



PARTNERS IN PROGRESS



AGFIRST
FARM CREDIT BANK

**2020 THIRD
QUARTER REPORT**



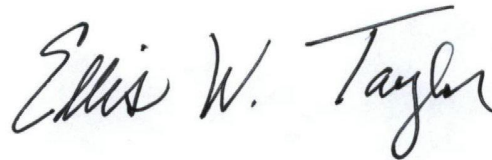
THIRD QUARTER 2020

Table of Contents

Report on Internal Control Over Financial Reporting	2
Management's Discussion and Analysis of Financial Condition and Results of Operations	3
Financial Statements:	
Balance Sheets	28
Statements of Comprehensive Income	29
Statements of Changes in Shareholders' Equity	30
Statements of Cash Flows	31
Notes to the Financial Statements	32

CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2020 quarterly report of AgFirst Farm Credit Bank, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Ellis W. Taylor
Chairman of the Board



Leon T. Amerson
Chief Executive Officer & President



Stephen Gilbert
Chief Financial Officer

November 6, 2020

Report on Internal Control Over Financial Reporting

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

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

The Bank's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2020. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Bank's management concluded that as of September 30, 2020, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Bank's management determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2020.



Leon T. Amerson
Chief Executive Officer & President



Stephen Gilbert
Chief Financial Officer

November 6, 2020

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

The following discussion reviews the financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) as of and for the three and nine month periods ended September 30, 2020. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Financial Statements, and the 2019 Annual Report of AgFirst Farm Credit Bank. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the District. The accompanying financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of AgFirst. However, neither the three months nor the nine months results of operations may be indicative of an entire year due to the seasonal nature of a portion of AgFirst's business.

FORWARD-LOOKING INFORMATION

This quarterly report contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from AgFirst's expectations and predictions due to a number of risks and uncertainties, many of which are beyond AgFirst's control.

RISKS

Other than as described below, there have been no material changes to the risks described in the Bank's 2019 Annual Report. Terms not defined herein have the meaning set forth in the 2019 Annual Report.

The effects of the novel coronavirus (COVID-19) global pandemic, and the measures implemented to contain the spread of the virus, could have a material adverse effect on the Bank's business, operations, operating results, financial condition, liquidity or capital levels.

The COVID-19 pandemic has caused disruptions to the global economy and to the lives of individuals throughout the world. Governments, businesses, and the public have taken unprecedented actions to contain the spread of COVID-19 and to mitigate its effects, including quarantines, travel bans and restrictions, shelter in place orders, closures of businesses and schools, fiscal stimulus, and legislation designed to deliver monetary aid and other relief. The scope, duration and full effects of COVID-19 are rapidly evolving and still not fully known, but it is clear that the pandemic and related efforts to contain it have disrupted global economic activity, adversely affected the functioning of financial markets, increased unemployment levels and economic and market uncertainty, and disrupted trade and supply chains, potentially leading to future credit deterioration. Since these effects have continued for a protracted period and resulted in sustained economic stress, many of the risks identified in the Bank's 2019 Annual Report have not yet had, but could have, a material adverse effect on the Bank in a number of ways, as described in more detail below.

The Bank recognizes that the COVID-19 pandemic may create significant stress for agricultural and rural borrowers because of disruptions to employees, markets, transportation, processors, off-farm income and other factors important to their operations. If the effects of the COVID-19 disruptions result in widespread and sustained repayment shortfalls on loans in the Bank's portfolio, the Bank could incur increased nonperforming assets and credit losses, particularly if conditions cause land and asset values to deteriorate and the available collateral is insufficient to cover the Bank's exposure. This could potentially have a material adverse effect on the Bank's financial condition, results of operations, liquidity, or capital levels.

The Bank's financing activities, potential future hedging activities (note the Bank currently has no hedges), net effective spread, and profitability could be negatively affected by volatility in interest rates caused by uncertainties stemming from COVID-19, as evidenced by the actions in March 2020 of the Federal Reserve to significantly lower the target range for the federal funds rate based on concerns about the disruption to economic activity. A prolonged period of extremely volatile and unstable market conditions could increase the Bank's hedging and funding costs while negatively affecting market risk mitigation strategies. Alternative funding strategies could result in greater exposure to re-funding risk and higher income volatility from changes in interest rates and movements in refunding terms and spreads to benchmark indices such as LIBOR, which could have a material adverse effect on the Bank's net income, operating results, or financial condition.

One of the Bank's primary responsibilities is to maintain sufficient liquidity to fund the lending operations of the District Associations, in addition to its own needs. The Bank's primary source of liquidity is its ability to issue Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation (Funding Corporation). The Bank continually raises funds in the debt markets to support its mission, to repay maturing Systemwide Debt Securities and to meet other obligations. If the effects of COVID-19 were to create market disruptions that caused the Funding Corporation to be unable to continue to issue Systemwide Debt Securities at reasonable rates and desired terms, the Bank's business, operating results, or financial condition would likely be adversely affected.

The Bank relies on business processes that largely depend on people, technology, and the use of complex systems and models to manage its business, including access to information systems and models as well as information, applications, payment systems, and other services provided by third parties. In response to the challenges presented by the COVID-19 pandemic, the Bank has modified its business practices to focus on protecting its employees and the public while continuing to fulfill its critical mission and maintaining its regular business operations in support of the farmers, ranchers, and agricultural business of America. On March 12, 2020, the Bank activated its business continuity plan and has been operating uninterrupted since then with almost all of its employees working remotely from their homes. The continuation of these work-from-home measures introduces additional operational risk and inefficiencies. These risks include, but are not limited to, greater cybersecurity, privacy and disclosure risks, strain on the local technology networks for remote operations and potential impairment of the ability to perform critical functions, all of which could adversely affect the Bank's business, results of operations, and financial condition. The Bank continues to monitor attempts by third parties to gain unauthorized access to its network and information systems through cyber-attacks. Despite the increased cybersecurity risks presented by a workforce that is operating remotely, the Bank had not experienced any known cyber-attacks or other known privacy or data security incidents through the date of this report that negatively affected the confidentiality, integrity, or availability of the Bank's information resources.

The Bank relies on many third parties, including vendors that supply essential services and local and federal government agencies, offices, and courthouses, in the performance of its business operations. In light of the developing measures being undertaken as a result of the COVID-19 pandemic, many of these entities may limit the access and availability of their services. For example, reductions in available staff in recording offices or the closing of courthouses to walk-in traffic in some counties could adversely impact the established process and turnaround times for title work and mortgage and UCC filings in those counties. If limitations in the availability of important services continued for a prolonged period or if additional limitations or potential disruptions in the ability to provide services materialize (which may be caused by a third party's own financial or operational difficulties), it may inhibit or otherwise negatively affect the normal operations and processes for the Bank's business, which could have a material adverse impact on its results of operations and financial condition.

The Bank's efforts to manage and mitigate the above mentioned risks may be unsuccessful, and the effectiveness of these efforts and the extent to which the COVID-19 pandemic affects the Bank's business, results of operations, and financial condition will depend on factors beyond its control, including the duration, severity, and spread of the pandemic, as well as third-party and government actions taken to contain COVID-19 and mitigate public health and economic effects, and how quickly and to what extent normal economic and operating conditions can resume. Even after the COVID-19 pandemic is over, the Bank may continue to experience material adverse effects to its business as a result of the disruption in the global economy and in the domestic agricultural economy. Because there have been no comparable recent global pandemics that resulted in a similar global macroeconomic impact, the Bank does not yet know the full extent of the effects on its business, operations, or the global economy as a whole, but they could materially and adversely affect the Bank's business, operations, operating results, financial condition, liquidity, or capital levels as discussed above.

COVID-19 Support Programs

On March 13, 2020, the President of the United States declared the COVID-19 outbreak as a national emergency. In response, the Farm Credit Administration (FCA), other federal banking regulators and the Financial Accounting Standards Board (FASB) issued guidance on restructurings of loans through loan modifications, such as payment deferrals and extensions of repayment terms, which would not be considered as troubled debt restructurings if made on a good faith basis in response to the national emergency.

The District has developed payment deferral programs for borrowers directly affected by market disruptions caused by the COVID-19 pandemic. Programs vary by loan portfolio, entity and geographic location. These actions are designed to help farmers and ranchers preserve liquidity.

On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Among other provisions, the CARES Act provided funding and authority to bolster United States Department of Agriculture (USDA) programs. On April 17, 2020, the USDA announced a \$19 billion Coronavirus Food Assistance Program (CFAP), that will provide \$16 billion of direct support based on actual losses for agricultural producers where prices and market supply chains have been impacted. The \$16 billion will include \$10 billion of funding targeted to livestock and dairy producers, \$4 billion for row crop producers, \$2 billion for specialty crop producers, and \$500 million for other specialty crops. Additionally, \$3 billion will be allocated for direct purchases of fresh produce, dairy and meat for distribution to food banks and other non-profits.

The CARES Act also appropriated \$349 billion for the Paycheck Protection Program (PPP), a guaranteed loan program administered by the U.S. Small Business Administration (SBA), which commenced on April 3, 2020. The purpose of the program is to support payroll and certain other financial needs of small businesses during the COVID-19 pandemic. Agricultural producers, farmers and ranchers with 500 or fewer employees or that fit within the revenue-based sized standard are eligible for PPP loans.

Applicants who are otherwise eligible to receive financing under the Farm Credit Act and FCA regulations are able to apply for PPP loans from a District Association. At the time it was passed, the CARES Act provided for loan forgiveness if an employer used at least 75% of the loan for payroll costs and would be reduced proportionally by any reduction in full-time equivalent employees compared to the prior year and a 25% or greater reduction in full-time equivalent employee compensation. Loan payments required under the program can be deferred for up to six months.

On April 23, 2020, Congress passed the PPP and Health Care Enhancement Act that provides \$484 billion in additional funding to replenish and supplement key programs under the CARES Act. The Act provides an additional \$310 billion for PPP, \$60 billion for small business disaster loans and grants, \$75 billion for hospital and health care providers and \$25 billion for testing.

On June 5, 2020, the president signed the Paycheck Protection Program Flexibility Act of 2020, which amends the SBA Act and the CARES Act. Specifically, this Act establishes a minimum maturity of five years for a paycheck protection loan with a remaining balance after forgiveness. The bill also extends the “covered period” during which a loan recipient may use such funds for certain expenses while remaining eligible for forgiveness. The extension is to 24 weeks from the date of origination or December 31, 2020, whichever occurs first. The bill also reduces the payroll cost requirements from 75% to 60% and raises the non-payroll portion of a forgivable loan amount from 25% up to 40%.

On August 8, 2020, the PPP was closed and the SBA ceased to accept applications from participating lenders. Eighteen District Associations were approved as PPP lenders and made \$148.3 million in loans and recorded approximately \$5.0 million in loan-related fee income. At September 30, 2020, the Bank had purchased \$101.6 million of PPP loans originated at System Associations.

On September 21, 2020, the USDA implemented an expansion to the Coronavirus Food Assistance Program, known as CFAP 2. This program will provide \$14 billion of financial support to producers of certain agricultural commodities who face continuing market disruptions and significant marketing costs.

FINANCIAL CONDITION

Loan Portfolio

AgFirst’s loan portfolio consists of direct loans to District Associations (Direct Notes), loan participations/syndications purchased, Correspondent Lending loans (primarily first lien rural residential mortgages), and loans to Other Financing Institutions (OFIs) as shown below:

Loan Portfolio <i>(dollars in thousands)</i>	September 30, December 31, September 30,		September 2020 Compared to December 2019		September 2020 Compared to September 2019		
	2020	2019	2019	\$ Change	% Change	\$ Change	% Change
Direct Notes*	\$ 17,687,095	\$ 16,830,432	\$ 16,804,756	\$ 856,663	5.09 %	\$ 882,339	5.25 %
Participations/Syndications Purchased, net*	4,927,027	4,654,511	4,563,171	272,516	5.86 %	363,856	7.97 %
Correspondent Lending	3,136,941	3,484,332	3,431,760	(347,391)	(9.97)%	(294,819)	(8.59)%
Loans to OFIs	138,878	142,384	136,079	(3,506)	(2.46)%	2,799	2.06 %
Total	\$ 25,889,941	\$ 25,111,659	\$ 24,935,766	\$ 778,282	3.10 %	\$ 954,175	3.83 %

	Portfolio Distribution		
	September 30, 2020	December 31, 2019	September 30, 2019
Direct Notes*	68.32 %	67.02 %	67.39 %
Participations/Syndications Purchased, net*	19.03 %	18.53 %	18.30 %
Correspondent Lending	12.11 %	13.88 %	13.76 %
Loans to OFIs	0.54 %	0.57 %	0.55 %
Total	100.00 %	100.00 %	100.00 %

**Net of participations sold.*

Total loans outstanding were \$25.890 billion at September 30, 2020, an increase of \$778.3 million, or 3.10 percent, compared to total loans outstanding at December 31, 2019 and an increase of \$954.2 million, or 3.83 percent, since September 30, 2019.

