Delta Agricultural Credit Association

Quarterly Report
June 30, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Delta Agricultural Credit Association and its subsidiaries, Delta Agricultural Credit Association, FLCA and Delta Agricultural Credit Association, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2019 (2019 Annual Report).

Due to the nature of our financial relationship with AgriBank, FCB (AgriBank), the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of AgriBank financial reports or additional copies of our report, contact us at:

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FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2019 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

Our territory is located in rural southeast Arkansas. Crop, livestock, timber, and poultry production are the primary agricultural enterprises that influence our portfolio. Most area commodities are being negatively affected by the current U.S. tariff and coronavirus (COVID-19) threats. The U.S. government recognizes the need for additional support to cushion the negative impacts of the Peoples Republic of China tariffs and COVID-19.

The current Farm Bill will provide some cushion to the decline of local field crop commodity prices. Additional support from the U.S. government for the farm sector is expected given recent history. Even the Secretary of Agriculture has identified the need for additional support. This support will improve the economics for most of the commodities in our area. The crop land rents have declined slightly and are basically tied to the equivalence of the predominant share crop rent values. Although there is economic pressure in crop production, crop rents are still attractive to land owners and investors who represent the majority of the farmland buyers.

Poultry production continues to show profitable margins but new grower contracts and new poultry facility construction have declined significantly from the peak six years ago. Beef cattle prices are adequate compared to the cost of production in the last quarter and provide for profitability for the average producer. Due to the loss of demand, pine timber pricing has returned to its weak position after temporarily increasing early in 2019. The major stress in our Farm Credit territory is in field crop enterprises, which has been mitigated significantly by the current Farm Bill and add-on funding. Only a small portion of our portfolio has repayment from consumer income which has seen the greatest impact from the COVID-19 economic situation. Our earnings have been negatively impacted by a cool wet spring delaying field progress and loan disbursements. This situation is recovering quickly since most of the crop did get planted in the preferred production window.

The overall field crops, livestock, poultry, and timber economies are sustainable despite the tariff and COVID-19 issue with the government support promised. Our Farm Credit Association is experiencing an acceptable economic environment at this time.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $47.3 million at June 30, 2020, an increase of $4.8 million from December 31, 2019. The increase was primarily due to seasonal credit needs of borrowers with production and intermediate-term loans, which was partially offset by annual repayments on real estate mortgage loans.

Portfolio Credit Quality

The credit quality of our portfolio improved from December 31, 2019. Adversely classified loans decreased to 3.5% of the portfolio at June 30, 2020, from 5.5% of the portfolio at December 31, 2019. Our portfolio credit quality has improved primarily due to several payoffs and a significant pay down on loans in our production and intermediate-term loan category, which were classified as substandard at December 31, 2019. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

While overall credit quality remains strong, the impact of the global pandemic disruption to many agriculture industries, and with commodity prices expected to remain at relatively low levels, grower margins will likely be negatively impacted in 2020. These conditions may result in increases to adverse credit quality and related provision for credit losses.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. At June 30, 2020, $23.4 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**June 30, 2020**	December 31, 2019
Loans:		
Nonaccrual	**$ 469**	$ --
Accruing restructured	**497**	320
Accruing loans 90 days or more past due	**--**	--
Total risk loans	**966**	320
Other property owned	**--**	--
Total risk assets	**$ 966**	$ 320
Total risk loans as a percentage of total loans	**2.0%**	0.7%
Nonaccrual loans as a percentage of total loans	**1.0%**	--
Current nonaccrual loans as a percentage of total nonaccrual loans	**--**	--
Total delinquencies as a percentage of total loans	**1.0%**	--

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2019, but have remained at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans were well within our established risk management guidelines.

The increase in nonaccrual loans was due to one loan in the real estate mortgage loan category transferring to nonaccrual during the first quarter of 2020. Nonaccrual loans remained at an acceptable level at June 30, 2020.

The increase in accruing restructured loans is due to an increase in our ownership percentage in an existing loan that was classified as accruing restructured at June 30, 2020, and December 31, 2019.

The increase in total delinquencies as a percentage of total loans was primarily due to one loan in the real estate mortgage loan category transferring to nonaccrual during the first quarter of 2020.

