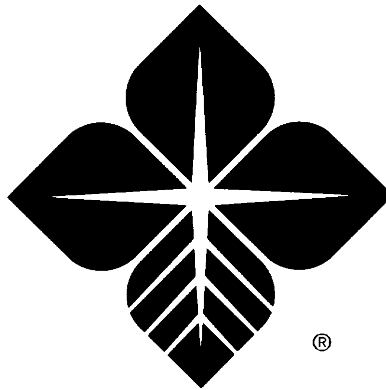
# PLAINS LAND BANK, FLCA

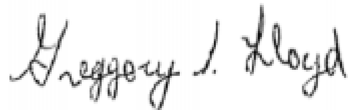
## 2020
## Quarterly Report
## Third Quarter



## For the Quarter Ended September 30, 2020

**REPORT OF MANAGEMENT**

The undersigned certify that we have reviewed this report, that it has been prepared 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.



Greggory S. Lloyd, Chief Executive Officer
*October 22, 2020*

Daniel L. Krienke, Chairman, Board of Directors
*October 22, 2020*

Kay Lynn McLaughlin, Chief Financial Officer
*October 22, 2020*

## *Third Quarter 2020 Financial Report*

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# PLAINS LAND BANK, FLCA
# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Plains Land Bank, FLCA, referred to as the Association, for the quarter ended September 30, 2020. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2019 Annual Report to Stockholders.

The Association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The financial statements comprise the operations of the FLCA. The financial statements were prepared under the oversight of the Association's audit committee.

*Significant Events*

In January 2020, a patronage of $8,500,000 was declared. The patronage was subsequently paid in March 2020. In March 2020 and April 2020, additional patronage amounts of $29,689 and $1,262, respectively, were declared and disbursed.

A summary of the evolving impact of COVID-19 is presented below:

The United States has been operating under a presidentially declared emergency since March 13, 2020, due to the Coronavirus Disease 2019 (also referred to as COVID-19). The Association continues during these unprecedented times to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. Loan demand and servicing has remained steady; however, it is too early based on a long-term real estate portfolio to see any real impact at this time. The Association has access to liquidity through its direct note with the FCBT (the Bank), and the Farm Credit System continues to have access to funding. Through September 30, 2020 and the date of this report, there have been no observable delinquencies or credit metrics impacting the credit quality of the Association's loan portfolio related to COVID-19. The Association is closely monitoring its loan portfolio overall and is particularly focused on sectors that may be pressured by COVID-19 and its related economic impacts, such as oil and gas, food processing, timber, dairy and beef cattle. Management included a qualitative factor for COVID-19 in the evaluation of the allowance for loan losses. Capital levels remained adequate to support any adversity or continuing loan demand.

Operationally, the Association continues to function as normal during these challenging times. The Association's internal controls over financial reporting and disclosure controls and procedures continue to operate effectively and no material changes to the controls or financial systems have occurred or are contemplated.

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 certain programs offered by the United States Department of Agriculture (USDA). On April 17, 2020, the USDA announced a $19 billion Coronavirus Food Assistance Program (CFAP), that provides a $16 billion program of direct payments for agricultural producers that have been impacted by the decline in commodity prices and the disruption in food supply chains related to COVID-19, and a $3 billion food purchase and distribution program. The CARES Act also appropriated funds for the Paycheck Protection Program (PPP), a guaranteed loan program administered by the U.S. Small Business Administration (SBA). The purpose of the program is to support payroll and certain other financial needs of small businesses during the COVID-19 pandemic. The impact of the support programs for agriculture and related industries is undeterminable at this point in time.

The USDA announced on September 18, 2020, that it will provide additional direct assistance of up to $14 billion to farmers and ranchers who continue to face market disruptions and associated costs due to COVID-19. Eligible farmers, including row crop, livestock, and specialty crop producers, can sign up for aid at USDA Farm Service Agency offices through mid-December 2020.

As a service provider to its affiliated associations, the bank has facilitated technology and operational changes to provide relief to association borrowers affected by COVID-19 in the form of extending the terms of loan repayments, easing some loan documentation requirements and facilitating participation in the SBA PPP. The bank is a participant

in loans in which a payment deferral program has been offered to borrowers directly affected by COVID-19. To date, the loan volume and number of borrowers impacted has been minimal due to the nature of that portfolio.

The potential impact of COVID-19 on the global, U.S. and district economies creates a high degree of economic uncertainty; however, it is too early to assess the potential impact as conditions continue to unfold. To date, the COVID-19 pandemic has not resulted in a material adverse financial impact to the Association.

The U.S. Bureau of Labor Statistics reported on October 2, 2020, that total nonfarm payroll employment rose month-over-month by 661,000 in September, and the national unemployment rate declined from 8.4 to 7.9 percent. The Texas economy showed continued signs of expansion in August, as payrolls increased month- over-month and the unemployment rate fell from 8.0 to 6.8 percent. In the Texas District, four out of five district states had unemployment rates below the national level in August. On October 2, the Bureau of Economic Analysis released second quarter estimates of real gross domestic product (GDP) in each U.S. state. Real GDP decreased in all 50 states, ranging from -20.4 percent in the District of Columbia to -42.2 percent in Hawaii and Nevada. National GDP decreased at an annual rate of 31.4 percent. The Texas District performed average or better than average in four out of five states, ranging from -28.3 percent in New Mexico to -32.9 percent in Mississippi. Although countries around the world continue to be impacted by COVID-19, economists generally believe that the U.S. economy began to recover during the third quarter. According to the Third Quarter 2020 Survey of Professional Forecasters published by the Federal Reserve Bank of Philadelphia, economists expect real GDP to have increased at an annualized rate of about 19.1 percent in the third quarter.

West Texas Intermediate (WTI) crude oil prices decreased year-over-year from approximately $54 per barrel in September 2019 to approximately $40 per barrel by the end of September 2020. On a quarter over-quarter basis, the average price of WTI rose by approximately $1 per barrel in the third quarter. According to Baker Hughes, the U.S. rotary rig count decreased year-over-year from 860 rigs during the week ending on September 27, 2019 to 261 rigs during the week ending September 30, 2020. The rig count, often seen as a leading indicator of activity in the petroleum industry, reached a multi-year low in August of 244 rigs before recovering slightly in September.