Loan growth since year-end was primarily in the forestry, processing, and field crops segments. The loan growth was due primarily to increased capital markets activity and existing customers utilizing lines of credit given market uncertainty. Compared to September 30, 2019, loan growth was primarily in the forestry, processing, field crops, poultry, and tree fruits and nuts segments.

Credit Quality

Credit quality of AgFirst’s loans is shown below:

Classification	Total Loan Portfolio Credit Quality as of:		
	September 30, 2020	December 31, 2019	September 30, 2019
Acceptable	93.90 %	93.93 %	93.73 %
OAEM *	5.80 %	5.84 %	6.08 %
Substandard/doubtful/loss	0.30 %	0.23 %	0.19 %

**Other Assets Especially Mentioned.*

The table above reflects the classification of a single Direct Note as OAEM for all periods presented. See the *Direct Notes* section below for further discussion.

Through September, credit quality has remained relatively stable, but it is expected to deteriorate in future quarters as government support for agricultural sectors declines, unemployment benefits decline, benefits from the SBA PPP cease, and the COVID-19 deferral and forbearance programs conclude.

Direct Notes

AgFirst’s primary business is to provide funding, operational support, and technology services to District Associations. Each Association, in addition to the Bank, is a federally chartered instrumentality of the United States and is regulated by the FCA. AgFirst provides a revolving line of credit, referred to as a Direct Note, to each of the District Associations. Each of the Associations funds its lending and general corporate activities primarily by borrowing under its Direct Note. Lending terms are specified in a separate General Financing Agreement (GFA) between AgFirst and each Association. Each GFA contains minimum borrowing base margin, capital, and earnings requirements that must be maintained by the Association.

At September 30, 2020, the total Direct Note volume outstanding was \$17.687 billion, an increase of \$856.7 million, or 5.09 percent, compared to December 31, 2019. Growth in Direct Note volume is attributed primarily to funding of Association loan volume increases, offset by Bank patronage payments to Associations of approximately \$250.0 million which were applied to Association Direct Notes at the beginning of 2020. Compared to September 30, 2019, Direct Note volume increased \$882.3 million, or 5.25 percent. See the *Loan Portfolio* section above for the primary reasons for the change in Direct Notes.

Classification	Direct Note Credit Quality as of:					
	September 30, 2020		December 31, 2019		September 30, 2019	
	% Total	# Total	% Total	# Total	% Total	# Total
Acceptable	92.19 %	18	91.96 %	18	91.85 %	18
OAEM *	7.81 %	1	8.04 %	1	8.15 %	1
Substandard/doubtful/loss	— %	—	— %	—	— %	—

**Other Assets Especially Mentioned*

At September 30, 2020, no District Associations were operating under a written agreement with the FCA. As of September 30, 2020, one Association, which had total assets of \$1.863 billion, was operating under a special credit agreement pursuant to its GFA as a result of certain events of default. The GFA events of default are not expected to have a significant adverse impact on the Bank’s or District’s financial condition or results of operations. This Direct Note was classified as OAEM for all periods presented.

Presently, collection of the full Direct Note amount due is expected from all Associations in accordance with the contractual terms of the debt arrangements, and no allowance has been recorded for Direct Notes. Virtually all assets of the various Associations are pledged as collateral for their respective Direct Notes. In the opinion of management, all Association Direct Notes are adequately collateralized. The risk funds of an Association, including both capital and the allowance for loan losses, also protect the interest of the Bank should a Direct Note default.

Participations/Syndications

The Participations/Syndications portfolio consists of loan participations and syndications purchased primarily from other System institutions, commercial banks, and other lenders. As of September 30, 2020, this portfolio totaled \$4.927 billion, an increase of \$272.5 million, or 5.86 percent, from December 31, 2019 and an increase of \$363.9 million, or 7.97 percent, from September 30, 2019. This increase is primarily due to increased capital markets activity, existing customers utilizing lines of credit given market uncertainty, and the Bank’s purchase of PPP loans originated by Associations.

AgFirst employs a number of management techniques to limit credit risk, including underwriting standards, limits on the amounts of loans purchased from a single originator, and maximum hold positions to a single borrower and commodity. Although the participations/syndications portfolio is comprised of a small number of relatively large loans, it is diversified both geographically and on a commodity basis. Management makes adjustments to credit policy and underwriting standards when appropriate as a part of the ongoing risk management process.

Credit quality statistics for the participations/syndications portfolio are shown in the following chart:

Classification	Participations/Syndications Credit Quality as of:		
	September 30, 2020	December 31, 2019	September 30, 2019
Acceptable	96.26 %	96.61 %	95.99 %
OAEM*	2.42 %	2.40 %	3.22 %
Substandard/doubtful/loss	1.32 %	0.99 %	0.79 %

*Other Assets Especially Mentioned.

Credit quality in the participations/syndications portfolio has remained relatively stable but is expected to deteriorate in future quarters due to the expected economic impact of the COVID-19 pandemic. See *Credit Quality* section above for further discussion.

Correspondent Lending

The Correspondent Lending portfolio consists primarily of first lien residential mortgages purchased from Associations. As of September 30, 2020, the Correspondent Lending portfolio totaled \$3.137 billion, a decrease of \$347.4 million, or 9.97 percent, from December 31, 2019 and a decrease of \$294.8 million, or 8.59 percent, from September 30, 2019. The decrease primarily resulted from the sale of \$287.8 million of Correspondent Lending loans during the nine months of 2020 to capitalize on market premiums in the portfolio. In addition, \$4.5 million of Correspondent Lending loans were classified as Loans Held for Sale at September 30, 2020. Excluding the impact of these transactions, the Correspondent Lending portfolio would have decreased \$55.1 million, or 1.58 percent compared to December 31, 2019. See the *Noninterest Income* section below for further discussion.

As of September 30, 2020, \$1.010 billion, or 32.19 percent of loans in the Correspondent Lending portfolio are guaranteed. The guarantees, from the Federal National Mortgage Association (Fannie Mae) and/or Federal Agricultural Mortgage Corporation (Farmer Mac), are in the form of Long-Term Standby Commitments to Purchase which give AgFirst the right to deliver delinquent loans to the guarantor at par. Non-guaranteed loans are reflected in the Bank's allowance for loan losses methodology related to this portfolio.

At September 30, 2020, 99.56 percent of the Correspondent Lending portfolio was classified as acceptable and 0.44 percent was classified as substandard compared to 99.66 percent acceptable and 0.34 percent substandard at December 31, 2019. There were no loans classified as OAEM for the periods presented. As a result of the COVID-19 pandemic, the Bank utilized forbearance programs offered by Fannie Mae to eligible borrowers for an initial six-month forbearance, with a potential maximum forbearance of twelve months. Loans totaling \$98.0 million were included in this forbearance program during 2020, and at September 30, 2020, loans of \$64.0 million, or 2.03% of the portfolio, remained in the forbearance program. Credit quality is expected to decline due to the economic impact on non-farm income, reduction of unemployment benefits, and the conclusion of forbearance programs.

Nonaccrual Loans

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the Bank totaled \$33.6 million at September 30, 2020, an increase of 42.92 percent compared to \$23.5 million at December 31, 2019 primarily due to the transfer of one loan relationship to nonaccrual during the third quarter. At September 30, 2020, nonaccrual loans were primarily in the rural home loan (51.56 percent of the total), swine (27.94 percent), and field crops (15.46 percent) segments. Nonaccrual loans were 0.13 percent of total loans outstanding at September 30, 2020 and 0.09 percent at December 31, 2019.

Troubled Debt Restructurings

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms, rates, or amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by the Bank. TDRs increased \$4.6 million since December 31, 2019 and totaled \$29.0 million at September 30, 2020. TDRs at September 30, 2020 were comprised of \$20.2 million of accruing restructured loans and \$8.7 million of nonaccrual restructured loans. Restructured loans were primarily in the nursery/greenhouse (22.28 percent of the total), rural home loan (21.70 percent), dairy (20.61 percent), and field crops (19.83 percent) segments.

During March 2020, as provided for in the CARES Act, the Bank elected to suspend the requirements under GAAP for (1) loan modifications related to the COVID-19 pandemic that would otherwise be categorized as troubled debt restructurings and (2) any determination of loans modified as a result of the effects of the COVID-19 pandemic as being a troubled debt restructuring, including impairment for accounting purposes. The election is only for loans that were not more than 30 days past due as of December 31, 2019. This applies for the period beginning on March 1, 2020 and ending on the earlier of December 31, 2020, or the date that is 60 days after the date on which the national emergency concerning the COVID-19 outbreak declared by the President on March 13, 2020 under the National Emergencies Act is terminated.

The Bank also elected the practical expedients from the Interagency Statement on Loan Modifications and Reporting for Financial Institutions - Working with Customers Affected by the Coronavirus (Revised) issued on April 7, 2020 which provides that a lender can conclude that a borrower is not experiencing financial difficulty if either (1) short-term modifications are made in response to COVID-19, such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant related to loans in which the borrower is less than 30 days past due on its contractual payments at the time a modification program is implemented, or (2) the modification or deferral program is mandated by the federal government or a state government. Accordingly, any loan modification made in response to the COVID-19 pandemic that meets either of these practical expedients would not be considered a TDR because the borrower is not experiencing financial difficulty. The Bank's modification program began on March 23, 2020. These elections did not have a significant effect on operations.

At September 30, 2020, the outstanding balance of District loans modified under COVID-related deferral or forbearance programs was \$969.7 million, or 3.04 percent of combined District loans.

Other Property Owned

Other property owned (OPO) consists primarily of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank (or a lender group) in satisfaction of secured loans. OPO may be comprised of real estate, equipment, and equity interests in companies or partnerships. OPO decreased \$848 thousand since December 31, 2019 and totaled \$2.2 million at September 30, 2020. At September 30, 2020, the OPO balance consisted primarily of one real estate holding in the forestry segment totaling \$2.1 million (96.86 percent of the total OPO balance).

Allowance for Loan Losses

The Bank maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan portfolio as of each reported balance sheet date. The allowance for loan losses was \$19.2 million at September 30, 2020, as compared with \$18.0 million at December 31, 2019. The allowance at September 30, 2020 included specific reserves of \$442 thousand (2.30 percent of the total) and general reserves of \$18.7 million (97.70 percent). See *Provision for Loan Losses* section below for additional details regarding loan loss provision expense and reversals included in the net provision expense of \$514 thousand recorded during the nine months ended September 30, 2020. None of the allowance relates to the Direct Note portfolio. See further discussion in the *Direct Notes* section above. The general reserves at September 30, 2020 included \$4.6 million of allowance provided by the Bank for non-guaranteed loans in the Correspondent Lending portfolio. In addition, the allowance included a qualitative reserve of \$1.3 million for the Correspondent Lending portfolio

related to additional risks associated with loans remaining in forbearance programs at September 30, 2020. See further discussion in the *Correspondent Lending* section above. At September 30, 2020, the Bank's allowance included \$524 thousand of qualitative reserve for the participations/syndications portfolio due to anticipated stress in certain segments from the COVID-19 pandemic. The total allowance at September 30, 2020 was comprised primarily of reserves for the rural home loan (31.95 percent of the total), processing (13.57 percent), forestry (13.33 percent), utilities (7.86 percent), field crops (5.14 percent), and nursery/greenhouse (5.05 percent) segments. The allowance for loan losses was 0.07 percent of total loans outstanding at both September 30, 2020 and December 31, 2019. See Note 2, *Loans and Allowance for Loan Losses*, in the Notes to the Financial Statements for further information.

