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*Yankee Farm Credit, ACA*

**CONSOLIDATED FINANCIAL STATEMENTS  
FIRST QUARTER ENDED MARCH 31, 2020**

May 8, 2020

Dear Shareholder:

Enclosed are the Association's consolidated financial statements for the first quarter of 2020. These statements should be read in conjunction with the 2019 Annual Report to Shareholders.

The purpose of these consolidated financial statements is to provide timely financial information about your Association's financial condition and results of operations. Should you have any questions about these statements, please call us.

Copies of the Association's annual and quarterly reports are available to members at no charge from any of our local offices or by accessing the Association's website at [www.yankeefarmcredit.com](http://www.yankeefarmcredit.com). The Association's annual reports are available 75 days after year-end, and quarterly reports are available 40 days after the end of each calendar quarter. As a shareholder, your investment in the Association is materially affected by the financial condition and results of operations of CoBank, ACB. CoBank's annual and quarterly reports are available at no charge from any of our offices. Our office locations are listed at the end of this report.

The undersigned certify that they have reviewed this report and it has been prepared in accordance with all statutory and regulatory requirements and that the information contained herein is true, accurate, and complete to the best of his or her knowledge and belief. The consolidated financial statements, in the opinion of management, fairly present the financial condition of the institution except as noted.

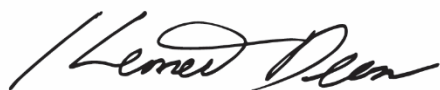
Sincerely,



Celeste Kane-Stebbins  
Chairperson, Board of Directors



Brenda K. Frank  
President and Chief Executive Officer



Kenneth F. Deon  
Chairperson, Audit Committee



Pamela A. Simek  
Senior Vice President and Chief Financial Officer

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*Yankee Farm Credit, ACA*

**CONSOLIDATED FINANCIAL STATEMENTS  
FIRST QUARTER ENDED MARCH 31, 2020**

**TABLE OF CONTENTS**

Report on Internal Control Over Financial Reporting .....3

Management’s Discussion and Analysis of  
    Financial Condition and Results of Operations .....4

Consolidated Financial Statements

    Consolidated Balance Sheets .....8

    Consolidated Statements of Comprehensive Income .....9

    Consolidated Statements of Changes in Members’ Equity .....10

Notes to the Consolidated Financial Statements.....11

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*Yankee Farm Credit, ACA*

# Report on Internal Control Over Financial Reporting

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

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

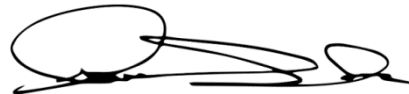
The Association’s management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2020. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations 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.



Brenda K. Frank

President and Chief Executive Officer



Pamela A. Simek

Senior Vice President and Chief Financial Officer

May 8, 2020

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

*(dollars in thousands, except as noted)*

*(Unaudited)*

## **IMPACTS OF THE COVID-19 GLOBAL PANDEMIC**

The COVID-19 coronavirus outbreak has resulted in widespread and continuing impacts on the global economy and on our employees, members, and other people and entities with which we do business. There is considerable uncertainty regarding the extent to which the coronavirus will continue to spread as well as the extent and duration of measures implemented in an effort to contain the virus (e.g., travel bans and restrictions, quarantines, shelter-in-place orders, and business and government shutdowns). We are, and have been, taking temporary precautionary measures intended to help minimize the risk of the virus to our employees and our members.

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 interest income 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.

On March 16, 2020, the Association activated its business continuity plan and has been operating uninterrupted since then with a significant amount 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.

## ***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, ranchers and foresters to 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. 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. 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 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.

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.

## RESULTS OF OPERATIONS: FIRST QUARTER

Net income for the first quarter of 2020 was \$2.595 million, down \$1.230 million (32.2%) from net income of \$3.825 million in the first quarter of 2019.