According to the most recent USDA farm income projections presented on September 2, 2020, net farm income, a broad measure of profits, is forecasted to increase by $19 billion (22.7 percent) year-over-year to $102.7 billion in 2020. Net cash farm income is similarly forecasted to increase by $4.9 billion (4.5 percent) year-over-year to $115.2 billion in 2020. If realized, both income measures would be above the 20-year inflation-adjusted historical average. According to the USDA, the anticipated increase in net farm income is driven by higher government payments and lower anticipated expenses. Farm equity is forecasted to increase by 0.7 percent, while debt to equity is expected to rise by 0.4 percentage points to 16.2 percent.

Weather across most of the U.S. was relatively volatile during the third quarter. The 2020 hurricane season has been one of the most active on record. Tropical systems, such as Hurricanes Laura and Sally, brought heavy precipitation, localized flooding and wind damage to affected areas, including along the U.S. Gulf Coast, during the third quarter. Precipitation from these and other storm systems generally ensured that the southeastern U.S. remained relatively drought-free. Conversely, the western half of the country has experienced worsening drought and high temperatures. These conditions have fueled historic wildfires along the West Coast. In early October, Cal Fire reported that over 4 million acres had burned during 2020 in California alone, more than double the prior calendar year record observed in 2018.

In its September 2020 World Agricultural Supply and Demand Estimate (WASDE) report, USDA projected lower season-average prices in the 2020/2021 marketing year for several crops, including corn and cotton.

Meanwhile, USDA expects soybean prices to rise by about 8 percent season-over-season in the 2020/2021 marketing year. Milk prices have been volatile during 2020, and USDA anticipates that all milk prices will fall by about 5 percent in 2020 compared to the 2019 average. Steer, barrow and gilt and poultry prices are projected to decrease in 2020 before increasing in 2021.

Farmers in the Association utilize risk management tools, such as Federally-sponsored crop insurance programs and forward, futures and options contracts, to mitigate risk and enhance margins. The District portfolio continues to be supported by strong credit quality, adequate levels of capital, moderate advance rates, and diversification.

*Loan Portfolio*

Total loans outstanding at September 30, 2020, including nonaccrual loans, were $772,727,963 compared to $709,198,898 at December 31, 2019, reflecting an increase of 9 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.2 percent at September 30, 2020, compared to 0.3 percent at December 31, 2019.

The Association had no recoveries and $158,301 in charge-offs for the nine months ended September 30, 2020, and no recoveries and $174,743 in charge-offs for the same period in 2019. The Association's allowance for loan losses was 0.3% as of September 30, 2020 and December 31, 2019.

The Association had other property owned of $1,134,204 as of September 30, 2020, and no other property owned as of December 31, 2019.

*Risk Exposure*

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the Association's components and trends of high-risk assets.

| | **September 30, 2020** | | December 31, 2019 | |
|---|---|---|---|---|
| | **Amount** | **%** | Amount | % |
| Nonaccrual | **$ 1,811,952** | **49.3%** | $ 1,958,088 | 100.0% |
| 90 days past due and still accruing interest | **728,558** | **19.8%** | - | 0.0% |
| Other property owned, net | **1,134,204** | **30.9%** | - | 0.0% |
| Total | **$ 3,674,714** | **100.0%** | $ 1,958,088 | 100.0% |

*Results of Operations*

The Association had net income of $4,032,561 and $12,153,544 for the three and nine months ended September 30, 2020, as compared to net income of $3,815,153 and $10,837,745 for the same period in 2019, reflecting an increase of 5.7 percent and 12.1 percent, respectively. Net interest income was $5,195,206 and $15,266,997 for the three and nine months ended September 30, 2020, compared to $4,767,810 and $14,111,000 for the same period in 2019.

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| | **Nine Months Ended** | | | |
|---|---|---|---|---|
| | **September 30, 2020** | | September 30, 2019 | |
| | **Average Balance** | **Interest** | Average Balance | Interest |
| Loans | **$ 734,447,213** | **$ 28,067,867** | $ 659,911,621 | $ 27,265,914 |
| Interest-bearing liabilities | **626,338,462** | **12,800,870** | 556,909,162 | 13,154,914 |
| Impact of capital | **$ 108,108,751** | | $ 103,002,459 | |
| Net interest income | | **$ 15,266,997** | | $ 14,111,000 |

| | **2020 Average Yield** | 2019 Average Yield |
|---|---|---|
| Yield on loans | **5.10%** | 5.52% |
| Cost of interest-bearing liabilities | **2.73%** | 3.16% |
| Interest rate spread | **2.37%** | 2.36% |
| Net interest income as a percentage of average earning assets | **2.78%** | 2.86% |

| | Nine months ended: September 30, 2020 vs. September 30, 2019 | | |
|---|---|---|---|
| | Increase (decrease) due to | | |
| | **Volume** | **Rate** | **Total** |
| Interest income - loans | **$ 3,082,441** | **$ (2,280,488)** | **$ 801,953** |
| Interest expense | **1,641,542** | **(1,995,586)** | **(354,044)** |
| Net interest income | **$ 1,440,899** | **$ (284,902)** | **$ 1,155,997** |

Interest income for the three months ended September 30, 2020 decreased by $99,271, or 1.1 percent. Interest income for the nine months ended September 30, 2020 increased by $801,953, or 2.9 percent, primarily due to an increase in average loan volume offset by a decrease in yields on earning assets. Interest expense for the three and nine months ended September 30, 2020, decreased by $526,667 and $354,044, or 11.4 percent and 2.7 percent, from the same period of 2019 due to a decrease in interest rates offset by an increase in average debt volume. Average loan volume for the quarter ended September 30, 2020 was $757,568,629, compared to $682,081,730 for the same period in 2019. The average net interest rate spread on the loan portfolio for the third quarter of 2020 was 2.37 percent, compared to 2.36 percent in the third quarter of 2019.

The Association's return on average assets for the nine months ended September 30, 2020, was 2.13 percent compared to 2.12 percent for the same period in 2019. The Association's return on average equity for the nine months ended September 30, 2020, was 12.53 percent, compared to 11.86 percent for the same period in 2019.