Interest Rate Risk Management

The Bank's twelve month Cumulative Repricing/Maturity Gap position, which measures repricing characteristics of interest-earning assets and interest-bearing liabilities, moved from a \$1.610 billion asset sensitive position as of December 31, 2019 to a \$7.061 billion liability sensitive position at March 31, 2020, a \$311.0 million liability sensitive position at June 30, 2020, and a \$1.912 billion asset sensitive position at September 30, 2020. In the first quarter the change was primarily due to the significantly lower interest rate environment, which provided for a substantial amount of debt to be called in the twelve month period. In addition, a significant increase in short-term funding during March 2020 to fund a higher cash balance in response to the volatile market activity relating to COVID-19 also contributed to the change in the Gap position. Between March 31, 2020 and September 30, 2020, the Gap position gradually transitioned to a \$1.912 billion asset sensitive position. This change is primarily due to the significant amount of debt that has been called and replaced at lower interest rates. In addition, there was a significant decrease in short-term funding as the Bank's cash position decreased as the markets stabilized. An asset sensitive position generally implies an increase in net interest income in rising interest rate scenarios and lower net interest income in falling interest rate scenarios.

The Repricing/Maturity Gap Analysis must be used with other analysis methods as the repricing and maturity attributes of balance sheet accounts react differently in changing interest rate environments. For example, during a period of rising interest rates, call options on fixed-rate debt are not exercised and the debt terms extend to reflect the longer contractual maturity dates. Prepayment optionality on fixed-rate assets also slows as the economic incentive for borrowers to refinance decreases and extends the assets' expected terms. To supplement the Repricing/Maturity Gap analysis, the Bank utilizes a financial simulation model for measuring interest rate sensitivity of net interest income and market value of equity.

The following tables represent AgFirst's projected change over the next twelve months in net interest income and market value of equity for various rate movements as of September 30, 2020. The upward and downward shocks are generally based on movements in interest rates which are considered significant enough to capture the effects of embedded options and convexity within the assets and liabilities so that underlying risk may be revealed.

Net Interest Income <i>(dollars in thousands)</i>		
Scenarios	Net Interest Income	% Change
+4.0% Shock	\$625,253	4.15%
+2.0% Shock	\$643,155	7.13%
Base line **	\$600,327	-
-50% of 3M Tbill ***	\$599,329	-0.17%

Market Value of Equity
(dollars in thousands)

Scenarios	Assets	Liabilities*	Equity*	% Change
Book Value	\$35,815,208	\$33,106,468	\$2,708,740	–
+4.0% Shock	\$33,300,240	\$30,899,096	\$2,401,144	-26.05%
+2.0% Shock	\$35,081,783	\$32,069,369	\$3,012,414	-7.23%
Base line **	\$36,552,164	\$33,305,016	\$3,247,148	–
-50% of 3M Tbill ***	\$36,575,390	\$33,329,126	\$3,246,264	-0.03%

* For interest rate risk management, the \$49.3 million perpetual preferred stock is included in liabilities rather than equity.

** Base line uses rates as of the balance sheet date before application of any interest rate shocks.

*** When the three-month Treasury bill interest rate is less than 4 percent, both the minus 200 and minus 400 basis point shocks are replaced with a downward shock which is equal to one-half of the three-month Treasury bill rate. At September 30, 2020, this downward shock was (5) basis points.

As previously discussed in the Risks section, volatility and disruptions in the financial markets from the COVID-19 pandemic could impact AgFirst’s access and flexibility in structuring debt. Despite disruptions in March and April 2020, AgFirst effectively managed its interest rate risk by implementing pricing programs that allowed new loan volume to be appropriately funded. The funding markets have since returned to normal.

Future of LIBOR

In 2017, the United Kingdom’s Financial Conduct Authority, which regulates LIBOR, announced its intention to stop persuading or compelling the group of major banks that sustains LIBOR to submit rate quotations after 2021. As a result, it is uncertain whether LIBOR will continue to be quoted after 2021. The Financial Conduct Authority has announced that it intends to make a formal announcement about the timing and the manner of cessation prior to the end of 2021, and potentially as early as November of 2020. The Financial Conduct Authority has not elaborated on the content of such statement, but it has the authority and may announce that LIBOR, as of a future date, will no longer be representative of the underlying funding markets. If the announcement includes a statement to that effect, certain agreements that include contractual language providing that such a statement be a triggering event for the purposes of LIBOR cessation may require that the parties, as of such future date, cease use of LIBOR as their reference rate and apply a fallback rate, which will be determined in the manner provided in such agreement. The District has exposure to LIBOR, including in financial instruments that reference LIBOR that mature after 2021.

The exposure arises from loans made to customers, investment securities purchased, Systemwide Debt Securities that are issued by the Funding Corporation on the Bank’s behalf, and issued preferred stock. Alternative reference rates that replace LIBOR may not yield the same or similar economic results over the lives of the financial instruments, which could adversely affect the value of, and return on, instruments held. The LIBOR transition could result in paying higher interest rates on current LIBOR-indexed Systemwide Debt Securities, adversely affect the yield on, and fair value of, loans and investments held that reference LIBOR, and increase the costs of or affect the ability to effectively use derivative instruments to manage interest rate risk. In addition, there could be other ramifications including those that may arise as a result of the need to redeem or terminate such instruments.

Due to the uncertainty regarding the transition of LIBOR-based financial instruments, including when it will happen, the manner in which an alternative reference rate will apply, and the mechanisms for transitioning LIBOR-based instruments to instruments with an alternative rate, the expected financial impact of the LIBOR transition cannot yet be reasonably estimated.

The District will continue to analyze potential risks associated with the LIBOR transition, including financial, accounting, operational, legal, reputational and compliance risks.

The following is a summary of District variable-rate financial instruments with LIBOR exposure at September 30, 2020:

<i>(dollars in millions)</i>	Due in 2020	Due in 2021	Due in 2022 and Thereafter	Total
Investments	\$ —	\$ 27	\$ 1,782	\$ 1,809
Loans	114	825	4,350	5,289
Total	\$ 114	\$ 852	\$ 6,132	\$ 7,098
Systemwide debt securities	\$ 445	\$ 1,345	\$ 310	\$ 2,100
Preferred stock	—	—	49	49
Total	\$ 445	\$ 1,345	\$ 359	\$ 2,149

The LIBOR transition plan includes implementing fallback language into variable-rate financial instruments maturing after December 31, 2021 which provides the ability to move these instruments to another index if the LIBOR market is no longer viable. At September 30, 2020, 55.84 percent of investments and 72.71 percent of loans maturing after that date had implemented robust fallback provisions.

In October, 2020, the Funding Corporation finalized a voluntary debt exchange with investors holding Farm Credit Systemwide LIBOR-indexed debt securities maturing after December 31, 2021. The debt was replaced with identical debt having enhanced LIBOR fallback language. Of the total par amount (\$310.0 million) of AgFirst's LIBOR-indexed debt maturing after December 31, 2021, the Bank was able to exchange debt with a par value of \$237.0 million, or 76.45 percent. As this was a par for par exchange, the repurchase and sale of which are both completed at the same price, the cash flows were unchanged and no gain or loss was realized on the transaction.

In October, 2020, GNMA announced that all CMOs issued before March 2020 have implemented fallback provisions into variable-rate securities which provides the ability to move these instruments to another index if the LIBOR market is no longer viable. After the announcement, the Bank's investment portfolio includes fallback language on approximately 90.58 percent of the investment portfolio.

Liquidity and Funding Sources

One of AgFirst's primary responsibilities is to maintain sufficient liquidity to fund the lending operations of the District Associations, in addition to its own needs. Along with normal cash flows associated with lending operations, AgFirst has two primary sources of liquidity: the capacity to issue Systemwide Debt Securities through the Funding Corporation; and cash and investments.

AgFirst's principal source of liquidity comes from its ability to issue Systemwide Debt Securities, which are the general unsecured joint and several obligations of the System banks. AgFirst continually raises funds in the debt markets to support its mission, to repay maturing Systemwide Debt Securities, and to meet other obligations.

The U.S. government does not guarantee, directly or indirectly, Systemwide Debt Securities. However, the Farm Credit System, as a GSE, has benefited from broad access to the domestic and global capital markets. This access has provided the System with a dependable source of competitively priced debt which is critical for supporting the System's mission of providing credit to agriculture and rural America.

The COVID-19 pandemic has impacted the global economy, lowered equity market valuations, decreased liquidity in fixed-income markets, created extreme volatility and disruptions in other financial markets and increased unemployment levels. These negative economic, market and social developments created a high level of uncertainty, causing investors to shift toward cash and highly rated cash-like investments during March 2020. This, in turn, reduced flexibility to issue certain types of debt securities; in particular, intermediate- to long-term fixed rate non-callable debt and callable debt with longer non-call periods. During this period, as investor demand moved to highly rated shorter-term debt instruments, the Bank maintained access to the short-term debt market. In addition, although less accessible, moderate amounts of longer-term debt were issued as market demand allowed. In late-April 2020, funding flexibility improved to normal pre-COVID-19 levels.

The COVID-19 impact on interest rates provided the Bank opportunities to call and replace \$38.081 billion of debt for the first nine months of 2020, compared to \$11.887 billion for the first nine months of 2019. The average rate reduction (i.e., the difference between the rates on the called bonds and the rates on the replacement bonds) was 66 basis points, resulting in interest expense savings of \$893.2 million, net of debt extinguishment expense of \$58.3 million, over the remaining life of the bonds. The average life of the called debt was 4.35 years. Replacement bonds generally have terms similar to those of the bonds being replaced.

Currently, Moody's Investor Service and Fitch Ratings have assigned long-term debt ratings for the System of Aaa and AAA and short-term debt ratings of P-1 and F1, respectively. These are the highest ratings available from these rating agencies. S&P Global Ratings (S&P) maintains the long-term debt rating of the System at AA+, which directly corresponds to its AA+ long-term sovereign credit rating of the U.S. government. These rating agencies base their ratings on many quantitative and qualitative factors, including the System's status as a GSE. Negative changes to the System's credit ratings could reduce earnings by increasing debt funding costs and could also have a material adverse effect on liquidity, the ability to conduct normal business operations, and the Bank's overall financial condition and results of operations. However, AgFirst anticipates continued access to funding necessary to support the District's and Bank's needs.

At September 30, 2020, AgFirst had \$32.951 billion in total debt outstanding compared to \$31.724 billion at December 31, 2019, an increase of \$1.227 billion, or 3.87 percent. Debt increased primarily due to higher volumes of loans and investment securities as discussed elsewhere in this report.

To mitigate the risk of a disruption in the Bank's ability to issue debt securities, the Bank has investment securities repurchase agreements in place with several commercial banks for commitments totaling approximately \$6.050 billion. A standard repurchase agreement involves the acquisition of immediately available funds through the sale of securities with a simultaneous commitment to repurchase the same securities on a certain date within one year at a specified price, including interest at an agreed upon rate. In addition, the System has established lines of credit in the event contingency funding is needed to meet obligations of System banks.

Cash and cash equivalents, which decreased \$226.0 million from December 31, 2019 to a total of \$868.6 million at September 30, 2020, consist primarily of cash on deposit and money market securities that are short-term in nature (maturities of overnight to 90 days). Incremental movements in cash and cash equivalents balances between reporting periods are due to changes in liquidity needs in relation to upcoming debt maturities and investment portfolio reallocations.

Investments in debt securities totaled \$8.614 billion, or 24.05 percent of total assets at September 30, 2020, compared to \$7.933 billion, or 22.99 percent as of December 31, 2019, an increase of \$680.9 million, or 8.58 percent. The majority of investments, \$8.582 billion as of September 30, 2020, are classified as being available for sale. Available-for-sale investments at September 30, 2020 included \$269.2 million in U.S. Treasury securities, \$4.517 billion in U.S. government guaranteed securities, \$3.074 billion in U.S. government agency guaranteed securities, and \$721.5 million in non-agency asset-backed securities. Since the majority of the portfolio is invested in U.S. government guaranteed and agency securities, the portfolio is highly liquid and potential credit loss exposure is limited. At September 30, 2020, the Bank had not recorded any impairments as a result of the COVID-19 market disruptions. See Note 3, *Investments*, in the Notes to the Financial Statements for further information regarding types of securities that may be held under applicable FCA guidelines.