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans inherent in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Allowance Coverage Ratios

As of:	**June 30, 2020**	December 31, 2019
Allowance as a percentage of:		
Loans	**0.2%**	0.2%
Nonaccrual loans	**22.2%**	--
Total risk loans	**10.8%**	32.5%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2020.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the six months ended June 30,		2020		2019
Net income	$	**105**	$	238
Return on average assets		**0.5%**		1.0%
Return on average members' equity		**2.1%**		4.9%

Changes presented in the profitability information chart relate directly to:

- Changes in income discussed in this section
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Funding, Liquidity, and Capital section

Changes in Significant Components of Net Income

(in thousands) For the six months ended June 30,		2020		2019		(Decrease) increase in net income
Net interest income	$	**711**	$	776	$	**(65)**
Non-interest income		**116**		117		**(1)**
Non-interest expense		**722**		653		**(69)**
Provision for income taxes		**--**		2		**2**
Net income	$	**105**	$	238	$	**(133)**

Net Interest Income

Changes in Net Interest Income

(in thousands) For the six months ended June 30,		2020 vs 2019
Changes in volume	$	**(97)**
Changes in interest rates		**34**
Changes in nonaccrual income and other		**(2)**
Net change	$	**(65)**

Non-Interest Expense

The change in non-interest expense was primarily related to increases in purchased services due to higher consulting fees during the six months ended June 30, 2020, compared to the same period of 2019.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable matured on March 31, 2020, and was renewed for $60.0 million with a maturity date of May 31, 2021. The note payable will be renegotiated no later than the maturity date. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

The components of cost of funds associated with our note payable include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity, and bank profit
- A risk premium component, if applicable

Beginning April 1, 2020, we were subject to an 8 basis point risk premium. The risk premium was triggered by a decline in our risk score. Effective July 1, 2020, our risk premium was reduced to 6 basis points due to a slight improvement in our risk score during the second quarter of 2020. We are able to earn back any risk premium charged if our quarter end risk score rises above 65 points within four quarters of the risk score falling below 65 points. We were not subject to a risk premium at December 31, 2019.

We continue to maintain our primary source of liquidity through our AgriBank line of credit. During recent market volatility certain adjustments to cost of our funding of longer term loans was impacted.

Total members’ equity increased $106 thousand from December 31, 2019, primarily due to net income for the period.

The Farm Credit Administration (FCA) Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 6 in our 2019 Annual Report for a more complete description of these ratios.

Regulatory Capital Requirements and Ratios

As of:	**June 30, 2020**	December 31, 2019	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**26.7%**	24.8%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**26.7%**	24.8%	6.0%	2.5%	8.5%
Total capital ratio	**27.0%**	25.1%	8.0%	2.5%	10.5%
Permanent capital ratio	**27.9%**	25.2%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**19.4%**	18.0%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**19.1%**	17.7%	1.5%	N/A	1.5%

Capital ratios are directly impacted by the changes in capital, as more fully explained in this section, the changes in assets, as discussed in the Loan Portfolio section, and off-balance sheet commitments.

OTHER MATTERS

Relationships with Other Farm Credit Institutions

SunStream Business Services: SunStream Business Services (SunStream) was previously a division of AgriBank. Effective April 1, 2020, SunStream is a System service corporation and we are a partial owner and continue to purchase services from SunStream. We purchase various services from SunStream, which include financial and retail systems, tax reporting services, technology services, and insurance services. Our entire investment in SunStream was called on April 1, 2020, at which time $8 thousand was paid in cash and the remainder is due in January 2021. As of June 30, 2020, our investment in SunStream was $15 thousand.

COVID-19

The spread of COVID-19 has created a global public-health crisis that has stifled the world-wide economy, decreased liquidity in fixed income and equity markets, significantly increased unemployment levels and disrupted global supply and demand chains. Unprecedented actions are being taken by governments, businesses, and individuals to slow or contain the spread of COVID-19, including quarantines, stay-at-home orders, school closings, and travel bans that have substantially restricted daily activities and forced many businesses to curtail or cease operations. The impact of COVID-19 on companies is evolving rapidly and its future effects are uncertain.

The extent to which the COVID-19 pandemic impacts the Association will depend on future developments that are highly uncertain and cannot be predicted such as the duration, extent and severity of the pandemic, the continued response by the U.S. government, and how quickly “normal” daily activities resume.