Net interest income before the provision for loan losses was down \$43 thousand (0.9%) in 2020 as compared to 2019. The following table shows the components of this change:

<b>Changes in net interest income due to:</b>	
Changes in volumes of accrual loans & debt	\$ 215
Changes in interest rates on accrual loans & debt	(278)
Changes in interest income on nonaccrual loans	20
Total change in net interest income	<u>\$ (43)</u>

Changes in accrual volumes and rates are shown in the following table:

	<b>Three Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
Average accrual loan volume	\$ 532,245	\$ 511,662
Average interest rate on loans	5.42%	6.17%
Average interest rate spread	3.29%	3.41%

Average loan volume was higher in 2020 as compared to the same period of 2019, and this contributed an increase of \$215 thousand in the total change in net interest income as shown in the first table above. Changes in interest rates reduced the total change in net interest income by \$278 thousand. The rapid market decline in March, followed by tight liquidity in the markets sharply compressed interest rate spreads.

There was a provision for loan losses of \$534 thousand in the first quarter of 2020, as compared to a reversal to the provision for loan losses of \$419 thousand in the first quarter of 2019.

Noninterest income decreased by \$127 thousand (8.7%) in 2020 as compared to 2019. This decrease was mostly attributable to a reduction of \$125 thousand in patronage income received from other Farm Credit institutions.

Noninterest expense increased by \$107 thousand (3.6%) in 2020 as compared to 2019. Salaries and employee benefits increased by \$22 thousand (1.2%), occupancy and equipment increased \$19 thousand (12.4%) and other operating expenses increased by \$80 thousand (8.7%) as compared to 2019 (Note: certain occupancy and equipment expense have been reclassified for comparative purposes).

## LOAN PORTFOLIO AND FINANCIAL CONDITION

Loans as of the end of the first quarter totaled \$534.3 million, a decrease of \$13.5 million (2.5%) from year-end. Net loans outstanding (loans less allowance for loan losses) totaled \$ 527.5 million at the end of the first quarter, down \$14.0 million (2.6%) from year-end. These decreases primarily resulted from normal operations.

Loan quality improved slightly and remained strong through the first quarter of 2020. Loans graded Substandard or lower were 5.31% of total loans at March 31, 2020, a 0.44% improvement

from year-end. Nonperforming assets comprised 1.35% of loans and related assets at March 31, 2020, 0.15% worse from year-end (nonperforming assets include nonaccrual loans, accrual troubled debt restructured loans, loans delinquent 90 days or more but not yet classified as nonaccrual, and other property owned). Repayment performance remained satisfactory. The 12-month rolling average for this statistic was 1.34% at March 31, 2020, 0.05% improved from year-end.

There were no significant charge-offs or recoveries in the first quarter of 2020. There were charge-offs of approximately \$52

thousand and there were no significant recoveries through the first quarter of 2019.

As discussed in the 2019 Annual Report to Shareholders, the Association declared a patronage distribution during 2019 of \$6.803 million based on 2019 earnings, 100% in cash. This was distributed in full to members on March 26<sup>th</sup>, 2020.

Members' equity as a percentage of assets was 20.9% at March 31, 2020, as compared to 19.9% at year-end.

## CAPITAL RATIOS

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum regulatory capital ratios for common equity tier 1 (CET1), tier 1 and total regulatory capital (tier 1 plus tier 2) and permanent capital. The regulations also add a tier 1 leverage ratio for all System institutions.

The regulations establish a capital cushion (capital conservation buffer) for CET1, tier 1 and total capital requirements. In addition, the regulations establish a leverage capital cushion (leverage buffer) above the tier 1 leverage ratio requirement. The below regulatory minimums reflect the inclusion of these various buffers.

	Value At		Regulatory Minimum	Internal Minimum	2020 Goal Range
	March 31, 2020	December 31, 2019			
Permanent capital ratio	18.60%	18.62%	7.0%	15.0%	17.0% - 19.0%
CET 1	18.21%	18.29%	7.0%	14.5%	16.5% - 18.5%
Tier 1 capital	18.21%	18.29%	8.5%	14.5%	16.5% - 18.5%
Total regulatory capital	19.46%	19.53%	10.5%	15.5%	17.5% - 19.5%
Tier 1 leverage	17.25%	17.45%	5.0%	13.5%	15.5% - 17.5%

The ratios at March 31, 2020, as indicated above, are not indicative of the full year.

These consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

## 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.

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
<b><i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i></b>	
<ul style="list-style-type: none"> <li>• 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.</li> <li>• Changes the present incurred loss impairment guidance for loans to an expected loss model.</li> <li>• 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.</li> <li>• Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets.</li> <li>• Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.</li> <li>• Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted.</li> </ul>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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"> <li>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,</li> <li>2. An allowance will be established for estimated credit losses on any debt securities,</li> <li>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.</li> </ol> </li> <li>• 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.</li> <li>• The guidance is expected to be adopted in first quarter 2023.</li> </ul>

# Yankee Farm Credit, ACA

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	<b>March 31, 2020</b> <i>(unaudited)</i>	<b>December 31, 2019</b> <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 28	\$ 67
Loans	534,251	547,763
Allowance for loan losses	(6,713)	(6,182)
Net loans	527,538	541,581
Other investments	478	472
Accrued interest receivable	2,919	2,690
Equity investments in other Farm Credit institutions	23,758	22,985
Premises and equipment, net	3,513	3,418
Accounts receivable	2,182	5,528
Other assets	1,885	1,790
Total assets	<b>\$ 562,301</b>	<b>\$ 578,531</b>
<b>Liabilities</b>		
Notes payable to CoBank, ACB	\$ 441,053	\$ 451,264
Accrued interest payable	754	829
Patronage refunds payable	—	6,803
Accounts payable	741	2,412
Other liabilities	1,984	2,047
Total liabilities	<b>444,532</b>	<b>463,355</b>
Commitments and contingencies (Note 5)		
<b>Members' Equity</b>		
Capital stock and participation certificates	1,108	1,110
Unallocated retained earnings	117,662	115,067
Accumulated other comprehensive income (loss)	(1,001)	(1,001)
Total members' equity	<b>117,769</b>	<b>115,176</b>
Total liabilities and members' equity	<b>\$ 562,301</b>	<b>\$ 578,531</b>

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



**Yankee Farm Credit, ACA**  
**Consolidated Statements of**  
**Comprehensive Income**

*(unaudited)*

<i>(dollars in thousands)</i>	<b>For the Three Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Interest Income</b>		
Loans	<u>\$ 7,202</u>	<u>\$ 7,794</u>
<b>Interest Expense</b>		
Notes payable to CoBank, ACB	<u>2,339</u>	<u>2,888</u>
Net interest income	<u>4,863</u>	<u>4,906</u>
Provision for (reversal of allowance for) loan losses	<u>534</u>	<u>(419)</u>
Net interest income after provision for (reversal of allowance for) loan losses	<u>4,329</u>	<u>5,325</u>
<b>Noninterest Income</b>		
Loan fees	31	35
Fees for financially related services	327	331
Lease income	6	1
Patronage refunds from other Farm Credit institutions	846	971
Gains (losses) on sales of premises and equipment, net	—	8
Gains (losses) on other transactions	12	(4)
Insurance Fund refunds	116	121
Other noninterest income	<u>1</u>	<u>3</u>
Total noninterest income	<u>1,339</u>	<u>1,466</u>
<b>Noninterest Expense</b>		
Salaries and employee benefits	1,820	1,798
Occupancy and equipment	172	153
Insurance Fund premiums	79	93
Other operating expenses	<u>999</u>	<u>919</u>
Total noninterest expense	<u>3,070</u>	<u>2,963</u>
Income before income taxes	<u>2,598</u>	<u>3,828</u>
Provision for income taxes	<u>3</u>	<u>3</u>
Net income	<u>2,595</u>	<u>3,825</u>
Other comprehensive income	<u>—</u>	<u>—</u>
Comprehensive income	<u>\$ 2,595</u>	<u>\$ 3,825</u>