Management maintains the available-for-sale liquidity investment portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines which provide that a System bank may hold certain eligible available-for-sale investments in an amount not to exceed 35.00 percent of its quarterly average daily balance of loans outstanding. Based upon FCA guidelines, at September 30, 2020, the Bank's eligible available-for-sale investments were 34.25 percent of its quarterly average daily balance of loans outstanding.

As of September 30, 2020, AgFirst exceeded all applicable regulatory liquidity requirements. FCA regulations require that the Bank have a liquidity policy that establishes a minimum total "coverage" level of 90 days and that short-term liquidity requirements must be met by certain high quality investments or cash. "Coverage" is defined as the number of days that maturing debt could be funded with eligible cash, cash equivalents, and available-for-sale investments maintained by the Bank.

The FCA classifies eligible liquidity investments according to three liquidity quality levels with level 1 being the most liquid. The first 15 days of minimum liquidity coverage are met using only level 1 instruments, which include cash and cash equivalents. Days 16 through 30 of minimum liquidity coverage are met using level 1 and level 2 instruments. Level 2 consists primarily of U.S. government guaranteed securities. Days 31 through 90 are met using level 1, level 2, and level 3 securities. Level 3 consists primarily of U.S. government agency investments. Additionally, a supplemental liquidity buffer in excess of the 90-day minimum liquidity reserve is set to provide coverage to at least 120 days.

At September 30, 2020, AgFirst met each of the individual level criteria above and had a total of 218 days of maturing debt coverage compared to 222 days at December 31, 2019. The decrease resulted from a change in the timing of upcoming debt maturities. Cash provided by the Bank's operating activities is an additional source of liquidity for the Bank that is not reflected in the coverage calculation

The System does not have a guaranteed line of credit from the U.S. Treasury or the Federal Reserve. However, the Farm Credit System Insurance Corporation (FCSIC) has an agreement with the Federal Financing Bank (FFB), a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the FFB could advance funds to the FCSIC. Under its existing statutory authority, the FCSIC may use these funds to provide assistance to the System banks in exigent market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to \$10 billion and terminates on September 30, 2021, unless otherwise renewed. The decision whether to seek funds from the FFB is at the discretion of the FCSIC. Each funding obligation of the FFB is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by AgFirst or the System.

See Note 3, *Investments*, and Note 4, *Debt*, in the Notes to the Financial Statements for further information.

Capital

Total shareholders' equity increased \$427.2 million, or 18.33 percent, from December 31, 2019 to \$2.758 billion at September 30, 2020. This increase is primarily attributed to 2020 unallocated retained earnings from net income of \$275.3 million and an increase in net unrealized gains of \$152.4 million on investments primarily due to a decrease in interest rates which increased the fair value of existing available-for-sale fixed-rate investment securities.

Regulatory Capital Ratios

The FCA sets minimum regulatory capital adequacy requirements for System banks and associations. The requirements are based on regulatory ratios as defined by the FCA.

AgFirst's regulatory ratios are shown in the following table:

	Regulatory Minimum, Including Buffer	9/30/20	12/31/19	9/30/19
Permanent Capital Ratio	7.00 %	18.42 %	19.32 %	19.02 %
Common Equity Tier 1 (CET1) Capital Ratio	7.00 %	18.02 %	18.90 %	18.60 %
Tier 1 Capital Ratio	8.50 %	18.39 %	19.29 %	18.99 %
Total Regulatory Capital Ratio	10.50 %	18.54 %	19.45 %	19.14 %
Tier 1 Leverage Ratio	5.00 %	6.75 %	7.10 %	6.98 %
Unallocated Retained Earnings (URE) and URE Equivalents Leverage Ratio	1.50 %	5.84 %	6.17 %	6.04 %

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

weighting of assets. The tier 1 leverage and URE and URE equivalents leverage ratios are calculated by dividing the three-month average daily balance of the capital numerator, as defined by the FCA, by the three-month average daily balance of total assets adjusted for regulatory deductions.

For all periods presented, AgFirst exceeded minimum regulatory standards for all of the ratios. The Bank's capital ratios declined closer to operating targets at September 30, 2020 compared to December 31, 2019 and September 30, 2019 due primarily to the distribution of cash patronage of \$266.9 million at the end of 2019, which represented approximately 98.26 percent of 2019 net income, and to higher average risk-weighted asset and total asset levels in the 2020 period, mainly resulting from higher loan and investment securities volumes as discussed in the *Loan Portfolio* and *Liquidity and Funding Sources* sections above.

RESULTS OF OPERATIONS

Net income for the nine months ended September 30, 2020 was \$275.3 million compared to \$191.9 million for the nine months ended September 30, 2019, an increase of \$83.5 million, or 43.50 percent. Net income for the three months ended September 30, 2020 was \$119.4 million compared to \$61.3 million for the three months ended September 30, 2019, an increase of \$58.1 million, or 94.82 percent. See below for further discussion of the change in net income by major components.

Key Results of Operations Comparisons

	Annualized for the Nine Months Ended September 30, 2020	For the Year Ended December 31, 2019	Annualized for the Nine Months Ended September 30, 2019
Return on average assets	1.03 %	0.81 %	0.77 %
Return on average shareholders' equity	14.33 %	11.14 %	10.72 %
Net interest margin	1.59 %	1.23 %	1.22 %
Operating expense as a percentage of net interest income and noninterest income	29.70 %	34.36 %	35.11 %
Net (charge-offs) recoveries to average loans	0.00 %	0.00 %	0.00 %

The annualized return on average assets, return on average shareholders' equity, and net interest margin ratios increased for the first nine months of 2020 compared to the same period in 2019 and to the year ended December 31, 2019 primarily due to higher annualized net interest income for the 2020 period.

For the operating expense as a percentage of net interest income and noninterest income ratio, operating expense consists primarily of noninterest expenses excluding losses (gains) from other property owned. This ratio was also positively impacted by higher annualized net interest income in the 2020 period compared to both prior periods.

See *Allowance for Loan Losses*, *Net Interest Income*, *Noninterest Income*, and *Noninterest Expenses* sections for further discussion.

Net Interest Income

Net interest income for the three months ended September 30, 2020 was \$161.4 million compared to \$104.2 million for the same period of 2019, an increase of \$57.2 million or 54.93 percent. For the nine months ended September 30, 2020, net interest income was \$414.7 million compared to \$299.9 million for the same period of 2019, an increase of \$114.8 million, or 38.28 percent. The net interest margin, which is net interest income as a percentage of average earning assets, was 1.81 percent and 1.59 percent for the three and nine months periods ended September 30, 2020, increases of 58 and 37 basis points, respectively, compared to the same periods in the prior year. The increase in net interest income for both periods primarily resulted from lower rates paid on interest-bearing liabilities, which was achieved by calling debt in response to declining interest rates.

The effects of changes in volume and interest rates on net interest income for the three and nine months ended September 30, 2020, as compared with the corresponding periods in 2019, are presented in the following table. The table distinguishes between the changes in interest income and interest expense related to average outstanding

balances and to the levels of average interest rates. Accordingly, the benefit derived from funding earning assets with interest-free funds (principally capital) is reflected solely as a volume increase.

<i>(dollars in thousands)</i>	For the Three Months Ended			For the Nine Months Ended		
	September 30, 2020 vs September 30, 2019			September 30, 2020 vs September 30, 2019		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Loans	\$ 7,502	\$ (52,755)	\$ (45,253)	\$ 28,547	\$ (114,974)	\$ (86,427)
Investments & Cash Equivalents	2,839	(21,446)	(18,607)	9,234	(51,049)	(41,815)
Other	98	(796)	(698)	187	(2,230)	(2,043)
Total Interest Income	10,439	(74,997)	(64,558)	37,968	(168,253)	(130,285)
Interest Expense:						
Interest-Bearing Liabilities	3,392	(125,161)	(121,769)	19,976	(265,078)	(245,102)
Changes in Net Interest Income	\$ 7,047	\$ 50,164	\$ 57,211	\$ 17,992	\$ 96,825	\$ 114,817

Provision for Loan Losses

AgFirst measures risks inherent in its loan portfolio on an ongoing basis and, as necessary, recognizes provision for loan loss expense so that appropriate reserves for loan losses are maintained. Loan loss provision was a net provision reversal of \$399 thousand and a net expense \$514 thousand for the three and nine months ended September 30, 2020, respectively, compared to a net expense of \$1.1 million and \$1.5 million, respectively, for the corresponding periods in 2019.

For the three and nine month periods ended September 30, 2020, the provision for loan losses included net provision reversals for specific reserves of \$600 thousand and \$1.5 million, respectively, and net provision expense for general reserves of \$201 thousand and \$2.0 million, respectively. For the three and nine periods in 2020, the Bank's provision for general reserves included a provision reversal of \$16 thousand and provision expense of \$524 thousand, respectively, for qualitative reserve for the participations/syndications portfolio due to anticipated stress in certain segments from the COVID-19 pandemic. In addition, the provision for general reserves for both the three and nine month periods included a qualitative reserve of \$1.3 million for the Correspondent Lending portfolio related to additional risks associated with loans remaining in forbearance programs at September 30, 2020. Total net provision reversal for the three months ended September 30, 2020 primarily related to borrowers in the nursery/greenhouse (\$720 thousand reversal), utilities (\$539 thousand reversal), swine (\$206 thousand reversal), rural home loan (\$796 thousand expense), and processing (\$223 thousand expense) segments. For the nine month period in 2020, the provision for loan losses primarily related to borrowers in the rural home loan (\$1.1 million expense), forestry (\$1.0 million expense), processing (\$881 thousand expense), nursery/greenhouse (\$975 thousand reversal), and field crops (\$847 thousand reversal) segments.

For the three and nine month periods ended September 30, 2019, the provision for loan losses included net provision expense for specific reserves of \$450 thousand and net provision reversals of \$907 thousand, respectively, and net provision expense for general reserves of \$680 thousand and \$2.4 million. Total net provision expense for the three months ended September 30, 2019 primarily related to borrowers in the field crops (\$796 thousand expense), and forestry (\$675 thousand expense) segments. For the nine month period in 2019, the provision for loan losses primarily related to borrowers in the forestry (\$595 thousand expense), utilities (\$570 thousand expense), and processing (\$396 thousand expense) segments.

See Note 2, *Loans and Allowance for Loan Losses*, in the Notes to the Financial Statements for further information.

Noninterest Income

The following table illustrates the changes in noninterest income:

Change in Noninterest Income <i>(dollars in thousands)</i>	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2020	2019	Increase/ (Decrease)	2020	2019	Increase/ (Decrease)
Loan fees	\$ 3,287	\$ 2,281	\$ 1,006	\$ 8,130	\$ 6,400	\$ 1,730
Lease income	780	1,095	(315)	2,335	3,085	(750)
Gains (losses) on investments, net	—	—	—	7,215	—	7,215
Gains (losses) on debt extinguishment	(14,353)	(11,733)	(2,620)	(58,300)	(20,109)	(38,191)
Gains (losses) on other transactions	8,085	772	7,313	10,628	513	10,115
Insurance premium refund	—	—	—	2,622	2,620	2
Other noninterest income	1,977	1,677	300	5,722	5,702	20
Total noninterest income	\$ (224)	\$ (5,908)	\$ 5,684	\$ (21,648)	\$ (1,789)	\$ (19,859)

For the three and nine months ended September 30, 2020 compared to the corresponding periods in 2019, noninterest income increased \$5.7 million and decreased \$19.9 million, respectively. Significant line item dollar variances are discussed below.

For the three and nine months periods ended September 30, 2020, loan fees increased \$1.0 million and \$1.7 million, respectively. The increases for both the three and nine months periods were primarily due to increases in fee income in the Correspondent Lending portfolio of \$573 thousand and \$1.0 million, respectively, mainly in modification fees.

During the nine months ended September 30, 2020, the Bank sold securities with a par value of approximately \$55.9 million as part of investment portfolio maintenance, resulting in gains of \$7.2 million. No securities were sold during 2019. See further discussion in Note 3, *Investments*, in the Notes to the Financial Statements.