Despite volatility and uncertainty in the market, we have weathered the significant initial challenges presented by current operating environment and operations of our Association are fully functioning. Our Association followed state directives to limit person-to-person contact by closing our lobby and allowing in person visits by appointment only.

This outbreak puts the economy and agriculture sector in uncharted territory. The overall impact of COVID-19 on U.S. agriculture will depend on the severity and duration of the outbreak, including a potential reoccurrence later in the year. Overall, agriculture will adjust, providing an “essential service” to the U.S. and global consumer.

Governance

The Board of Directors (the Board) of the Association is pursuing various strategic initiatives, including strategic opportunities with another association. The Board has been in discussions with AgriBank regarding these opportunities and has retained counsel to advise the Association on these matters and to represent the Association in its interactions with AgriBank, the FCA, and potential partners.

CERTIFICATION

The undersigned have reviewed the June 30, 2020, Quarterly Report of Delta Agricultural Credit Association which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Mike Norris
Chairperson of the Board
Delta Agricultural Credit Association

Mark W. Kaufman
Chief Executive Officer
Delta Agricultural Credit Association

Mary Ann Johnson
Chief Financial Officer
Delta Agricultural Credit Association

August 6, 2020

CONSOLIDATED STATEMENTS OF CONDITION

Delta Agricultural Credit Association
(in thousands)
(Unaudited)

As of:		June 30, 2020		December 31, 2019
ASSETS				
Loans	$	47,300	$	42,477
Allowance for loan losses		104		104
Net loans		47,196		42,373
Investment in AgriBank, FCB		1,300		1,300
Accrued interest receivable		661		781
Other assets		643		575
Total assets	$	49,800	$	45,029
LIABILITIES				
Note payable to AgriBank, FCB	$	39,502	$	34,665
Accrued interest payable		193		254
Patronage distribution payable		--		100
Other liabilities		116		127
Total liabilities		39,811		35,146
Contingencies and commitments (Note 3)				
MEMBERS' EQUITY				
Protected members' equity		7		7
Capital stock and participation certificates		156		155
Unallocated surplus		9,826		9,721
Total members' equity		9,989		9,883
Total liabilities and members' equity	$	49,800	$	45,029

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

Delta Agricultural Credit Association
(in thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
For the period ended June 30,	**2020**	2019	**2020**	2019
Interest income	**$ 571**	$ 684	**$ 1,110**	$ 1,327
Interest expense	**193**	286	**399**	551
Net interest income	**378**	398	**711**	776
Provision for loan losses	**--**	--	**--**	--
Net interest income after provision for loan losses	**378**	398	**711**	776
Non-interest income				
Patronage income	**53**	69	**96**	102
Financially related services income	**1**	2	**1**	2
Fee income	**3**	2	**6**	3
Allocated Insurance Reserve Accounts distribution	**--**	--	**6**	7
Other non-interest income	**7**	--	**7**	3
Total non-interest income	**64**	73	**116**	117
Non-interest expense				
Salaries and employee benefits	**209**	218	**425**	421
Other operating expense	**145**	107	**297**	232
Total non-interest expense	**354**	325	**722**	653
Income before income taxes	**88**	146	**105**	240
Provision for income taxes	**--**	--	**--**	2
Net income	**$ 88**	$ 146	**$ 105**	$ 238

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Delta Agricultural Credit Association
(in thousands)
(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2018	$ 7	$ 158	$ 9,406	$ 9,571
Net income	--	--	238	238
Capital stock and participation certificates issued	--	2	--	2
Capital stock and participation certificates retired	--	(3)	--	(3)
Balance at June 30, 2019	$ 7	$ 157	$ 9,644	$ 9,808
Balance at December 31, 2019	$ 7	$ 155	$ 9,721	$ 9,883
Net income	**--**	**--**	**105**	**105**
Capital stock and participation certificates issued	**--**	**8**	**--**	**8**
Capital stock and participation certificates retired	**--**	**(7)**	**--**	**(7)**
Balance at June 30, 2020	**$ 7**	**$ 156**	**$ 9,826**	**$ 9,989**

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim Consolidated Statements of Condition and Consolidated Statements of Income. Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the six months ended June 30, 2020, are not necessarily indicative of the results to be expected for the year ending December 31, 2020. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2019 (2019 Annual Report).