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

Yankee Farm Credit, ACA

# Consolidated Statements of Changes in Members' Equity

*(unaudited)*

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2018	\$ 1,098	\$ 108,718	\$ (1,262)	\$ 108,554
Cumulative effect of change in accounting principle		(13)		(13)
Comprehensive income		3,825		3,825
Capital stock/participation certificates issued/(retired), net	(7)			(7)
Balance at March 31, 2019	\$ 1,091	\$ 112,530	\$ (1,262)	\$ 112,359
<b>Balance at December 31, 2019</b>	<b>\$ 1,110</b>	<b>\$ 115,067</b>	<b>\$ (1,001)</b>	<b>\$ 115,176</b>
<b>Comprehensive income</b>		<b>2,595</b>		<b>2,595</b>
<b>Capital stock/participation certificates issued/(retired), net</b>	<b>(2)</b>			<b>(2)</b>
<b>Balance at March 31, 2020</b>	<b>\$ 1,108</b>	<b>\$ 117,662</b>	<b>\$ (1,001)</b>	<b>\$ 117,769</b>

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

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*Yankee Farm Credit, ACA*

# Notes to the Consolidated Financial Statements

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

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

### ***Organization***

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

### ***Basis of Presentation***

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

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

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

### ***Significant Accounting Policies***

The Association's accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the consolidated 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 consolidated 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*), and financial instruments (Note 4, *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 1, 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	\$ 227,550	\$ 234,740
Production and intermediate-term	199,090	211,872
Loans to cooperatives	16,099	14,468
Processing and marketing	47,077	42,972
Farm-related business	38,963	38,576
Power and water/waste disposal	4,229	3,861
Rural residential real estate	1,243	1,274
<b>Total loans</b>	<b>\$ 534,251</b>	<b>\$ 547,763</b>

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 CoBank 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	\$ 12,045	\$ 23,240	\$ 2,150	\$ -	\$ -	-	\$ 14,195	\$ 23,240
Production and intermediate-term	1,431	242,329	-	667	-	-	1,431	242,996
Loans to cooperatives	16,137	-	-	-	-	-	16,137	-
Processing and marketing	15,720	39,482	-	-	-	-	15,720	39,482
Farm-related business	9,633	-	-	-	-	-	9,633	-
Power and water/waste disposal	4,254	-	-	-	-	-	4,254	-
<b>Total</b>	<b>\$ 59,220</b>	<b>\$ 305,051</b>	<b>\$ 2,150</b>	<b>\$ 667</b>	<b>\$ -</b>	<b>-</b>	<b>\$ 61,370</b>	<b>\$ 305,718</b>

	December 31, 2019							
	Within CoBank 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	\$ 11,727	\$ 23,119	\$ 2,159	-	-	-	13,886	23,119
Production and intermediate-term	1,453	279,041	-	737	-	-	1,453	279,778
Loans to cooperatives	14,505	-	-	-	-	-	14,505	-
Processing and marketing	13,973	45,404	-	-	-	-	13,973	45,404
Farm-related business	10,029	-	-	-	-	-	10,029	-
Power and water/waste disposal	3,888	-	-	-	-	-	3,888	-
<b>Total</b>	<b>\$ 55,575</b>	<b>\$ 347,564</b>	<b>\$ 2,159</b>	<b>737</b>	<b>-</b>	<b>-</b>	<b>57,734</b>	<b>348,301</b>

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

	March 31, 2020			
	Due Less than 1 Year	Due 1 Through 5 Years	Due After 5 Years	Total
Real estate mortgage	\$ 1,781	\$ 5,860	\$ 219,909	\$ 227,550
Production and intermediate term	20,244	47,317	131,529	199,090
Loans to cooperatives	—	12,411	3,688	16,099
Processing and marketing	11,493	10,372	25,212	47,077
Farm-related business	5,807	14,589	18,567	38,963
Power and water/waste disposal	1,897	339	1,993	4,229
Rural residential real estate	—	65	1,178	1,243
Total loans	\$ 41,222	\$ 90,953	\$ 402,076	\$ 534,251
Percentage	7.72%	17.02%	75.26%	100.00%