Debt issuance expense is amortized over the life of the underlying debt security. When debt securities are called prior to maturity, any unamortized issuance cost is expensed. Losses on debt extinguishment increased \$2.6 million and \$38.2 million for the three and nine months ended September 30, 2020, respectively, compared to the same periods in 2019. Call options were exercised on bonds totaling \$8.719 billion and \$38.081 billion for the three and nine months periods in 2020, respectively, compared to \$6.812 billion and \$11.887 billion for the three and nine month periods in 2019. Debt is called to take advantage of favorable market interest rate changes. The amount of debt issuance cost expensed is dependent upon both the volume and remaining maturity of the debt when called. Losses on called debt are more than offset by interest expense savings realized over the life of the replacement debt.

For the three and nine month periods ended September 30, 2020, net gains on other transactions increased \$7.3 million and \$10.1 million, respectively. The higher gains for both the three and nine month periods resulted primarily from \$5.4 million and \$8.1 million in gains on the sale of \$180.2 million and \$287.8 million, respectively, of Correspondent Lending loans to capitalize on market premiums in the portfolio. In addition, for the three month and nine months periods, increases of \$1.3 million and \$2.1 million, respectively, in the fair value of mortgage servicing rights resulted primarily from these loan sales as the servicing was retained. For the three month period, an increase of \$721 thousand in market value gains on certain retirement plan trust assets also contributed to the increase.

Noninterest Expenses

The following table illustrates the changes in noninterest expenses:

Change in Noninterest Expenses <i>(dollars in thousands)</i>	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2020	2019	Increase/ (Decrease)	2020	2019	Increase/ (Decrease)
Salaries and employee benefits	\$ 18,272	\$ 16,648	\$ 1,624	\$ 54,455	\$ 49,110	\$ 5,345
Occupancy and equipment	1,913	6,169	(4,256)	5,641	18,264	(12,623)
Insurance Fund premiums	3,112	2,317	795	7,560	6,737	823
Other operating expenses	18,766	10,672	8,094	49,100	30,570	18,530
Losses (gains) from other property owned	69	23	46	519	118	401
Total noninterest income	\$ 42,132	\$ 35,829	\$ 6,303	\$ 117,275	\$ 104,799	\$ 12,476

Noninterest expenses for the three and nine months ended September 30, 2020 increased \$6.3 million and \$12.5 million, respectively, compared to the corresponding periods in 2019. Significant line item dollar variances are discussed below.

Salaries and employee benefits increased \$1.6 million and \$5.3 million for the three and nine months ended September 30, 2020, respectively, compared to the same periods in 2019. The increase resulted primarily from \$1.4 million and \$4.2 million for the three and nine month periods, respectively, in higher salaries and incentives due to normal salary administration and an increase in headcount. For the nine month period, an increase of \$623 thousand in pension expense due to higher service cost also contributed to the increase.

Occupancy and equipment expenses decreased \$4.3 million and \$12.6 million, respectively, and other operating expenses increased \$8.1 million and \$18.5 million, respectively, for the three and nine month periods ended September 30, 2020 compared to the same periods in the prior year. In conjunction with the prospective application of new accounting guidance for internal-use software which was effective in the first quarter of 2020, certain hardware and software depreciation and maintenance expenses totaling \$4.8 million and \$14.0 million for the three and nine month periods, respectively, were included in other operating expenses rather than in occupancy expense as previously reported. In addition, increases of \$4.5 million and \$6.9 million for the three and nine month periods, respectively, in consultant and professional fees predominantly related to technology initiatives also contributed to the increase in other operating expenses. Lower travel costs resulting from the COVID-19 pandemic of \$627 thousand and \$1.4 million for the three and nine month periods, respectively, partially offset the increases in other operating expenses.

Insurance Fund premiums increased \$795 thousand and \$823 thousand for the three and nine months, respectively, compared to the same periods in 2019 primarily due to a mid-year 2020 increase in the base annual premium rate. The base annual premium rate was 9 basis points in 2019, 8 basis points in the first half of 2020, and 11 basis points in the third quarter of 2020. The FCSIC Board makes premium rate adjustments, as necessary, to maintain the secure base amount which is based upon insured debt outstanding at System banks.

REGULATORY MATTERS

Capital

The following quantitative disclosures contain regulatory disclosures as required for the Bank under Regulation §628.62 and §628.63 for risk-adjusted ratios: common equity tier 1, tier 1 capital and total regulatory capital ratios. As required, these disclosures are made available for at least three years and can be accessed via AgFirst's website at www.agfirst.com.

SCOPE OF APPLICATION

AgFirst is one of the four banks of the System, a nationwide system of cooperatively owned Banks and Associations, established by Congress and subject to the provisions of the Farm Credit Act of 1971, as amended. The Bank prepares financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the financial services industry.

As of September 30, 2020, the AgFirst District consisted of the Bank and 19 District Associations. All 19 were structured as Agricultural Credit Association (ACA) holding companies, with Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries. AgFirst is owned jointly by these 19 Associations, certain Other Financing Institutions (OFIs), other System institutions, and preferred stockholders. The Bank does not have any subsidiaries requiring consolidation; therefore, there are no consolidated entities for which the total capital requirement is deducted, there are no restrictions on transfer of funds or total capital with other consolidated entities and no subsidiary exists which is below the minimum total capital requirement individually or when aggregated at the Bank's level. In conjunction with other System entities, the Bank jointly owns certain service organizations: the Federal Farm Credit Banks Funding Corporation (Funding Corporation), the FCS Building Association (FCSBA), and the Farm Credit Association Captive Insurance Corporation (Captive). Certain of the Bank's investments in other System institutions, including the investment in the Funding Corporation and FCSBA, are deducted from capital as only the institution that issued the equities may count the amount as capital.

CAPITAL STRUCTURE

The table below outlines the Bank's capital structure for the capital adequacy calculations as of September 30, 2020:

<i>(dollars in thousands)</i>	3-Month Average Daily Balance
Common Equity Tier 1 Capital (CET1)	
Common cooperative equities:	
Statutory minimum purchased borrower stock	\$ 23
Other required member purchased stock	128,105
Allocated equities:	
Allocated stock subject to retirement	197,150
Nonqualified allocated surplus subject to retirement	415
Unallocated retained earnings	2,069,907
Paid-in capital	58,883
Regulatory adjustments and deductions made to CET1*	(73,469)
Total CET1 Capital	<u>\$ 2,381,014</u>
Additional Tier 1 Capital (AT1)	
Non-cumulative perpetual preferred stock	\$ 49,250
Regulatory adjustments and deductions made to AT1	—
Total AT1 Capital	<u>\$ 49,250</u>
Total Tier 1 Capital	<u>\$ 2,430,264</u>
Tier 2 Capital	
Allowance for loan losses	\$ 19,080
Reserve for unfunded commitments	671
Regulatory adjustments and deductions made to total capital	—
Total Tier 2 Capital	<u>\$ 19,751</u>
Total Regulatory Capital	<u>\$ 2,450,015</u>

*Primarily investments in other System institutions.

CAPITAL ADEQUACY AND CAPITAL BUFFERS

The table below outlines the Bank's risk-weighted assets by exposure calculated on a three-month average daily balance (including accrued interest of that exposure) as of September 30, 2020:

<i>(dollars in thousands)</i>	Risk-Weighted Assets
Exposures to:	
Government-sponsored entities, including Direct Notes to Associations	\$ 4,329,302
Depository institutions	49,798
Corporate exposures, including borrower loans and leases	5,701,035
Residential mortgage loans	1,071,964
Past due > 90 days and nonaccrual loans	29,753
Securitized assets	201,088
Exposures to obligors and other assets	142,623
Off-balance sheet exposures	1,689,559
Total risk-weighted assets	<u>\$ 13,215,122</u>

As of September 30, 2020, the Bank exceeded all capital requirements to which it was subject, including applicable capital buffers. The Bank's risk-adjusted capital ratios exceeded the regulatory minimum levels, including the conservation buffer, by at least 8.04 percent. Additionally, the Bank's leverage ratio was 1.75 percent in excess of its required minimum leverage ratio, including the buffer. If the capital ratios fall below the minimum regulatory requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

The following sets forth the regulatory capital ratios as of September 30, 2020:

Ratio	Regulatory Minimum Requirement	Capital Conservation Buffer	Minimum Requirement, Including Buffer	Capital Ratios
Risk-adjusted ratios:				
CET1 Capital	4.50 %	2.50 %	7.00 %	18.02 %
Tier 1 Capital	6.00 %	2.50 %	8.50 %	18.39 %
Total Regulatory Capital	8.00 %	2.50 %	10.50 %	18.54 %
Permanent Capital	7.00 %	0.00 %	7.00 %	18.42 %
Non-risk-adjusted ratios:				
Tier 1 Leverage	4.00 %	1.00 %	5.00 %	6.75 %
URE and URE Equivalents Leverage	1.50 %	0.00 %	1.50 %	5.84 %

CREDIT RISK

System entities have specific lending authorities within their chartered territories. The Bank is subject to credit risk by lending to the District's FLCAs, PCAs, and ACAs as well as Other Financing Institutions (OFIs). The Bank also purchases participations and syndications and first lien residential mortgage loans. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which identifies loans that may be impaired based on characteristics such as probability of default (PD) and loss given default (LGD). Allowance needs by geographic region are only considered in rare circumstances that may not otherwise be reflected in the PD and LGD (flooding, drought, etc.). There was no allowance attributed to a geographic area as of September 30, 2020. The Bank's allowance for loan losses at September 30, 2020 included \$524 thousand of qualitative reserves for the participations/syndications portfolio due to anticipated stress from the COVID-19 pandemic in certain segments. In addition, the Bank established a qualitative reserve of \$1.3 million for additional risks for loans remaining in forbearance in the Correspondent Lending portfolio. See Note 2, *Loans and Allowance for Loan Losses*, and Note 3, *Investments*, in the Notes to the Financial Statements for quantitative disclosures related to the Bank's credit risk.

CREDIT RISK MITIGATION

Credit Risk Mitigation Related to Loans

The Bank uses various strategies to mitigate credit risk in its lending portfolio. As described in Note 1 of the Bank’s Annual Report, a substantial portion of the loan balance is concentrated in notes receivable from the District Associations to fund their earning assets, which collateralize the notes. In addition, the earnings, capital and loan loss reserves of the Associations provide additional layers of protection against losses in their respective retail loan portfolios.

The following table illustrates certain significant credit risk mitigants within AgFirst’s loan portfolio which reduce capital requirements as of September 30, 2020:

<i>(dollars in thousands)</i>	Ending Balance	3-Month Average Balance	Risk-Weighted Exposures	% of Total Loans
Loans with unconditional guarantee	\$ 106,966	\$ 105,930	\$ —	— %
Loans with conditional guarantee	1,014,131	1,052,983	210,597	4 %
Direct Notes	17,724,717	17,592,486	3,518,497	68 %
Total	\$ 18,845,814	\$ 18,751,399	\$ 3,729,094	72 %

The Bank’s credit risk associated with its Direct Note portfolio approximates that of the aggregate District Associations’ portfolios. Excluding accrued interest receivable, at September 30, 2020, the Bank’s Direct Note portfolio totaled \$17.687 billion and aggregate District Associations’ loan portfolios totaled \$23.510 billion.

