139	\$ 56,943	\$ 59,082	
Production and intermediate-term	489	4,719	5,208	36,507	41,715	
Loans to cooperatives	–	–	–	1,221	1,221	
Processing and marketing	–	–	–	27,095	27,095	
Communication	–	–	–	8,730	8,730	
Power and water/waste disposal	–	–	–	1,206	1,206	
Rural residential real estate	355	30	385	8,823	9,208	
International	–	–	–	1,890	1,890	
Total	\$ 2,203	\$ 5,529	\$ 7,732	\$ 142,415	\$ 150,147	

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	\$ 265	\$ 1,367	\$ 1,632	\$ 61,232	\$ 62,864	
Production and intermediate-term Loans to cooperatives	88	4,632	4,720	36,399	41,119	
Processing and marketing	—	—	—	1,049	1,049	
Farm-related business	—	—	—	25,130	25,130	
Communication	—	—	—	231	231	
Power and water/waste disposal	—	—	—	8,783	8,783	
Rural residential real estate	301	31	332	1,205	1,205	
International	—	—	—	8,972	9,304	
Total	\$ 654	\$ 6,030	\$ 6,684	\$ 144,892	\$ 151,576	

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

	March 31, 2020	December 31, 2019
Nonaccrual loans:		
Real estate mortgage	\$ 1,102	\$ 1,673
Production and intermediate-term	4,769	4,741
Rural residential real estate	31	31
Total	\$ 5,902	\$ 6,445
Accruing restructured loans:		
Real estate mortgage	\$ 1,640	\$ 1,574
Production and intermediate-term	2,406	2,434
Rural residential real estate	109	110
Total	\$ 4,155	\$ 4,118
Accruing loans 90 days or more past due:		
Total	\$ —	\$ —
Total nonperforming loans	\$ 10,057	\$ 10,563
Other property owned	3,795	3,491
Total nonperforming assets	\$ 13,852	\$ 14,054
Non-accrual loans as a percentage of total loans	3.95%	4.27%
Nonperforming assets as a percentage of total loans and other property owned	9.04%	9.10%
Nonperforming assets as a percentage of capital	25.00%	25.66%

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.

	March 31, 2020	December 31, 2019
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 16	\$ 262
Past due	5,886	6,183
Total	\$ 5,902	\$ 6,445
Impaired accrual loans:		
Restructured	\$ 4,155	\$ 4,118
90 days or more past due	—	—
Total	\$ 4,155	\$ 4,118
Total impaired loans	\$ 10,057	\$ 10,563
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.

Impaired loans:	March 31, 2020			Three Months Ended March 31, 2020	
	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	\$ 302	\$ 380	\$ 21	\$ 324	\$ 3
Production and intermediate-term	—	—	—	—	—
Rural residential real estate	—	—	—	—	—
Total	\$ 302	\$ 380	\$ 21	\$ 324	\$ 3
With no related allowance for credit losses:					
Real estate mortgage	\$ 2,440	\$ 2,853	\$ —	\$ 2,612	\$ 21
Production and intermediate-term	7,175	7,447	—	7,681	63
Rural residential real estate	140	139	—	149	1
Total	\$ 9,755	\$ 10,439	\$ —	\$ 10,442	\$ 85
Total impaired loans:					
Real estate mortgage	\$ 2,742	\$ 3,233	\$ 21	\$ 2,936	\$ 24
Production and intermediate-term	7,175	7,447	—	7,681	63
Rural residential real estate	140	139	—	149	1
Total	\$ 10,057	\$ 10,819	\$ 21	\$ 10,766	\$ 88

Impaired loans:	December 31, 2019			Year Ended December 31, 2019	
	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	\$ —	\$ —	\$ —	\$ —	\$ —
Production and intermediate-term	—	—	—	—	—
Rural residential real estate	—	—	—	—	—
Total	\$ —	\$ —	\$ —	\$ —	\$ —
With no related allowance for credit losses:					
Real estate mortgage	\$ 3,247	\$ 3,569	\$ —	\$ 3,312	\$ 147
Production and intermediate-term	7,175	7,643	—	7,318	325
Rural residential real estate	141	140	—	144	6
Total	\$ 10,563	\$ 11,352	\$ —	\$ 10,774	\$ 478
Total impaired loans:					
Real estate mortgage	\$ 3,247	\$ 3,569	\$ —	\$ 3,312	\$ 147
Production and intermediate-term	7,175	7,643	—	7,318	325
Rural residential real estate	141	140	—	144	6
Total	\$ 10,563	\$ 11,352	\$ —	\$ 10,774	\$ 478