The Consolidated Financial Statements present the consolidated financial results of Delta Agricultural Credit Association and its subsidiaries Delta Agricultural Credit Association, FLCA and Delta Agricultural Credit Association, PCA. All material intercompany transactions and balances have been eliminated in consolidation.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business. While we are a nonpublic entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements in alignment with other System institutions.

Standard and effective date	Description	Adoption status and financial statement impact
In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13 “Financial Instruments - Credit Losses." The guidance was originally effective for non-U.S. Securities Exchange Commission filers for our first quarter of 2021. In November 2019, the FASB issued ASU 2019-10 which amends the mandatory effective date for this guidance for certain institutions. We have determined we qualify for the deferral of the mandatory effective date. As a result of the change, the standard is effective for our first quarter of 2023 and early adoption is permitted.	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.	We do not expect to early adopt the standard. We have reviewed the accounting standard and significant matters yet to be addressed include system selection, system development and testing, drafting disclosures, drafting of accounting policies, and designing processes and controls. We are currently unable to estimate the impact on our financial statements.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	**June 30, 2020**		December 31, 2019	
	Amount	%	Amount	%
Real estate mortgage	**$ 28,509**	**60.3%**	$ 28,678	67.5%
Production and intermediate-term	**18,791**	**39.7%**	13,776	32.4%
Agribusiness	**--**	**--**	23	0.1%
Total	**$ 47,300**	**100.0%**	$ 42,477	100.0%

Delinquency

Aging Analysis of Loans

(in thousands) **As of June 30, 2020**	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total
Real estate mortgage	**$ 469**	**$ 469**	**$ 28,419**	**$ 28,888**
Production and intermediate-term	**--**	**--**	**19,073**	**19,073**
Agribusiness	**--**	**--**	**--**	**--**
Total	**$ 469**	**$ 469**	**$ 47,492**	**$ 47,961**

As of December 31, 2019		90 Days or More Past Due		Total Past Due		Not Past Due or Less than 30 Days Past Due		Total
Real estate mortgage	$	--	$	--	$	29,215	$	29,215
Production and intermediate-term		--		--		14,019		14,019
Agribusiness		--		--		24		24
Total	$	--	$	--	$	43,258	$	43,258

Note: Accruing loans include accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest at June 30, 2020, or December 31, 2020.

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

Risk Loan Information

(in thousands) As of:		**June 30, 2020**		December 31, 2019
Volume with specific allowance	**$**	**--**	$	--
Volume without specific allowance		**966**		320
Total risk loans	**$**	**966**	$	320
Total specific allowance	**$**	**--**	$	--
For the six months ended June 30,		**2020**		2019
Income on accrual risk loans	**$**	**11**	$	10
Reversal of income on nonaccrual loans		**(2)**		--
Total income on risk loans	**$**	**9**	$	10
Average risk loans	**$**	**688**	$	340

Note: Accruing loans include accrued interest receivable.

We had $713 thousand of commitments to lend additional money to borrowers whose loans were classified as risk loans at June 30, 2020.

Troubled Debt Restructurings (TDRs)

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

There were no TDRs that occurred during the six months ended June 30, 2020, or 2019. In addition, there were no TDRs that defaulted during the six months ended June 30, 2020, or 2019 in which the modification was within twelve months of the respective reporting period.

TDRs outstanding in the production and intermediate-term loan category totaled $497 thousand and $320 thousand, all of which were in accrual status at June 30, 2020, and December 31, 2019, respectively. The increase in the outstanding TDR balance from December 31, 2019, to June 30, 2020, is due to an increase in our ownership percentage in an existing loan that was classified as a TDR at June 30, 2020, and December 31, 2019.

Additional commitments to lend to borrowers whose loans have been modified in a TDR were $713 thousand at June 30, 2020.

Allowance for Loan Losses

The allowance for loan losses was $104 thousand at June 30, 2020, and 2019. There was no provision, recoveries, or charge-offs for the six months ended June 30, 2020, or 2019.

NOTE 3: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

NOTE 4: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 in our 2019 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring or non-recurring basis at June 30, 2020, or December 31, 2019.

NOTE 5: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 6, 2020, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.