The following table illustrates the geographic distribution of the aggregate loan portfolios for AgFirst District Associations as of September 30, 2020:

AgFirst Total District Associations Loan Portfolios by State	
	Percent of Portfolio
North Carolina	16 %
Georgia	11
Pennsylvania	10
Virginia	10
Florida	8
Ohio	8
Maryland	6
South Carolina	6
Alabama	5
Kentucky	4
Mississippi	3
Louisiana	2
Delaware	2
All Other States	9
Total	100 %

The following table illustrates the various major commodity groups in the aggregate District Associations' loan portfolios based on borrower eligibility as a percentage of the aggregate outstanding District Associations' loan volume at September 30, 2020:

AgFirst Total District Associations Loan Portfolios by Commodity Group Based on Eligibility	
	Percent of Portfolio
Forestry	15 %
Poultry	14
Field Crops	12
Cattle	9
Grains	8
Corn	6
Dairy	5
Other Real Estate	5
Cotton	3
Tree Fruits and Nuts	3
Swine	3
Nursery/Greenhouse	3
Rural Home Loan	2
Processing	2
Other	10
Total	100 %

The following table illustrates the aggregate District Associations' loan portfolios based upon repayment dependency by commodity as a percentage of the aggregate outstanding District Associations' loan volume at September 30, 2020:

AgFirst Total District Associations Loan Portfolios by Commodity Group Based on Repayment Dependency	
	Percent of Portfolio
Non-Farm Income	33 %
Grains	15
Poultry	13
Timber	6
Dairy	5
Fruit & Vegetables	4
Beef	4
Cotton	3
Farm Related Business	3
Swine	2
Landlords	2
Tobacco	2
Nursery	2
Other	6
Total	100 %

The following table illustrates AgFirst's loan portfolio by geographic distribution at September 30, 2020. This table includes the Bank's Direct Notes in total and does not include accrued interest.

AgFirst Loan Portfolio by State						
<i>(dollars in thousands)</i>	At Period End			Year-to-Date Average Balance		
	Outstanding Loans	Unfunded Amounts	Total Exposure	Outstanding Loans	Unfunded Amounts	Total Exposure
North Carolina	\$ 1,435,448	\$ 207,415	\$ 1,642,863	\$ 1,506,831	\$ 221,888	\$ 1,728,719
Georgia	1,003,642	385,210	1,388,852	1,048,667	367,554	1,416,221
Florida	664,724	274,420	939,144	654,619	239,180	893,799
Virginia	540,852	101,376	642,228	589,556	102,134	691,690
Minnesota	333,048	285,112	618,160	350,634	263,155	613,789
Texas	422,143	121,947	544,090	420,789	126,584	547,373
South Carolina	435,481	46,396	481,877	469,975	41,866	511,841
Pennsylvania	189,887	150,600	340,487	210,842	135,967	346,809
California	265,500	71,473	336,973	270,086	68,163	338,249
New York	202,496	123,241	325,737	198,235	104,552	302,787
Ohio	160,618	152,234	312,852	185,543	148,998	334,541
Maryland	288,558	16,704	305,262	312,309	18,542	330,851
Missouri	178,116	113,497	291,613	191,734	105,740	297,474
Louisiana	179,493	84,931	264,424	163,073	90,214	253,287
Illinois	103,861	128,274	232,135	106,896	115,535	222,431
Washington	122,959	75,737	198,696	124,312	64,241	188,553
Kentucky	191,741	3,905	195,646	190,114	7,390	197,504
Mississippi	71,805	112,871	184,676	83,437	107,062	190,499
Nebraska	68,276	113,770	182,046	70,129	95,450	165,579
All other states	1,344,198	754,231	2,098,429	1,339,572	663,614	2,003,186
Direct Notes	17,687,095	2,629,720	20,316,815	17,090,845	2,863,789	19,954,634
Total loans	\$ 25,889,941	\$ 5,953,064	\$ 31,843,005	\$ 25,578,198	\$ 5,951,618	\$ 31,529,816

The following table shows the various major commodity groups in the portfolio based on borrower eligibility at September 30, 2020. This table includes the Bank's Direct Notes in total and does not include accrued interest.

AgFirst Loan Portfolio by Commodity Group Based on Eligibility						
<i>(dollars in thousands)</i>	At Period End			Year-to-Date Average Balance		
	Outstanding Loans	Unfunded Amounts	Total Exposure	Outstanding Loans	Unfunded Amounts	Total Exposure
Rural Home Loan	\$ 2,988,057	\$ 82,884	\$ 3,070,941	\$ 3,256,803	\$ 118,680	\$ 3,375,483
Processing	921,616	849,476	1,771,092	927,907	779,007	1,706,914
Utilities	898,381	756,840	1,655,221	888,290	714,156	1,602,446
Forestry	1,009,111	332,780	1,341,891	999,831	302,572	1,302,403
Field Crops	348,405	178,876	527,281	335,461	156,405	491,866
Tree Fruits and Nuts	232,331	156,999	389,330	234,263	127,570	361,833
Swine	172,855	80,403	253,258	177,738	92,489	270,227
Grains	116,629	120,122	236,751	124,029	118,461	242,490
Dairy	169,836	65,840	235,676	147,160	52,020	199,180
Nursery/Greenhouse	157,617	63,763	221,380	182,216	50,660	232,876
Cattle	132,994	78,980	211,974	130,948	80,104	211,052
Other Real Estate	202,141	8,411	210,552	210,873	8,793	219,666
Other	852,873	547,970	1,400,843	871,834	486,912	1,358,746
Direct Notes	17,687,095	2,629,720	20,316,815	17,090,845	2,863,789	19,954,634
Total loans	\$ 25,889,941	\$ 5,953,064	\$ 31,843,005	\$ 25,578,198	\$ 5,951,618	\$ 31,529,816

The following table segregates loans based upon repayment dependency by commodity at September 30, 2020. This table includes the Bank's Direct Notes in total and does not include accrued interest.

AgFirst Loan Portfolio by Commodity Group Based on Repayment Dependency						
<i>(dollars in thousands)</i>	At Period End			Year-to-Date Average Balance		
	Outstanding Loans	Unfunded Amounts	Total Exposure	Outstanding Loans	Unfunded Amounts	Total Exposure
Non-Farm Income	\$ 3,265,300	\$ 117,693	\$ 3,382,993	\$ 3,549,191	\$ 152,147	\$ 3,701,338
Rural Utilities	888,363	756,840	1,645,203	888,290	714,156	1,602,446
Timber	877,223	305,443	1,182,666	874,410	267,052	1,141,462
Processing and Marketing	318,009	507,667	825,676	333,550	452,526	786,076
Fruit & Vegetables	484,680	330,378	815,058	467,766	296,949	764,715
Grains	386,764	304,592	691,356	377,240	279,559	656,799
Swine	300,831	177,383	478,214	302,510	175,424	477,934
Farm Related Business	353,074	76,643	429,717	354,944	84,145	439,089
Poultry	212,141	207,223	419,364	223,235	199,478	422,713
Dairy	233,887	100,844	334,731	224,156	83,702	307,858
Beef	144,813	107,336	252,149	139,127	103,674	242,801
Other	737,761	331,302	1,069,063	752,934	279,017	1,031,951
Direct Notes	17,687,095	2,629,720	20,316,815	17,090,845	2,863,789	19,954,634
Total loans	\$ 25,889,941	\$ 5,953,064	\$ 31,843,005	\$ 25,578,198	\$ 5,951,618	\$ 31,529,816

The following table illustrates AgFirst's impaired loans by geographic distribution at September 30, 2020. This table does not include accrued interest.

Total Outstanding Impaired Loans by State		
<i>(dollars in thousands)</i>	At Period End	Year-to-Date Average Balance
North Carolina	\$ 16,532	\$ 9,334
Florida	8,243	5,166
Ohio	6,375	6,303
Colorado	5,313	4,809
Arkansas	3,787	3,489
Georgia	3,381	2,475
South Carolina	2,005	1,720
Maryland	1,973	1,813
Virginia	1,574	1,288
Texas	1,155	979
All other states	3,272	3,566
Total impaired loans	\$ 53,610	\$ 40,942

The Bank does not use credit default swaps as part of its credit risk management approach.

Credit Risk Mitigation Related to Investments

Credit risk in AgFirst's investment portfolio is largely mitigated by investing primarily in securities issued or guaranteed by the U.S. government or one of its agencies.

The following table shows the investment exposures covered by a guarantee as of September 30, 2020:

<i>(dollars in thousands)</i>	Amortized Cost	Fair Value	% of Total Investments	Risk- Weighted Exposures
Unconditional Guarantee:				
U.S. Govt. Treasury Securities	\$ 267,848	\$ 269,234	3 %	\$ —
U.S. Govt. Guaranteed	4,375,808	4,517,181	52 %	—
Conditional Guarantee:				
U.S. Govt. Agency Guaranteed	3,022,566	3,075,303	36 %	601,099
Total	\$ 7,666,222	\$ 7,861,718	91 %	\$ 601,099

COUNTERPARTY CREDIT RISK

Counterparty credit risk exposures may consist of derivative instruments and repurchase-style transactions. By using derivative instruments, the Bank exposes itself to credit and market risk. The amount of this exposure depends on the value of underlying market factors (e.g. interest rates and foreign exchange rates), which can be volatile and uncertain in nature. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Bank's credit risk will equal the fair value gain in the derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the Bank is exposed to an economic loss if the counterparty defaults. When the fair value of the derivative contract is negative, the counterparty is exposed to an economic loss in the event of a Bank default and the Bank has no credit risk exposure.

To minimize the risk of credit losses, the Bank transacts with counterparties that have an investment grade credit rating from a major rating agency and also monitors the credit standing of, and levels of exposure to, individual counterparties. The Bank typically enters into master agreements that contain netting provisions. These provisions allow the Bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts.

Financial instruments qualifying as eligible collateral are specifically defined under individual counterparty credit support agreements, but generally include cash, U.S. Treasury debt obligations, debt obligations of certain federal agencies and mortgage-backed securities guaranteed by certain federal agencies. Federal agencies include the Government National Mortgage Association, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and the Federal Home Loan Banks. The value of the instrument when used as collateral may be discounted from its market price up to 10 percent, depending on the security type, issuer and term. Such discounts are defined in the credit support agreement.

At September 30, 2020, the notional value of forward contracts to sell Correspondent Lending loans was \$3.4 million.

SECURITIZATION

The Bank has elected to utilize the simplified supervisory formula risk-based capital approach (SSFA) for securitization exposures. As such, the Bank's asset-backed securities (ABS) portfolio is risk weighted on an individual security level. As of September 30, 2020, the ABS risk-weights ranged from 20.00 percent to 89.99 percent, with a weighted average risk-weight of 24.72 percent.

The following table shows the risk-weight distribution of the amortized cost for ABS securities as of September 30, 2020 which are risk weighted using the SSFA approach:

<i>(dollars in thousands)</i>	ABS Securities by SSFA Risk Weight Classification		
	Automobile ABSs	Credit Card ABSs	Total
0% – 50%	\$ 82,528	\$ 590,663	\$ 673,191
Greater than 50% – 100%	39,098	—	39,098
Greater than 100% – 150%	—	—	—
Total Exposure	\$ 121,626	\$ 590,663	\$ 712,289

As of September 30, 2020, the Bank did not hold any off-balance sheet securitization exposures nor were any securitization exposures deducted from capital. For the nine months ended September 30, 2020, there were no sales of ABS securities that resulted in realized gains or losses.

Refer to Note 3, *Investments*, in the Notes to the Financial Statements for additional information related to purchases and sales of securitization exposures as well as the amortized cost, unrealized gains/(losses) and fair value of mortgage-backed securities (MBSs) and ABSs held in the investment portfolio.

EQUITIES

At September 30, 2020, the Bank had no equity investments other than equity investments in other Farm Credit institutions.

INTEREST RATE RISK

For discussion of AgFirst’s market value of equity and projected change over the next twelve months in net interest income for various rate movements as of September 30, 2020, see the *Interest Rate Sensitivity* section of Management’s Discussion and Analysis of Financial Condition and Results of Operations.

OTHER REGULATORY MATTERS

On October 8, 2020, the Farm Credit Administration adopted a final rule that amends the regulations governing how a Farm Credit Bank presents information on its related associations. The final rule provided two presentation options: by footnote or attached in a supplement. The final rule will be effective 30 days after publication in the Federal Register.

On October 6, 2020, the Farm Credit Administration adopted a final rule that amends its investment regulations to allow associations to purchase and hold the portion of certain loans that non-System lenders originate and sell in the secondary market, and that the USDA unconditionally guarantees or insures as to the timely payment of principal and interest. The final rule will be effective 30 days after publication in the Federal Register.

On September 28, 2020, the Farm Credit Administration adopted a final rule governing the amortization limits for associations. This rule repeals regulatory provisions that impose amortization limits on certain loans and requires associations to address loan amortization in their credit underwriting standards and internal controls. The final rule will be effective 30 days after publication in the Federal Register.