The recorded investment in a 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 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
<b>Real estate mortgage:</b>			<b>Farm-related business:</b>		
Acceptable	79.31%	76.96%	Acceptable	77.78%	77.08%
OAEM	11.37	13.09	OAEM	21.94	22.62
Substandard/doubtful/loss	9.32	9.95	Substandard/doubtful/loss	0.28	0.30
	100.00%	100.00%		100.00%	100.00%
<b>Production and intermediate-term:</b>			<b>Power and water/waste disposal:</b>		
Acceptable	84.73%	84.42%	Acceptable	100.00%	100.00%
OAEM	11.95	11.98	OAEM	—	—
Substandard/doubtful/loss	3.32	3.60	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
<b>Loans to cooperatives:</b>			<b>Rural residential real estate:</b>		
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%
<b>Processing and marketing:</b>			<b>Total loans:</b>		
Acceptable	99.14%	99.06%	Acceptable	83.79%	82.40%
OAEM	—	—	OAEM	10.90	11.85
Substandard/doubtful/loss	0.86	0.94	Substandard/doubtful/loss	5.31	5.75
	100.00%	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	\$ 1,163	\$ 1,130	\$ 2,293	\$ 226,769	\$ 229,062
Production and intermediate-term	1,645	897	2,542	197,623	200,165
Loans to cooperatives	—	—	—	16,146	16,146
Processing and marketing	—	—	—	47,211	47,211
Farm-related business	1,631	80	1,711	37,397	39,108
Power and water/waste disposal	—	—	—	4,229	4,229
Rural residential real estate	—	—	—	1,249	1,249
Total	\$ 4,439	\$ 2,107	\$ 6,546	\$ 530,624	\$ 537,170

**December 31, 2019**

	<b>30 Through 89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total Past Due</b>	<b>Not Past Due or Less Than 30 Days Past Due</b>	<b>Total Loans</b>
Real estate mortgage	\$ 1,371	\$ 1,186	\$ 2,557	\$ 233,468	\$ 236,025
Production and intermediate-term	1,099	1,105	2,204	210,709	212,913
Loans to cooperatives	-	-	-	14,510	14,510
Processing and marketing	-	-	-	43,099	43,099
Farm-related business	1,622	82	1,704	37,061	38,765
Power and water/waste disposal	-	-	-	3,861	3,861
Rural residential real estate	-	-	-	1,280	1,280
Total	<u>\$ 4,092</u>	<u>\$ 2,373</u>	<u>\$ 6,465</u>	<u>\$ 543,988</u>	<u>\$ 550,453</u>

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

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 3,473	\$ 2,594
Production and intermediate-term	1,408	1,566
Farm-related business	91	97
Total	<u>\$ 4,972</u>	<u>\$ 4,257</u>
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 1,479	\$ 1,490
Production and intermediate-term	819	853
Total	<u>\$ 2,298</u>	<u>\$ 2,343</u>
<b>Accruing loans 90 days or more past due:</b>		
Total	<u>\$ -</u>	<u>\$ -</u>
Total nonperforming loans	\$ 7,270	\$ 6,600
Other property owned	-	-
Total nonperforming assets	<u>\$ 7,270</u>	<u>\$ 6,600</u>
Nonaccrual loans as a percentage of total loans	0.93%	0.78%
Nonperforming assets as a percentage of total loans and other property owned	1.36%	1.20%
Nonperforming assets as a percentage of capital	6.17%	5.73%

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.

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 2,315	\$ 1,765
Past due	2,657	2,492
Total	<u>\$ 4,972</u>	<u>\$ 4,257</u>
<b>Impaired accrual loans:</b>		
Restructured	\$ 2,298	\$ 2,343
90 days or more past due	-	-
Total	<u>\$ 2,298</u>	<u>\$ 2,343</u>
Total impaired loans	\$ 7,270	\$ 6,600
Additional commitments to lend	\$ 3	\$ 3