*Liquidity and Funding Sources*

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the Bank), which obtains its funds through the issuance of System-wide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

| | **September 30, 2020** | December 31, 2019 |
|---|---|---|
| Note payable to the Bank | **$ 664,885,910** | $ 601,301,197 |
| Accrued interest on note payable | **1,345,139** | 1,583,191 |
| Total | **$ 666,231,049** | $ 602,884,388 |

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2020. On October 1, 2020, the Association renewed the general financing agreement with the Bank that is effective through September 30, 2023. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $664,885,910 as of September 30, 2020, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.37 percent at September 30, 2020. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2019, is due to the Association's increase in assets since year end. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $107,611,669 at September 30, 2020. The maximum amount the Association may borrow from the Bank as of September 30, 2020, was $774,154,862 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2020, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

*Capital Resources*

The Association's capital position increased by $3,619,489 at September 30, 2020, compared to December 31, 2019. The Association's debt as a percentage of members' equity was 4.95:1 as of September 30, 2020, compared to 4.60:1 as of December 31, 2019.

Farm Credit Administration regulations require the Association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of September 30, 2020, the Association exceeded all regulatory capital requirements.

*Significant Recent Accounting Pronouncements*

In March 2020, the Financial Accounting Standards Board (FASB) issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The Association is evaluating the impact of adoption on the institution's financial condition and its results of operations.

In December 2019, the FASB issued guidance entitled "Simplifying the Accounting for Income Taxes." This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted and the Association adopted this guidance on January 1, 2020. The adoption of this guidance did not materially impact the Association's financial condition or results of operations.

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

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

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance became effective for interim and annual periods beginning after December 15, 2019. Early adoption was permitted and an entity was permitted to early adopt any

removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The Association early adopted the removal and modified disclosures during the fourth quarter of 2018.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those institutions qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association's financial condition and its results of operations.

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. In July 2018, the FASB issued an update entitled "Leases – Targeted Improvements," which provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. An entity that elects this additional transition method must provide the required disclosures of the now current standard for all prior periods presented. The guidance and related amendments in this updated disclosure became effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association took this into effect in disclosures related to their leases.

*Relationship With the Farm Credit Bank of Texas*

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2019 Annual Report of Plains Land Bank, FLCA more fully describe the Association's relationship with the Bank.

The annual and quarterly stockholder reports of the Bank are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. The annual and quarterly stockholder reports for the Bank are also available on its website at *www.farmcreditbank.com.*

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Plains Land Bank, FLCA, 1616 S. Kentucky St., Suite C-250, Amarillo, TX 79102-5210 or calling (806) 331-0926. The annual and quarterly stockholder reports for the Association are also available on its website at *www.plainslandbank.com.* Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *kmclaughlin@plainslandbank.com.*

**PLAINS LAND BANK, FLCA**

**BALANCE SHEET**

| | September 30, 2020 (unaudited) | December 31, 2019 |
|---|---|---|
| **ASSETS** | | |
| Cash | $ 10,739 | $ 13,717 |
| Loans | 772,727,963 | 709,189,898 |
| Less: allowance for loan losses | 2,493,682 | 2,074,313 |
| Net loans | 770,234,281 | 707,115,585 |
| Accrued interest receivable | 15,717,833 | 12,654,086 |
| Investment in and receivable from the Farm Credit Bank of Texas: | | |
| Capital stock | 11,228,405 | 11,228,405 |
| Other | 198,883 | 2,557,661 |
| Other property owned, net | 1,134,204 | - |
| Premises and equipment, net | 2,668,255 | 2,773,609 |
| Other assets | 2,489,271 | 165,933 |
| Total assets | $ 803,681,871 | $ 736,508,996 |
| **LIABILITIES** | | |
| Note payable to the Farm Credit Bank of Texas | $ 664,885,910 | $ 601,301,197 |
| Accrued interest payable | 1,345,139 | 1,583,191 |
| Drafts outstanding | 47,612 | 15,953 |
| Other liabilities | 2,292,110 | 2,117,044 |
| Total liabilities | 668,570,771 | 605,017,385 |
| **MEMBERS' EQUITY** | | |
| Capital stock and participation certificates | 2,090,865 | 2,086,145 |
| Unallocated retained earnings | 132,880,230 | 129,257,637 |
| Accumulated other comprehensive income | 140,005 | 147,829 |
| Total members' equity | 135,111,100 | 131,491,611 |
| Total liabilities and members' equity | $ 803,681,871 | $ 736,508,996 |

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

**PLAINS LAND BANK, FLCA**

**STATEMENTS OF COMPREHENSIVE INCOME**
(unaudited)

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| **INTEREST INCOME** | | | | |
| Loans | **$ 9,279,872** | $ 9,379,143 | **$ 28,067,867** | $ 27,265,914 |
| **INTEREST EXPENSE** | | | | |
| Note payable to the Farm Credit Bank of Texas | **4,084,666** | 4,611,333 | **12,800,870** | 13,154,914 |
| Net interest income | **5,195,206** | 4,767,810 | **15,266,997** | 14,111,000 |
| **PROVISION FOR LOAN LOSSES** | **310,605** | 101,269 | **599,856** | 303,120 |
| Net interest income after provision for loan losses | **4,884,601** | 4,666,541 | **14,667,141** | 13,807,880 |
| **NONINTEREST INCOME** | | | | |
| Income from the Farm Credit Bank of Texas: | | | | |
| Patronage income | **719,539** | 629,436 | **2,179,080** | 1,887,029 |
| Loan fees | **234,650** | 40,539 | **599,304** | 132,850 |
| Financially related services income | **1,234** | 1,789 | **5,485** | 21,883 |
| Gain (loss) on sale of premises and equipment, net | **1,423** | (1,604) | **69,331** | 12,679 |
| Other noninterest income | **-** | - | **210,368** | 176,516 |
| Total noninterest income | **956,846** | 670,160 | **3,063,568** | 2,230,957 |
| **NONINTEREST EXPENSES** | | | | |
| Salaries and employee benefits | **811,365** | 788,118 | **3,208,837** | 2,980,825 |
| Directors' expense | **26,739** | 36,294 | **146,156** | 174,755 |
| Purchased services | **291,975** | 217,106 | **517,541** | 516,453 |
| Travel | **37,740** | 38,506 | **134,662** | 139,287 |
| Occupancy and equipment | **116,457** | 99,025 | **317,288** | 274,270 |
| Communications | **23,540** | 19,484 | **65,157** | 53,498 |
| Advertising | **105,379** | 47,035 | **257,658** | 182,844 |
| Public and member relations | **114,711** | 43,603 | **190,540** | 150,811 |
| Supervisory and exam expense | **72,829** | 65,855 | **193,616** | 187,696 |
| Insurance Fund premiums | **168,047** | 121,923 | **443,638** | 395,040 |
| Loss on other property owned, net | **525** | 3,966 | **6,048** | 14,147 |
| Other noninterest expense | **39,579** | 40,633 | **96,024** | 131,466 |
| Total noninterest expenses | **1,808,886** | 1,521,548 | **5,577,165** | 5,201,092 |
| **NET INCOME** | **4,032,561** | 3,815,153 | **12,153,544** | 10,837,745 |
| Other comprehensive income: | | | | |
| Change in postretirement benefit plans | **(2,608)** | (9,733) | **(7,824)** | (29,199) |
| **COMPREHENSIVE INCOME** | **$ 4,029,953** | $ 3,805,420 | **$ 12,145,720** | $ 10,808,546 |