On August 25, 2020, the Farm Credit Administration adopted a final rule that amends the criteria to reinstate nonaccrual loans. This rule clarifies the factors that System institutions should consider when categorizing high-risk loans and placing them in nonaccrual status. The rule also revises the criteria by which loans are reinstated to accrual status, and revises the application of the criteria to certain loans in nonaccrual status to distinguish between the types of risk that cause loans to be placed in nonaccrual status. The final rule became effective on October 21, 2020.

On September 23, 2019, the Farm Credit Administration issued a proposed rule that would ensure the System’s capital requirements, including certain regulatory disclosures, reflect the current expected credit losses methodology, which revises the accounting for credit losses under U.S. generally accepted accounting principles. The proposed rule identifies which credit loss allowances under the Current Expected Credit Losses (CECL) methodology in the Financial Accounting Standards Board’s “Measurement of Credit Losses on Financial Instruments” are eligible for inclusion in a System institution’s regulatory capital. Credit loss allowances related to loans, lessor’s net investments in leases, and held-to-maturity debt securities would be included in a System institution’s Tier 2 capital up to 1.25 percent of the System institution’s total risk weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not be eligible for inclusion in a System institution’s Tier 2 capital. In addition, the proposed regulation does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution’s regulatory capital ratios. The public comment period ended on November 22, 2019.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2019 Annual Report of AgFirst Farm Credit Bank for recently issued accounting pronouncements.

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
<i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i>	
<ul style="list-style-type: none"> • Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management’s estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to an expected loss model. • The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted. 	<ul style="list-style-type: none"> • Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. • The new guidance is expected to result in a change in allowance for credit losses due to several factors, including: <ol style="list-style-type: none"> 1. The allowance related to loans and commitments will most likely change because it will then cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on any debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts at the adoption date. • The guidance is expected to be adopted in first quarter 2023.

NOTE: Shareholder investment in a District Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst’s annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, Controller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Combined information concerning AgFirst Farm Credit Bank and District Associations can also be obtained at the Bank’s website, www.agfirst.com. AgFirst prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no quarterly report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2020	December 31, 2019
	<i>(unaudited)</i>	<i>(audited)</i>
Assets		
Cash	\$ 373,604	\$ 444,559
Cash equivalents	495,000	650,000
Investments in debt securities:		
Available-for-sale (amortized cost of \$8,377,370 and \$7,843,244, respectively)	8,582,054	7,895,569
Held-to-maturity (fair value of \$37,293 and \$40,842, respectively)	31,662	37,266
Total investments in debt securities	8,613,716	7,932,835
Loans	25,889,941	25,111,659
Allowance for loan losses	(19,176)	(18,032)
Net loans	25,870,765	25,093,627
Loans held for sale	4,520	—
Accrued interest receivable	82,411	94,806
Accounts receivable	203,023	126,865
Equity investments in other Farm Credit institutions	77,450	76,710
Premises and equipment, net	60,363	54,219
Other property owned	2,193	3,041
Other assets	32,163	28,427
Total assets	\$ 35,815,208	\$ 34,505,089
Liabilities		
Systemwide bonds payable	\$ 25,027,301	\$ 27,291,279
Systemwide notes payable	7,923,403	4,432,488
Accrued interest payable	33,833	104,587
Accounts payable	27,426	300,141
Other liabilities	45,255	45,776
Total liabilities	33,057,218	32,174,271
Commitments and contingencies (Note 8)		
Shareholders' Equity		
Perpetual preferred stock	49,250	49,250
Capital stock and participation certificates	325,278	325,278
Additional paid-in-capital	58,883	58,883
Retained earnings		
Allocated	415	418
Unallocated	2,123,095	1,848,506
Accumulated other comprehensive income (loss)	201,069	48,483
Total shareholders' equity	2,757,990	2,330,818
Total liabilities and equity	\$ 35,815,208	\$ 34,505,089

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

Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
Interest Income				
Investments	\$ 36,325	\$ 54,932	\$ 125,519	\$ 167,334
Loans	183,435	228,688	587,575	674,002
Other	614	1,312	1,927	3,970
Total interest income	220,374	284,932	715,021	845,306
Interest Expense				
	59,002	180,771	300,277	545,379
Net interest income	161,372	104,161	414,744	299,927
Provision for (reversal of allowance for) loan losses	(399)	1,130	514	1,483
Net interest income after provision for loan losses	161,771	103,031	414,230	298,444
Noninterest Income				
Loan fees	3,287	2,281	8,130	6,400
Lease income	780	1,095	2,335	3,085
Gains (losses) on investments, net	—	—	7,215	—
Gains (losses) on debt extinguishment	(14,353)	(11,733)	(58,300)	(20,109)
Gains (losses) on other transactions	8,085	772	10,628	513
Insurance premium refund	—	—	2,622	2,620
Other noninterest income	1,977	1,677	5,722	5,702
Total noninterest income	(224)	(5,908)	(21,648)	(1,789)
Noninterest Expenses				
Salaries and employee benefits	18,272	16,648	54,455	49,110
Occupancy and equipment	1,913	6,169	5,641	18,264
Insurance Fund premiums	3,112	2,317	7,560	6,737
Other operating expenses	18,766	10,672	49,100	30,570
Losses (gains) from other property owned	69	23	519	118
Total noninterest expenses	42,132	35,829	117,275	104,799
Net income	\$ 119,415	\$ 61,294	\$ 275,307	\$ 191,856
Other comprehensive income:				
Unrealized gains (losses) on investments	2,363	19,985	152,359	135,257
Change in value of cash flow hedges	(79)	(116)	(215)	(267)
Employee benefit plans adjustments	147	82	442	246
Other comprehensive income (Note 5)	2,431	19,951	152,586	135,236
Comprehensive income	\$ 121,846	\$ 81,245	\$ 427,893	\$ 327,092

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

Statements of Changes in Shareholders' Equity

(unaudited)

<i>(dollars in thousands)</i>	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Additional Paid-In- Capital	Retained Earnings		Accumulated Other Comprehensive Income	Total Shareholders' Equity
				Allocated	Unallocated		
Balance at December 31, 2018	\$ 49,250	\$ 317,840	\$ 58,883	\$ 440	\$ 1,848,936	\$ (51,652)	\$ 2,223,697
Cumulative effect of change in accounting principle					(149)		(149)
Comprehensive income					191,856	135,236	327,092
Capital stock/participation certificates issued/ (retired), net		(2,177)					(2,177)
Dividends paid on perpetual preferred stock					(1,394)		(1,394)
Retained earnings retired				(24)			(24)
Patronage distribution adjustment		156			(108)		48
Balance at September 30, 2019	\$ 49,250	\$ 315,819	\$ 58,883	\$ 416	\$ 2,039,141	\$ 83,584	\$ 2,547,093
Balance at December 31, 2019	\$ 49,250	\$ 325,278	\$ 58,883	\$ 418	\$ 1,848,506	\$ 48,483	\$ 2,330,818
Comprehensive income					275,307	152,586	427,893
Dividends paid on perpetual preferred stock					(791)		(791)
Retained earnings retired				(3)			(3)
Patronage distribution adjustment					73		73
Balance at September 30, 2020	\$ 49,250	\$ 325,278	\$ 58,883	\$ 415	\$ 2,123,095	\$ 201,069	\$ 2,757,990

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the Nine Months Ended September 30,	
	2020	2019
Cash flows from operating activities:		
Net income	\$ 275,307	\$ 191,856
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	6,234	6,258
Amortization of net deferred loan (fees) costs and premium amortization (discount accretion)	6,274	2,010
Premium amortization (discount accretion) on investment securities	15,409	3,181
(Premium amortization) discount accretion on bonds and notes	59,284	90,618
Provision for loan losses	514	1,483
(Gains) losses on other property owned, net	458	74
(Gains) losses on investments, net	(7,215)	—
(Gains) losses on debt extinguishment	58,300	20,109
(Gains) losses on other transactions	(10,628)	(513)
Net change in loans held for sale	3,602	3,361
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	12,395	(4,502)
(Increase) decrease in accounts receivable	(76,158)	(811)
Increase (decrease) in accrued interest payable	(70,754)	(7,750)
Increase (decrease) in accounts payable	(5,773)	(4,859)
Change in other, net	(1,328)	(829)
Total adjustments	(9,386)	107,830
Net cash provided by (used in) operating activities	265,921	299,686
Cash flows from investing activities:		
Investment securities purchased	(2,771,704)	(1,590,598)
Investment securities sold or matured	2,234,773	1,770,389
Net (increase) decrease in loans	(784,123)	(664,971)
(Increase) decrease in equity investments in other Farm Credit System institutions	(740)	(646)
Purchase of premises and equipment, net	(12,370)	(4,199)
Proceeds from sale of premises and equipment	11	45
Proceeds from sale of other property owned	587	103
Net cash provided by (used in) investing activities	(1,333,566)	(489,877)
Cash flows from financing activities:		
Bonds and notes issued	53,625,555	24,465,352
Bonds and notes retired	(52,516,202)	(23,113,065)
Capital stock and participation certificates issued/retired, net	—	(2,177)
Distribution to shareholders	(266,869)	(298,077)
Dividends paid on perpetual preferred stock	(791)	(1,394)
Retained earnings retired	(3)	(24)
Net cash provided by (used in) financing activities	841,690	1,050,615
Net increase (decrease) in cash and cash equivalents	(225,955)	860,424
Cash and cash equivalents, beginning of period	1,094,559	521,485
Cash and cash equivalents, end of period	\$ 868,604	\$ 1,381,909
Supplemental schedule of non-cash activities:		
Receipt of property in settlement of loans	\$ 197	\$ —
Change in unrealized gains (losses) on investments, net	152,359	135,257
Employee benefit plans adjustments	(442)	(246)
Supplemental information:		
Interest paid	\$ 311,747	\$ 462,511

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

Notes to the Financial Statements

(unaudited)

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

Organization

The accompanying financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst or Bank). AgFirst and its related Agricultural Credit Associations (Associations or District Associations) are collectively referred to as the AgFirst District (District). A complete description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations of the Bank as of and for the year ended December 31, 2019 are contained in the 2019 Annual Report to Shareholders. These unaudited interim financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation

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

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

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

Significant Accounting Policies

The Bank's accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the financial statements, income and expenses during the reporting period, and the related disclosures. Although these estimates contemplate current conditions and expectations of change in the future, it is reasonably possible that actual conditions may be different than anticipated, which could materially affect results of operations and financial condition.

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

For further details of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, from the latest Annual Report.

Accounting Standards Updates (ASUs) Issued During the Period

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

- In January 2020, the FASB issued ASU 2020-01 Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815. The amendments clarify certain interactions between the guidance on accounting for certain equity securities under Topic 321, the guidance on accounting for investments under the equity method in Topic 323, and the guidance in Topic 815. The Update could change how an entity accounts for an equity security under the measurement alternative or a forward contract or purchased option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method of accounting or the fair value option in accordance with Topic 825, Financial Instruments. The amendments are intended to improve current GAAP by

reducing diversity in practice and increasing comparability of the accounting for these interactions. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted, including early adoption in an interim period. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

ASUs Pending Effective Date

For a detailed description of the ASUs below, see the latest Annual Report.

Potential effects of ASUs issued in previous periods:

- In November 2019, the FASB issued ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842). On the basis of feedback obtained from outreach with stakeholders and monitoring of implementation, the Board has gained a greater understanding about the implementation challenges encountered by all types of entities when adopting a major Update. The challenges are often magnified for private companies, smaller public companies, and not-for-profit organizations. In response to those issues and requests to defer certain major Updates not yet effective for all entities, the Board developed a philosophy to extend and simplify how effective dates are staggered between larger public companies (bucket one) and all other entities (bucket two). Credit Losses guidance in ASU 2016-13 will be effective for all bucket two entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.
- In August 2018, the FASB issued ASU 2018-14 Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans. The amendments in this Update remove disclosures that are no longer considered cost beneficial, clarify the specific requirements of certain disclosures, and add new disclosure requirements identified as relevant. Although narrow in scope, the amendments are considered an important part of the FASB’s efforts to improve the effectiveness of disclosures in the notes to financial statements by applying concepts in the Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements. The amendments are effective for fiscal years ending after December 15, 2020, for public business entities. Early adoption is permitted. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.
- In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update, and subsequent clarifying guidance issued, is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early adoption is permitted. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

Accounting Standards Effective During the Period

There were no changes in the accounting principles applied from the latest Annual Report, other than any discussed below.