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
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 3,538	\$ 4,601	\$ 327	\$ 3,272	\$ 16
Production and intermediate-term	1,343	1,390	172	1,243	6
Farm-related business	91	157	5	84	1
Total	\$ 4,972	\$ 6,148	\$ 504	\$ 4,599	\$ 23
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 1,414	\$ 1,402	\$ —	\$ 1,309	\$ 7
Production and intermediate-term	884	879	—	816	4
Farm-related business	—	—	—	—	—
Total	\$ 2,298	\$ 2,281	\$ —	\$ 2,125	\$ 11
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 4,952	\$ 6,003	\$ 327	\$ 4,581	\$ 23
Production and intermediate-term	2,227	2,269	172	2,059	10
Farm-related business	91	157	5	84	1
Total	\$ 7,270	\$ 8,429	\$ 504	\$ 6,724	\$ 34

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
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 2,594	\$ 3,589	\$ 131	\$ 3,908	\$ 28
Production and intermediate-term	1,566	1,619	177	2,359	17
Farm-related business	97	161	5	146	1
Total	\$ 4,257	\$ 5,369	\$ 313	\$ 6,413	\$ 46
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 1,490	\$ 1,484	\$ —	\$ 2,244	\$ 16
Production and intermediate-term	853	846	—	1,286	9
Farm-related business	—	—	—	—	—
Total	\$ 2,343	\$ 2,330	\$ —	\$ 3,530	\$ 25
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 4,084	\$ 5,073	\$ 131	\$ 6,152	\$ 44
Production and intermediate-term	2,419	2,465	177	3,645	26
Farm-related business	97	161	5	146	1
Total	\$ 6,600	\$ 7,699	\$ 313	\$ 9,943	\$ 71

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*	Power and Water/Waste Disposal	Rural Residential Real Estate	Total
<b>Activity related to the allowance for credit losses:</b>						
Balance at December 31, 2019	\$ 3,342	\$ 2,288	\$ 531	\$ 13	\$ 8	\$ 6,182
Charge-offs	(3)	—	—	—	—	(3)
Recoveries	—	—	—	—	—	—
Provision for loan losses	322	126	84	2	—	534
Balance at March 31, 2020	\$ 3,661	\$ 2,414	\$ 615	\$ 15	\$ 8	\$ 6,713
Balance at December 31, 2018	\$ 3,269	\$ 2,718	\$ 284	\$ 1	\$ 7	\$ 6,279
Charge-offs	(52)	—	—	—	—	(52)
Recoveries	—	—	—	—	—	—
Provision for loan losses	(205)	(181)	(33)	—	—	(419)
Balance at March 31, 2019	\$ 3,012	\$ 2,537	\$ 251	\$ 1	\$ 7	\$ 5,808
<b>Allowance on loans evaluated for impairment:</b>						
Individually	\$ 327	\$ 172	\$ 5	\$ —	\$ —	\$ 504
Collectively	3,334	2,242	610	15	8	6,209
Balance at March 31, 2020	\$ 3,661	\$ 2,414	\$ 615	\$ 15	\$ 8	\$ 6,713
Individually	\$ 131	\$ 177	\$ 5	\$ —	\$ —	\$ 313
Collectively	3,211	2,111	526	13	8	5,869
Balance at December 31, 2019	\$ 3,342	\$ 2,288	\$ 531	\$ 13	\$ 8	\$ 6,182
<b>Recorded investment in loans evaluated for impairment:</b>						
Individually	\$ 3,435	\$ 1,480	\$ 92	\$ —	\$ —	\$ 5,007
Collectively	225,627	198,685	102,373	4,229	1,249	532,163
Balance at March 31, 2020	\$ 229,062	\$ 200,165	\$ 102,465	\$ 4,229	\$ 1,249	\$ 537,170
Individually	\$ 2,594	\$ 1,566	\$ 97	\$ —	\$ —	\$ 4,257
Collectively	233,431	211,347	96,277	3,861	1,280	546,196
Balance at December 31, 2019	\$ 236,025	\$ 212,913	\$ 96,374	\$ 3,861	\$ 1,280	\$ 550,453

\*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. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented.