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

**PLAINS LAND BANK, FLCA**

**STATEMENT OF CHANGES IN MEMBERS' EQUITY**
(unaudited)

| | Capital Stock/ Participation Certificates | Unallocated Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Members' Equity |
|---|---|---|---|---|
| Balance at December 31, 2018 | $ 1,982,940 | $ 122,333,415 | $ 294,465 | $ 124,610,820 |
| Comprehensive income | - | 10,837,745 | (29,199) | 10,808,546 |
| Preferred Stock Issued | | | | |
| Capital stock/participation certificates and allocated retained earnings issued | 213,205 | - | - | 213,205 |
| Capital stock/participation certificates and allocated retained earnings retired | (129,985) | - | - | (129,985) |
| Patronage refunds: | | | | |
| Cash | - | (8,200,000) | - | (8,200,000) |
| Balance at September 30, 2019 | $ 2,066,160 | $ 124,971,160 | $ 265,266 | $ 127,302,586 |
| | | | | |
| Balance at December 31, 2019 | $ 2,086,145 | $ 129,257,637 | $ 147,829 | $ 131,491,611 |
| Comprehensive income | - | 12,153,544 | (7,824) | 12,145,720 |
| Preferred Stock Issued | | | | |
| Capital stock/participation certificates and allocated retained earnings issued | 265,915 | - | - | 265,915 |
| Capital stock/participation certificates and allocated retained earnings retired | (261,195) | - | - | (261,195) |
| Patronage refunds: | | | | |
| Cash | - | (8,530,951) | - | (8,530,951) |
| **Balance at September 30, 2020** | **$ 2,090,865** | **$ 132,880,230** | **$ 140,005** | **$ 135,111,100** |

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

## PLAINS LAND BANK, FLCA
## NOTES TO THE FINANCIAL STATEMENTS
*Unaudited*

### NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Plains Land Bank, FLCA (Federal Land Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Armstrong, Briscoe, Carson, Floyd, Gray, Hale, the southwest portion of Hall, Hansford, Hemphill, Hutchinson, Lipscomb, Motley, Ochiltree, Oldham, Potter, Randall, and Roberts in the state of Texas. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

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

In the opinion of management, the accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2019, as contained in the 2019 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2020. Descriptions of the significant accounting policies are included in the 2019 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In March 2020, the Financial Accounting Standards Board (FASB) issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

In December 2019, the FASB issued guidance entitled "Simplifying the Accounting for Income Taxes." This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted and the Association adopted this guidance on January 1, 2020. The adoption of this guidance did not materially impact the Association's financial condition or results of operations.

In August 2018, FASB issued guidance entitled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an

internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance became effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The adoption of this guidance did not materially impact the Association's financial condition or its results of operations.

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

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance became effective for interim and annual periods beginning after December 15, 2019. Early adoption was permitted and an entity was permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The Association early adopted the removal and modified disclosures during the fourth quarter of 2018.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those institutions qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association's financial condition and its results of operations.

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. In July 2018, the FASB issued an update entitled "Leases – Targeted Improvements," which provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. An entity that elects this additional transition method must provide the required disclosures of the now current standard for all prior periods presented. The guidance and related amendments in this updated disclosure became effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association took this into effect in disclosures related to their leases.

The financial statements comprise the operations of the FLCA. The preparation of these financial statements requires the use of management's estimates. The results for the quarter ended September 30, 2020, are not necessarily indicative of the results to be expected for the year ended December 31, 2020. Certain amounts in the prior period's financial statements may have been reclassified to conform to current financial statement presentation.

## NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

| Loan Type | **September 30, 2020 Amount** | December 31, 2019 Amount |
|---|---|---|
| Production agriculture: | | |
| Real estate mortgage | **$ 664,622,144** | $ 612,625,230 |
| Production and intermediate term | **9,443,628** | 5,831,459 |
| Agribusiness: | | - |
| Processing and marketing | **42,349,640** | 45,280,343 |
| Loans to cooperatives | **10,161,336** | 5,474,157 |
| Farm-related business | **3,614,745** | 1,440,219 |
| Energy | **15,542,200** | 16,768,127 |
| Communication | **13,125,023** | 10,236,555 |
| Rural residential real estate | **12,703,497** | 11,533,808 |
| Water and waste water | **1,165,750** | - |
| Total | **$ 772,727,963** | $ 709,189,898 |

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

| | Other Farm Credit Institutions | | Non-Farm Credit Institutions | | Total | |
|---|---|---|---|---|---|---|
| | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold |
| Agribusiness | $ 43,211,792 | $ - | $ - | $ - | $ 43,211,792 | $ - |
| Real estate mortgage | 22,305,522 | 5,775,946 | - | - | 22,305,522 | 5,775,946 |
| Energy | 15,542,200 | - | - | - | 15,542,200 | - |
| Communication | 13,125,023 | - | - | - | 13,125,023 | - |
| Production and intermediate term | 9,145,648 | - | - | - | 9,145,648 | - |
| Water and waste water | 1,165,750 | - | - | - | 1,165,750 | - |
| Total | $104,495,935 | $ 5,775,946 | $ - | $ - | $104,495,935 | $ 5,775,946 |

The Association is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. As of September 30, 2020, there were $8,653,350 of ACPs contained in funds held included on the balance sheet.