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 December 31, 2019	\$ 682	\$ 446	\$ 287	\$ 95	\$ 13	\$ 101	\$ 21	\$ 1,645
Charge-offs	(1)	–	–	–	–	–	–	(1)
Recoveries	1	–	–	–	–	–	–	1
Provision for loan losses	(56)	(19)	3	(5)	(1)	(7)	(2)	(87)
Balance at March 31, 2020	\$ 626	\$ 427	\$ 290	\$ 90	\$ 12	\$ 94	\$ 19	\$ 1,558
Balance at December 31, 2018	\$ 269	\$ 1,095	\$ 76	\$ 44	\$ 4	\$ 197	\$ 1	\$ 1,686
Charge-offs	(76)	–	–	–	–	–	–	(76)
Recoveries	5	–	–	–	–	–	–	5
Provision for loan losses	89	(111)	10	(28)	–	(4)	–	(44)
Balance at March 31, 2019	\$ 287	\$ 984	\$ 86	\$ 16	\$ 4	\$ 193	\$ 1	\$ 1,571
Allowance on loans evaluated for impairment:								
Individually	\$ 21	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 21
Collectively	605	427	290	90	12	94	19	1,537
Balance at March 31, 2020	\$ 626	\$ 427	\$ 290	\$ 90	\$ 12	\$ 94	\$ 19	\$ 1,558
Individually	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –
Collectively	682	446	287	95	13	101	21	1,645
Balance at December 31, 2019	\$ 682	\$ 446	\$ 287	\$ 95	\$ 13	\$ 101	\$ 21	\$ 1,645
Recorded investment in loans evaluated for impairment:								
Individually	\$ 2,687	\$ 7,095	\$ –	\$ –	\$ –	\$ 109	\$ –	\$ 9,891
Collectively	56,395	34,620	28,316	8,730	1,206	9,099	1,890	140,256
Balance at March 31, 2020	\$ 59,082	\$ 41,715	\$ 28,316	\$ 8,730	\$ 1,206	\$ 9,208	\$ 1,890	\$ 150,147
Individually	\$ 3,135	\$ 7,219	\$ –	\$ –	\$ –	\$ 110	\$ –	\$ 10,464
Collectively	59,729	33,900	26,410	8,783	1,205	9,194	1,891	141,112
Balance at December 31, 2019	\$ 62,864	\$ 41,119	\$ 26,410	\$ 8,783	\$ 1,205	\$ 9,304	\$ 1,891	\$ 151,576

*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 three months ended March 31, 2020 or 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	
	March 31, 2020	December 31, 2019	March 31, 2020	December 31, 2019
Real estate mortgage	\$ 1,640	\$ 2,032	\$ –	\$ 458
Production and intermediate-term	7,095	7,066	4,689	4,632
Rural residential real estate	109	110	–	–
Total loans	\$ 8,844	\$ 9,208	\$ 4,689	\$ 5,090
Additional commitments to lend	\$ –	\$ –		

The following table presents information as of period end:

	March 31, 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 0.48 percent of the issued stock of the Bank as of March 31, 2020 net of any reciprocal investment. As of that date, the Bank's assets totaled \$35.9 billion and shareholders' equity totaled \$2.5 billion. The Bank's earnings were \$72 million for the first three months of 2020. In addition, the Association held \$151 in investments 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.

		March 31, 2020				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<u>Recurring Measurements</u>						
Assets:						
Recurring Assets	\$	-	\$	-	\$	-
Liabilities:						
Recurring Liabilities	\$	-	\$	-	\$	-
<u>Nonrecurring Measurements</u>						
Assets:						
Impaired loans	\$	281	\$	-	\$	281
Other property owned		3,795		-		4,150
Nonrecurring Assets	\$	4,076	\$	-	\$	4,431
<u>Other Financial Instruments</u>						
Assets:						
Cash	\$	101	\$	101	\$	-
Loans		147,649		-		150,024
Other Financial Assets	\$	147,750	\$	101	\$	150,125
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	97,070	\$	-	\$	98,633
Other Financial Liabilities	\$	97,070	\$	-	\$	98,633
		December 31, 2019				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<u>Recurring Measurements</u>						
Assets:						
Recurring Assets	\$	-	\$	-	\$	-
Liabilities:						
Recurring Liabilities	\$	-	\$	-	\$	-
<u>Nonrecurring Measurements</u>						
Assets:						
Impaired loans	\$	-	\$	-	\$	-
Other property owned		3,491		-		3,816
Nonrecurring Assets	\$	3,491	\$	-	\$	3,816
<u>Other Financial Instruments</u>						
Assets:						
Cash	\$	158	\$	158	\$	-
Loans		149,383		-		150,167
Other Financial Assets	\$	149,541	\$	158	\$	150,325
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	99,911	\$	-	\$	100,667
Other Financial Liabilities	\$	99,911	\$	-	\$	100,667

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	\$ 4,431	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 expenses for the Association:

	Three Months Ended March 31,	
	2020	2019
Pension	\$ 107	\$ 73
401(k)	18	26
Total	\$ 125	\$ 99

The following is a table of retirement contributions for the Association:

	Actual YTD Through 3/31/20	Projected Contributions For Remainder of 2020	Projected Total Contributions 2020
Pension	\$ —	\$ 429	\$ 429

Contributions in the above table include an allocated estimate of funding for the multi-employer pension plan in which the Association participates. The projected amount may change when a total funding amount and allocation is determined by the pension plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change the contribution 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 May 8, 2020, which was the date the financial statements were issued.