<b>Three Months Ended March 31, 2020</b>					
<b>Outstanding Recorded Investment</b>	<b>Interest Concessions</b>	<b>Principal Concessions</b>	<b>Other Concessions</b>	<b>Total</b>	<b>Charge-offs</b>
<b>Pre-modification:</b>					
Real estate mortgage	\$ —	\$ 483	\$ —	\$ 483	
Total	\$ —	\$ 483	\$ —	\$ 483	
<b>Post-modification:</b>					
Real estate mortgage	\$ —	\$ 483	\$ —	\$ 483	\$ —
Total	\$ —	\$ 483	\$ —	\$ 483	\$ —
<b>Three Months Ended March 31, 2019</b>					
<b>Outstanding Recorded Investment</b>	<b>Interest Concessions</b>	<b>Principal Concessions</b>	<b>Other Concessions</b>	<b>Total</b>	<b>Charge-offs</b>
<b>Pre-modification:</b>					
Real estate mortgage	\$ 53	\$ —	\$ —	\$ 53	
Production and intermediate-term	36	452	—	488	
Total	\$ 89	\$ 452	\$ —	\$ 541	
<b>Post-modification:</b>					
Real estate mortgage	\$ 53	\$ —	\$ —	\$ 53	\$ —
Production and intermediate-term	36	452	—	488	—
Total	\$ 89	\$ 452	\$ —	\$ 541	\$ —

Interest concessions may include interest forgiveness or interest deferment. Principal concessions may include principal forgiveness, principal deferment, or 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	\$ 3,263	\$ 2,832	\$ 1,784	\$ 1,342
Production and intermediate-term	1,718	1,755	899	902
Farm-related business	12	15	12	15
Total loans	\$ 4,993	\$ 4,602	\$ 2,695	\$ 2,259
Additional commitments to lend	\$ 1	\$ 2		

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 — Capital

Please see the 2019 Annual Report to Shareholders, particularly Note 7 *Members' Equity*, for a description of the Association's capitalization policies. The Association's requirement for purchased equities (stock and participation certificates) is presently the legal minimum of 2.0 percent of the loan not to exceed \$1 thousand.

The patronage distribution for 2019 was \$6.803 million and was distributed 100 percent in cash on March 26, 2020. A year-end patronage distribution program is also in effect for 2020. The amount of the year-end patronage distribution for 2020 will depend on financial results for the year as a whole and is therefore not known with certainty at this time. Management believes it is probable that the 2020 patronage distribution will be paid 100 percent in cash.

### Note 4 — 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 Note 8, *Fair Value Measurement* in the 2019 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
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Recurring Assets	\$	-	\$	-	\$	-
<b>Liabilities:</b>						
Recurring Liabilities	\$	-	\$	-	\$	-
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$	4,468	\$	-	\$	4,468
Other property owned		-		-		-
Nonrecurring Assets	\$	4,468	\$	-	\$	4,468
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$	28	\$	28	\$	-
Loans		523,070		-		525,970
Other Financial Assets	\$	523,098	\$	28	\$	525,970
<b>Liabilities:</b>						
Notes payable to CoBank	\$	441,053	\$	-	\$	442,329
Other Financial Liabilities	\$	441,053	\$	-	\$	442,329
		December 31, 2019				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Recurring Assets	\$	-	\$	-	\$	-
<b>Liabilities:</b>						
Recurring Liabilities	\$	-	\$	-	\$	-
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$	3,944	\$	-	\$	3,944
Other property owned		-		-		-
Nonrecurring Assets	\$	3,944	\$	-	\$	3,944
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$	67	\$	67	\$	-
Loans		537,637		-		555,458
Other Financial Assets	\$	537,704	\$	67	\$	555,458
<b>Liabilities:</b>						
Notes payable to CoBank	\$	451,264	\$	-	\$	453,077
Other Financial Liabilities	\$	451,264	\$	-	\$	453,077

### ***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. 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	\$ 4,468	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 CoBank, ACB	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

### Note 5 — 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 6 — Subsequent Events

The Association evaluated subsequent events and determined there were none requiring disclosure through May 8, 2020, which was the date the consolidated financial statements were issued.

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**YANKEE FARM CREDIT, ACA  
OFFICE LOCATIONS**

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(800) 545-1169  
(802) 388-2692

Yankee Farm Credit, ACA  
250 Commerce Way  
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Derby, VT 05829 (physical)  
(800) 370-2738  
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130 Upper Welden Street  
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