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

| | **September 30, 2020** | December 31, 2019 |
|---|---|---|
| **Nonaccrual loans:** | | |
| Real estate mortgage | **$ 395,500** | $ 1,958,088 |
| Agribusiness | **1,416,452** | - |
| Total nonaccrual loans | **1,811,952** | 1,958,088 |
| **Accruing loans 90 days or more past due:** | | |
| Real estate mortgage | **728,558** | - |
| Total accruing loans 90 days or more past due | **728,558** | - |
| Total nonperforming loans | **2,540,510** | 1,958,088 |
| Other property owned | **1,134,204** | - |
| Total nonperforming assets | **$ 3,674,714** | $ 1,958,088 |

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

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

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

| | **September 30, 2020** | December 31, 2019 |
|---|---|---|
| Real estate mortgage | | |
| Acceptable | **97.8** % | 96.6 % |
| OAEM | **0.1** | 0.5 |
| Substandard/doubtful | **2.1** | 2.9 |
| | **100.0** | 100.0 |
| Production and intermediate term | | |
| Acceptable | **100.0** | 100.0 |
| OAEM | **-** | - |
| Substandard/doubtful | **-** | - |
| | **100.0** | 100.0 |
| Agribusiness | | |
| Acceptable | **95.0** | 94.5 |
| OAEM | **2.5** | 2.6 |
| Substandard/doubtful | **2.5** | 2.9 |
| | **100.0** | 100.0 |
| Energy and water/waste water | | |
| Acceptable | **100.0** | 100.0 |
| OAEM | **-** | - |
| Substandard/doubtful | **-** | - |
| | **100.0** | 100.0 |
| Communication | | |
| Acceptable | **100.0** | 100.0 |
| OAEM | **-** | - |
| Substandard/doubtful | **-** | - |
| | **100.0** | 100.0 |
| Rural residential real estate | | |
| Acceptable | **100.0** | 100.0 |
| OAEM | **-** | - |
| Substandard/doubtful | **-** | - |
| | **100.0** | 100.0 |
| Total loans | | |
| Acceptable | **97.7** | 96.7 |
| OAEM | **0.3** | 0.6 |
| Substandard/doubtful | **2.0** | 2.7 |
| | **100.0** % | 100.0 % |

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

| **September 30, 2020** | **30-89 Days Past Due** | **90 Days or More Past Due** | **Total Past Due** | **Not Past Due or Less Than 30 Days Past Due** | **Total Loans** | **Recorded Investment >90 Days and Accruing** |
|---|---|---|---|---|---|---|
| **Real estate mortgage** | **$ 1,678,391** | **$ 1,124,058** | **$ 2,802,449** | **$ 677,099,398** | **$ 679,901,847** | **$ 728,558** |
| **Processing and marketing** | **-** | **-** | **-** | **42,696,458** | **42,696,458** | **-** |
| **Energy** | **-** | **-** | **-** | **15,542,266** | **15,542,266** | **-** |
| **Communication** | **-** | **-** | **-** | **13,126,131** | **13,126,131** | **-** |
| **Rural residential real estate** | **276,456** | **-** | **276,456** | **12,489,391** | **12,765,847** | **-** |
| **Loans to cooperatives** | **-** | **-** | **-** | **10,171,871** | **10,171,871** | **-** |
| **Production and intermediate term** | **-** | **-** | **-** | **9,456,439** | **9,456,439** | **-** |
| **Farm-related business** | **-** | **-** | **-** | **3,619,118** | **3,619,118** | **-** |
| **Water and waste water** | **-** | **-** | **-** | **1,165,819** | **1,165,819** | **-** |
| **Total** | **$ 1,954,847** | **$ 1,124,058** | **$ 3,078,905** | **$ 785,366,891** | **$ 788,445,796** | **$ 728,558** |

| December 31, 2019 | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total Loans | Recorded Investment >90 Days and Accruing |
|---|---|---|---|---|---|---|
| Real estate mortgage | $ 360,345 | $ 688,334 | $ 1,048,679 | $ 623,471,605 | $ 624,520,284 | $ - |
| Processing and marketing | - | - | - | 45,863,174 | 45,863,174 | - |
| Energy | - | - | - | 16,783,979 | 16,783,979 | - |
| Communication | - | - | - | 10,237,370 | 10,237,370 | - |
| Rural residential real estate | - | - | - | 11,592,255 | 11,592,255 | - |
| Loans to cooperatives | - | - | - | 5,554,684 | 5,554,684 | - |
| Production and intermediate term | - | - | - | 5,849,875 | 5,849,875 | - |
| Farm-related business | - | - | - | 1,442,363 | 1,442,363 | - |
| Total | $ 360,345 | $ 688,334 | $ 1,048,679 | $ 720,795,305 | $ 721,843,984 | $ - |

Note: The recorded investment in the 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.

A restructuring of a debt constitutes a troubled debt restructuring 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. Troubled debt restructurings (TDRs) are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

There were no troubled debt restructured loans as of September 30, 2020. There were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring as of September 30, 2020 and December 31, 2019.

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). Charge-offs recorded at the modification date were $121,192 for the quarter ending September 30, 2020.

The predominant form of concession granted for troubled debt restructuring includes principle concessions. Other types of modifications include extension of the term, principal or accrued interest reductions, interest rate decreases and delayed payments, among others. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case we assess all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

Additional impaired loan information is as follows:

| | **September 30, 2020** | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | **Recorded Investment** | **Unpaid Principal Balance[a]** | **Related Allowance** | Recorded Investment | Unpaid Principal Balance[a] | Related Allowance |
| Impaired loans with a related allowance for credit losses: | | | | | | |
| Real estate mortgage | **$ -** | **$ -** | **$ -** | $ 1,307,976 | $1,482,450 | $ 69,046 |
| Loans to cooperatives | **1,416,452** | **1,537,644** | **85,697** | - | - | - |
| Total | **$1,416,452** | **$ 1,537,644** | **$ 85,697** | $ 1,307,976 | $1,482,450 | $ 69,046 |
| Impaired loans with no related allowance for credit losses: | | | | | | |
| Real estate mortgage | **$1,124,058** | **$ 1,124,058** | **$ -** | $ 650,112 | $ 650,112 | $ - |
| Loans to cooperatives | **-** | **-** | **-** | - | - | - |
| Total | **$1,124,058** | **$ 1,124,058** | **$ -** | $ 650,112 | $ 650,112 | $ - |
| Total impaired loans: | | | | | | |
| Real estate mortgage | **$1,124,058** | **$ 1,124,058** | **$ -** | $ 1,958,088 | $2,132,562 | $ 69,046 |
| Loans to cooperatives | **1,416,452** | **1,537,644** | **85,697** | - | - | - |
| Total | **$2,540,510** | **$ 2,661,702** | **$ 85,697** | $ 1,958,088 | $2,132,562 | $ 69,046 |

[a] Unpaid principal balance represents the recorded principal balance of the loan.

| | For the Three Months Ended | | | | For the Nine Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | **September 30, 2020** | | September 30, 2019 | | **September 30, 2020** | | September 30, 2019 | |
| | **Average Impaired Loans** | **Interest Income Recognized** | Average Impaired Loans | Interest Income Recognized | **Average Impaired Loans** | **Interest Income Recognized** | Average Impaired Loans | Interest Income Recognized |
| Impaired loans with a related allowance for credit losses: | | | | | | | | |
| Real estate mortgage | **$ -** | **$ -** | $ 1,115,305 | $ - | **$ -** | **$ -** | $ 1,210,568 | $ - |
| Loans to cooperatives | **523,471** | **11,707** | - | - | **175,764** | **55,517** | - | - |
| Total | **$ 523,471** | **$ 11,707** | $ 1,115,305 | $ - | **$ 175,764** | **$ 55,517** | $ 1,210,568 | $ - |
| Impaired loans with no related allowance for credit losses: | | | | | | | | |
| Real estate mortgage | **$ 874,721** | **$ 9,560** | $ 975,202 | $ - | **$ 777,635** | **$ 44,187** | $ 647,710 | $ - |
| Loans to cooperatives | **-** | **-** | - | - | **-** | **-** | - | - |
| Total | **$ 874,721** | **$ 9,560** | $ 975,202 | $ - | **$ 777,635** | **$ 44,187** | $ 647,710 | $ - |
| Total impaired loans: | | | | | | | | |
| Real estate mortgage | **$ 874,721** | **$ 9,560** | $ 2,090,507 | $ - | **$ 777,635** | **$ 44,187** | $ 1,858,278 | $ - |
| Loans to cooperatives | **523,471** | **11,707** | - | - | **175,764** | **55,517** | - | - |
| Total | **$ 1,398,192** | **$ 21,267** | $ 2,090,507 | $ - | **$ 953,399** | **$ 99,704** | $ 1,858,278 | $ - |

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

| | Real Estate Mortgage | Production and Intermediate Term | Agribusiness | Communications | Energy and Water/Waste Water | Rural Residential Real Estate | Total |
|---|---|---|---|---|---|---|---|
| **Allowance for Credit Losses:** | | | | | | | |
| Balance at June 30, 2020 | $ 1,846,224 | $ 16,974 | $ 324,725 | $ 28,369 | $ 73,193 | $ 29,945 | $ 2,319,430 |
| Charge-offs | (121,192) | - | - | - | - | - | (121,192) |
| Provision for loan losses | 260,410 | (450) | 54,842 | (143) | (3,900) | (154) | 310,605 |
| Other | 890 | (442) | (16,206) | - | 597 | - | (15,161) |
| Balance at September 30, 2020 | $ 1,986,332 | $ 16,082 | $ 363,361 | $ 28,226 | $ 69,890 | $ 29,791 | $ 2,493,682 |
| | | | | | | | |
| Balance at December 31, 2019 | $ 1,698,408 | $ 15,516 | $ 256,667 | $ 22,189 | $ 58,021 | $ 23,512 | $ 2,074,313 |
| Charge-offs | (158,301) | - | - | - | - | - | (158,301) |
| Provision for loan losses | 446,198 | 684 | 132,197 | 6,037 | 8,461 | 6,279 | 599,856 |
| Other | 27 | (118) | (25,503) | - | 3,408 | - | (22,186) |
| Balance at September 30, 2020 | $ 1,986,332 | $ 16,082 | $ 363,361 | $ 28,226 | $ 69,890 | $ 29,791 | $ 2,493,682 |
| | | | | | | | |
| Ending Balance: | | | | | | | |
| Individually evaluated for impairment | $ - | $ - | $ 85,697 | $ - | $ - | $ - | $ 85,697 |
| Collectively evaluated for impairment | 1,986,332 | 16,082 | 277,664 | 28,226 | 69,890 | 29,791 | 2,407,985 |
| Balance at September 30, 2020 | $ 1,986,332 | $ 16,082 | $ 363,361 | $ 28,226 | $ 69,890 | $ 29,791 | $ 2,493,682 |
| | | | | | | | |
| Balance at June 30, 2019 | $ 1,528,123 | $ 18,237 | $ 240,585 | $ 15,882 | $ 121,392 | $ 20,079 | $ 1,944,298 |
| Charge-offs | 1,131 | - | - | - | - | - | 1,131 |
| Provision for loan losses | 100,905 | (4,133) | 1,266 | 4,088 | (1,201) | 344 | 101,269 |
| Other | 97 | (302) | (3,013) | 2,482 | 1,476 | - | 740 |
| Balance at September 30, 2019 | $ 1,630,256 | $ 13,802 | $ 238,838 | $ 22,452 | $ 121,667 | $ 20,423 | $ 2,047,438 |
| | | | | | | | |
| Balance at December 31, 2018 | $ 1,506,648 | $ 26,804 | $ 191,405 | $ 51,890 | $ 138,781 | $ 18,026 | $ 1,933,554 |
| Charge-offs | (174,743) | - | - | - | - | - | (174,743) |
| Provision for loan losses | 301,392 | (13,098) | 60,444 | (29,631) | (18,384) | 2,397 | 303,120 |
| Other | (3,041) | 96 | (13,011) | 193 | 1,270 | - | (14,493) |
| Balance at September 30, 2019 | $ 1,630,256 | $ 13,802 | $ 238,838 | $ 22,452 | $ 121,667 | $ 20,423 | $ 2,047,438 |
| | | | | | | | |
| Ending Balance: | | | | | | | |
| Individually evaluated for impairment | $ 66,889 | $ - | $ - | $ - | $ - | $ - | $ 66,889 |
| Collectively evaluated for impairment | 1,563,367 | 13,802 | 238,838 | 22,452 | 121,667 | 20,423 | 1,980,549 |
| Balance at September 30, 2019 | $ 1,630,256 | $ 13,802 | $ 238,838 | $ 22,452 | $ 121,667 | $ 20,423 | $ 2,047,438 |

| | Real Estate Mortgage | Production and Intermediate Term | Agribusiness | Communications | Energy and Water/Waste Water | Rural Residential Real Estate | Total |
|---|---|---|---|---|---|---|---|
| **Recorded Investments in Loans Outstanding:** | | | | | | | |
| Ending Balance at September 30, 2020 | $679,901,847 | $ 9,456,439 | $ 56,487,447 | $ 13,126,131 | $ 16,708,085 | $12,765,847 | $788,445,796 |
| Individually evaluated for impairment | $ 1,124,058 | $ - | $ 1,416,452 | $ - | $ - | $ - | $ 2,540,510 |
| Collectively evaluated for impairment | $678,777,789 | $ 9,456,439 | $ 55,070,995 | $ 13,126,131 | $ 16,708,085 | $12,765,847 | $785,905,286 |
| | | | | | | | |
| Ending Balance at September 30, 2019 | $618,036,036 | $ 6,292,814 | $ 44,980,138 | $ 10,321,482 | $ 16,391,788 | $10,209,470 | $706,231,728 |
| Individually evaluated for impairment | $ 2,087,965 | $ - | $ - | $ - | $ - | $ - | $ 2,087,965 |
| Collectively evaluated for impairment | $615,948,071 | $ 6,292,814 | $ 44,980,138 | $ 10,321,482 | $ 16,391,788 | $10,209,470 | $704,143,763 |

## NOTE 3 —LEASES:

The components of lease expense were as follows:

*The components of lease expense were as follows:*

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2020 | September 30, 2019 | September 30, 2020 | September 30, 2019 |
| Operating lease cost | $ 12,293 | $ 1,215 | $ 14,273 | $ 3,645 |
| Net lease cost | $ 12,293 | $ 1,215 | $ 14,273 | $ 3,645 |

Other information related to leases was as follows:

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2020 | September 30, 2019 | September 30, 2020 | September 30, 2019 |
| Right-of-use assets obtained in exchange for lease obligations: | | | | |
| Operating leases | $ 11,655 | $ 1,183 | $ 13,617 | $ 3,540 |

Lease term and discount rate are as follows:

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Weighted average remaining lease term in years | | |
| Operating leases | 4.70 | 1.46 |
| Weighted average discount rate | | |
| Operating leases | 2.44% | 3.09% |

Future minimum lease payments under non-cancellable leases as of September 30, 2020 were as follows:

| | Operating Leases | Total |
|---|---|---|
| 2020 (excluding the nine months ended 9/30/20) | $ 18,170 | $ 18,170 |
| 2021 | 73,610 | 73,610 |
| 2022 | 73,917 | 73,917 |
| 2023 | 73,790 | 73,790 |
| 2024 | 75,270 | 75,270 |
| Thereafter | 42,750 | 42,750 |
| Total lease payments | 357,507 | 357,507 |
| Less: interest | 17,689 | 17,689 |
| Total | $ 339,818 | $ 339,818 |

## NOTE 4 — CAPITAL:

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

**Regulatory Capitalization Requirements**

| Risk-adjusted: | Regulatory Minimums | Conservation Buffer* | Total | As of September 30, 2020 | As of December 31, 2019 |
|---|---|---|---|---|---|
| Common equity tier 1 ratio | 4.50% | 2.50% | 7.00% | 15.09% | 15.81% |
| Tier 1 capital ratio | 6.00% | 2.50% | 8.50% | 15.09% | 15.81% |
| Total capital ratio | 8.00% | 2.50% | 10.50% | 15.40% | 16.10% |
| Permanent capital ratio | 7.00% | 0.00% | 7.00% | 15.14% | 15.68% |
| Non-risk-adjusted: | | | | | |
| Tier 1 leverage ratio | 4.00% | 1.00% | 5.00% | 15.51% | 16.27% |
| UREE leverage ratio | 1.50% | 0.00% | 1.50% | 16.69% | 17.37% |

Risk-adjusted assets have been defined by FCA Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) are as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the deduction of the allowance for loan losses from risk-adjusted assets for the permanent capital ratio.

The ratios are based on a three-month average daily balance in accordance with FCA regulations and are calculated as follows:

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.

- Total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-adjusted assets.

- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.

- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

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

The components of the Association's risk-adjusted capital, based on 90-day average balances, were as follows at September 30, 2020 and December 31, 2019, respectively:

| September 30, 2020 | Common equity tier 1 ratio | Tier 1 capital ratio | Total capital ratio | Permanent capital ratio |
|---|---|---|---|---|
| Numerator: | | | | |
| Unallocated retained earnings | **129,401,125** | **129,401,125** | **129,401,125** | **129,401,125** |
| Common Cooperative Equities: | | | | |
| Statutory minimum purchased borrower stock | **2,096,344** | **2,096,344** | **2,096,344** | **2,096,344** |
| Allowance for loan losses and reserve for credit losses subject to certain limitations | | | **2,413,574** | |
| Regulatory Adjustments and Deductions: | | | | |
| Amount of allocated investments in other System institutions | **(11,228,405)** | **(11,228,405)** | **(11,228,405)** | **(11,228,405)** |
| | **120,269,064** | **120,269,064** | **122,682,638** | **120,269,064** |
| Denominator: | | | | |
| Risk-adjusted assets excluding allowance | **808,109,802** | **808,109,802** | **808,109,802** | **808,109,802** |
| Regulatory Adjustments and Deductions: | | | | |
| Regulatory deductions included in total capital | **(11,228,405)** | **(11,228,405)** | **(11,228,405)** | **(11,228,405)** |
| Allowance for loan losses | | | | **(2,329,326)** |
| | **796,881,397** | **796,881,397** | **796,881,397** | **794,552,071** |

| December 31, 2019 | Common equity tier 1 ratio | Tier 1 capital ratio | Total capital ratio | Permanent capital ratio |
|---|---|---|---|---|
| Numerator: | | | | |
| Unallocated retained earnings | 125,288,353 | 125,288,353 | 125,288,353 | 125,288,353 |
| Common Cooperative Equities: | | | | |
| Statutory minimum purchased borrower stock | 2,078,855 | 2,078,855 | 2,078,855 | 2,078,855 |
| Allowance for loan losses and reserve for credit losses subject to certain limitations | | | 2,129,844 | |
| Regulatory Adjustments and Deductions: | | | | |
| Amount of allocated investments in other System institutions | (10,063,291) | (10,063,291) | (10,063,291) | (10,063,291) |
| | 117,303,917 | 117,303,917 | 119,433,761 | 117,303,917 |
| Denominator: | | | | |
| Risk-adjusted assets excluding allowance | 751,924,872 | 751,924,872 | 751,924,872 | 751,924,872 |
| Regulatory Adjustments and Deductions: | | | | |
| Regulatory deductions included in total capital | (10,063,291) | (10,063,291) | (10,063,291) | (10,063,291) |
| Allowance for loan losses | | | | (2,052,671) |
| | 741,861,581 | 741,861,581 | 741,861,581 | 739,808,910 |

The components of the Association's non-risk-adjusted capital, based on 90-day average balances, were as follows at September 30, 2020 and December 31, 2019, respectively:

| | **September 30, 2020** | | December 31, 2019 | |
|---|---|---|---|---|
| | **Tier 1 leverage ratio** | **UREE leverage ratio** | Tier 1 leverage ratio | UREE leverage ratio |
| Numerator: | | | | |
| Unallocated retained earnings | **129,401,125** | **129,401,125** | 125,288,353 | 125,288,353 |
| Common Cooperative Equities: | | | | |
| Statutory minimum purchased borrower stock | **2,096,344** | **-** | 2,078,855 | - |
| Regulatory Adjustments and Deductions: | | | | |
| Amount of allocated investments in other System institutions | **(11,228,405)** | **-** | (10,063,291) | - |
| | **120,269,064** | **129,401,125** | 117,303,917 | 125,288,353 |
| Denominator: | | | | |
| Total Assets | **787,772,998** | **787,772,998** | 732,829,132 | 732,829,132 |
| Regulatory Adjustments and Deductions: | | | | |
| Regulatory deductions included in tier 1 capital | **(12,535,627)** | **(12,535,627)** | (11,694,958) | (11,694,958) |
| | **775,237,371** | **775,237,371** | 721,134,174 | 721,134,174 |

An additional component of equity is accumulated other comprehensive income, which is reported, is as follows:

| | **September 30, 2020** |
|---|---|
| **Nonpension postretirement benefits** | **$ 140,005** |
| **Total** | **$ 140,005** |

| | September 30, 2019 |
|---|---|
| Nonpension postretirement benefits | $ 265,266 |
| Total | $ 265,266 |

The Association's accumulated other comprehensive income relates entirely to its nonpension other postretirement benefits. Amortization of prior service credits and of actuarial loss are reflected in “Salaries and employee benefits” in the Statements of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive income for the nine months ended September 30:

| | **2020** | **2019** |
|---|---|---|
| Accumulated other comprehensive income at January 1 | **$ 147,829** | $ 294,465 |
| Actuarial losses | **-** | (21,374) |
| Amortization of prior service credit included in salaries and employee benefits | **(7,824)** | (7,825) |
| Other comprehensive loss | **(7,824)** | (29,199) |
| Accumulated other comprehensive income at September 30 | **$ 140,005** | $ 265,266 |

## NOTE 5 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 12 to the 2019 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

| **September 30, 2020** | **Fair Value Measurement Using** | | | **Total Fair** | **Total Gains** |
|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Value** | **(Losses)** |
| Assets: | | | | | |
| Loans* | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** |
| Other property owned | **-** | **-** | **1,134,204** | **1,134,204** | **6,048** |

| December 31, 2019 | Fair Value Measurement Using | | | Total Fair | Total Gains |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Value | (Losses) |
| Assets: | | | | | |
| Loans* | $ - | $ - | $1,735,115 | $ 1,735,115 | $ - |
| Other property owned | - | - | - | - | - |

*Represents the fair value of certain loans that were evaluated for impairment under the authoritative guidance “Accounting by Creditors for Impairment of a Loan.” The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

## Uncertainty of Fair Value Measurements

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the mortgage-backed securities are prepayment rates, probability of default and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would have resulted in a significantly lower (higher) fair value measurement.

Generally, a change in the assumption used for the probability of default would have been accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Quoted market prices are generally not available for the instruments presented below. Accordingly, fair values are based on internal models that consider 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.

## Valuation Techniques

As more fully discussed in Note 12 to the 2019 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see Notes to the 2019 Annual Report to Stockholders.

*Cash*

For cash, the carrying amount is a reasonable estimate of fair value.

*Loans*

Fair value is estimated by discounting the expected future cash flows using the Associations' current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the Associations' current loan origination rates as well as management's estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale and could be less.

For purposes of estimating fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows, primarily based on contractual terms, and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

The fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For collateral-dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral.

*Loans Evaluated for Impairment*

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

*Commitments to Extend Credit*

The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates.

*Other Property Owned*

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of the other property owned involves the use of independent appraisals and other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

## NOTE 6 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the nine months ended September 30:

| | Other Benefits | |
|---|---|---|
| | **2020** | 2019 |
| Service cost | **$ 6,756** | $ 12,431 |
| Interest cost | **29,540** | 35,736 |
| Amortization of prior service credits | **(7,824)** | (7,825) |
| Amortization of net actuarial gain | **-** | (21,374) |
| Net periodic benefit cost | **$ 28,472** | $ 18,968 |

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2020, was $1,168,379 and is included in other liabilities on the balance sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item "other components of net periodic postretirement benefit cost" in the income statement.

The structure of the District's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The Association previously disclosed in its financial statements for the year ended December 31, 2019, that it expected to contribute $40,167 to the District's defined benefit pension plan in 2020. As of September 30, 2020, $179,651 of contributions have been made. The Association presently anticipates contributing an additional $59,883 to fund the defined benefit pension plan in 2020 for a total of $239,534.

## NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES:

The Association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

## NOTE 8 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through October 22, 2020, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of October 22, 2020.