No recently adopted accounting guidance issued by the FASB had a significant effect on the current period reporting.

- In March 2020, the FASB issued ASU 2020-04 Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. In response to concerns about structural risks of interbank offered rates (IBORs), and, particularly, the risk of cessation of the London Interbank Offered Rate (LIBOR), regulators around the world have undertaken reference rate reform initiatives to identify alternative reference rates that are more observable or transaction-based and less susceptible to manipulation. The amendments in this Update provide optional guidance for a limited time to ease the potential burden in accounting for (or

recognizing the effects of) reference rate reform on financial reporting. The amendments provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The guidance applies only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. The expedients and exceptions do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022. The amendments are elective and were effective upon issuance for all entities. Adoption of this guidance had no impact on the statements of financial condition and results of operations.

- In March 2020, the FASB issued ASU 2020-03 Codification Improvements to Financial Instruments. The amendments represent changes to clarify or improve the Codification that were not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments addressing issues one through five, related to Topics 320, 470 and 820, are effective for 2020. The adoption of the guidance had no impact on the statements of financial condition and results of operations. The amendments addressing issues six and seven will be adopted and evaluated for impact along with ASU 2016-13 as discussed above.
- In August 2018, the FASB issued ASU 2018-15 Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this Update. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The amendments were applied prospectively to all implementation costs incurred after the date of adoption. Adoption of this guidance had no impact on the statements of financial condition and results of operations.

Recent Accounting Policy Elections

The Bank made certain accounting policy elections related to the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and recent guidance and clarifications from the FASB, federal banking regulators and SEC.

As provided for in the CARES Act, the Bank elected to suspend the requirements under GAAP for (1) loan modifications related to the COVID-19 pandemic that would otherwise be categorized as troubled debt restructurings and (2) any determination of loans modified as a result of the effects of the COVID-19 pandemic as being a troubled debt restructuring, including impairment for accounting purposes. The election is only for loans that were not more than 30 days past due as of December 31, 2019. This applies for the period beginning on March 1, 2020 and ending on the earlier of December 31, 2020, or the date that is 60 days after the date on which the national emergency concerning the COVID-19 outbreak declared by the President on March 13, 2020 under the National Emergencies Act is terminated.

The Bank elected the practical expedients from the Interagency Statement on Loan Modifications and Reporting for Financial Institutions - Working with Customers Affected by the Coronavirus (Revised) issued on April 7, 2020 which provides that a lender can conclude that a borrower is not experiencing financial difficulty if either (1) short-term modifications are made in response to COVID-19, such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant related to loans in which the borrower is less than 30 days past due on its contractual payments at the time a modification program is implemented, or (2) the modification or deferral program is mandated by the federal government or a state government. Accordingly, any loan modification made in response to the COVID-19 pandemic that meets either of these practical expedients would not be considered a TDR because the borrower is not experiencing financial difficulty. The Bank’s modification program began on March 23, 2020.

The Bank elected to account for lease concessions related to the effects of the COVID-19 pandemic, consistent with how those concessions would be accounted for under Topic 842, as though enforceable rights and obligations for those concessions had previously existed, regardless of whether they explicitly exist in the contract. Consequently, the Bank will not analyze each contract to determine whether enforceable rights and obligations for concessions

exist in the contract and will not apply the lease modification guidance in Topic 842 to those contracts. Any deferrals will be accounted for as variable lease payments. This election, from the FASB Staff interpretation of Topic 842, is only available for concessions related to the effects of the COVID-19 pandemic that do not result in a substantial increase in the rights of the lessor or the obligations of the lessee.

Note 2 — Loans and Allowance for Loan Losses

A summary of loans outstanding at period end follows:

<i>(dollars in thousands)</i>	September 30, 2020	December 31, 2019
Direct Notes	\$ 17,687,095	\$ 16,830,432
Real estate mortgage	1,102,013	1,135,611
Production and intermediate-term	1,094,687	1,089,174
Loans to cooperatives	542,996	473,462
Processing and marketing	1,208,238	1,091,959
Farm-related business	44,928	62,595
Communication	439,813	356,584
Power and water/waste disposal	558,615	519,111
Rural residential real estate	2,988,057	3,325,122
International	76,802	76,775
Lease receivables	2,469	2,917
Loans to other financing institutions (OFIs)	138,878	142,384
Other (including Mission Related)	5,350	5,533
Total loans	<u>\$ 25,889,941</u>	<u>\$ 25,111,659</u>

A substantial portion of the Bank’s loan portfolio consists of notes receivable from District Associations (Direct Notes). These notes are used by the Associations to fund their loan portfolios, which collateralize the notes. Therefore, the Bank’s concentration of credit risk in various agricultural commodities associated with these notes approximates that of the District as a whole. Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities, which would cause them to be similarly impacted by economic or other conditions. A substantial portion of the Associations’ lending activities is collateralized, and their exposure to credit loss associated with lending activities is reduced accordingly. The risk funds of an Association, including both capital and the allowance for loan losses, also protect the interest of the Bank.

The Bank may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. During 2020, the Bank purchased \$571.7 million of residential mortgage loans from various Farm Credit System (System) associations and sold \$287.8 million from the portfolio. These amounts are not included in the table below. The following tables present the principal balance of participation loans at periods ended:

<i>(dollars in thousands)</i>	September 30, 2020							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Direct Notes	\$ —	\$ —	\$ —	\$ 1,129,020	\$ —	\$ —	\$ —	\$ 1,129,020
Real estate mortgage	911,509	263,516	459,408	143,013	—	—	1,370,917	406,529
Production and intermediate-term	783,936	266,640	571,857	357,756	352,791	—	1,708,584	624,396
Loans to cooperatives	—	117,977	661,843	—	—	—	661,843	117,977
Processing and marketing	434,873	459,248	552,500	329,845	1,032,497	16,280	2,019,870	805,373
Farm-related business	32,793	3,127	15,383	—	—	—	48,176	3,127
Communication	—	122,364	562,932	—	—	—	562,932	122,364
Power and water/waste disposal	—	57,458	617,274	—	—	—	617,274	57,458
International	—	37,465	114,375	—	—	—	114,375	37,465
Lease receivables	2,017	—	452	—	—	—	2,469	—
Other (including Mission Related)	5,394	—	—	—	—	—	5,394	—
Total	<u>\$ 2,170,522</u>	<u>\$ 1,327,795</u>	<u>\$ 3,556,024</u>	<u>\$ 1,959,634</u>	<u>\$ 1,385,288</u>	<u>\$ 16,280</u>	<u>\$ 7,111,834</u>	<u>\$ 3,303,709</u>

December 31, 2019

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
<i>(dollars in thousands)</i>								
Direct Notes	\$ —	\$ —	\$ —	\$ 1,092,698	\$ —	\$ —	\$ —	\$ 1,092,698
Real estate mortgage	928,422	245,058	456,642	157,797	—	—	1,385,064	402,855
Production and intermediate-term	751,733	282,692	589,825	265,239	298,008	—	1,639,566	547,931
Loans to cooperatives	—	77,971	553,178	—	—	—	553,178	77,971
Processing and marketing	481,562	383,051	453,766	343,047	886,066	1,000	1,821,394	727,098
Farm-related business	45,819	3,127	15,000	—	5,000	—	65,819	3,127
Communication	—	117,239	474,208	—	—	—	474,208	117,239
Power and water/waste disposal	—	55,933	576,547	—	—	—	576,547	55,933
International	—	37,465	114,375	—	—	—	114,375	37,465
Lease receivables	2,572	—	345	—	—	—	2,917	—
Other (including Mission Related)	5,580	—	—	—	—	—	5,580	—
Total	\$ 2,215,688	\$ 1,202,536	\$ 3,233,886	\$ 1,858,781	\$ 1,189,074	\$ 1,000	\$ 6,638,648	\$ 3,062,317

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

The following table shows the recorded investment of loans, classified under the FCA Uniform Loan Classification System, as a percentage of the recorded investment of total loans by loan type as of:

	September 30, 2020	December 31, 2019		September 30, 2020	December 31, 2019
Direct Notes:			Power and water/waste disposal:		
Acceptable	92.19 %	91.96 %	Acceptable	94.68 %	91.17 %
OAEM	7.81	8.04	OAEM	—	5.72
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	5.32	3.11
	<u>100.00 %</u>	<u>100.00 %</u>		<u>100.00 %</u>	<u>100.00 %</u>
Real estate mortgage:			Rural residential real estate:		
Acceptable	96.00 %	95.57 %	Acceptable	99.54 %	99.66 %
OAEM	2.55	3.59	OAEM	—	—
Substandard/doubtful/loss	1.45	0.84	Substandard/doubtful/loss	0.46	0.34
	<u>100.00 %</u>	<u>100.00 %</u>		<u>100.00 %</u>	<u>100.00 %</u>
Production and intermediate-term:			International:		
Acceptable	92.52 %	96.37 %	Acceptable	100.00 %	100.00 %
OAEM	6.19	2.33	OAEM	—	—
Substandard/doubtful/loss	1.29	1.30	Substandard/doubtful/loss	—	—
	<u>100.00 %</u>	<u>100.00 %</u>		<u>100.00 %</u>	<u>100.00 %</u>
Loans to cooperatives:			Lease receivables:		
Acceptable	99.06 %	98.66 %	Acceptable	100.00 %	100.00 %
OAEM	—	—	OAEM	—	—
Substandard/doubtful/loss	0.94	1.34	Substandard/doubtful/loss	—	—
	<u>100.00 %</u>	<u>100.00 %</u>		<u>100.00 %</u>	<u>100.00 %</u>
Processing and marketing:			Loans to OFIs:		
Acceptable	98.05 %	98.56 %	Acceptable	100.00 %	100.00 %
OAEM	1.95	1.44	OAEM	—	—
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	—	—
	<u>100.00 %</u>	<u>100.00 %</u>		<u>100.00 %</u>	<u>100.00 %</u>
Farm-related business:			Other (including Mission Related):		
Acceptable	100.00 %	100.00 %	Acceptable	100.00 %	100.00 %
OAEM	—	—	OAEM	—	—
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	—	—
	<u>100.00 %</u>	<u>100.00 %</u>		<u>100.00 %</u>	<u>100.00 %</u>
Communication:			Total loans:		
Acceptable	100.00 %	100.00 %	Acceptable	93.90 %	93.93 %
OAEM	—	—	OAEM	5.80	5.84
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	0.30	0.23
	<u>100.00 %</u>	<u>100.00 %</u>		<u>100.00 %</u>	<u>100.00 %</u>

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

	September 30, 2020					
(dollars in thousands)	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	
Direct Notes	\$ —	\$ —	\$ —	\$ 17,724,717	\$ 17,724,717	
Real estate mortgage	929	950	1,879	1,105,993	1,107,872	
Production and intermediate-term	613	—	613	1,098,956	1,099,569	
Loans to cooperatives	—	—	—	543,481	543,481	
Processing and marketing	—	—	—	1,211,100	1,211,100	
Farm-related business	—	—	—	45,052	45,052	
Communication	—	—	—	439,896	439,896	
Power and water/waste disposal	—	—	—	560,510	560,510	
Rural residential real estate	5,896	9,634	15,530	2,981,012	2,996,542	
International	—	—	—	76,988	76,988	
Lease receivables	—	—	—	2,477	2,477	
Loans to OFIs	—	—	—	139,165	139,165	
Other (including Mission Related)	—	—	—	5,465	5,465	
Total	\$ 7,438	\$ 10,584	\$ 18,022	\$ 25,934,812	\$ 25,952,834	

December 31, 2019

<i>(dollars in thousands)</i>	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Direct Notes	\$ —	\$ —	\$ —	\$ 16,876,144	\$ 16,876,144
Real estate mortgage	1,752	480	2,232	1,141,420	1,143,652
Production and intermediate-term	8,511	—	8,511	1,085,457	1,093,968
Loans to cooperatives	—	—	—	474,352	474,352
Processing and marketing	—	—	—	1,095,537	1,095,537
Farm-related business	—	—	—	62,810	62,810
Communication	—	—	—	356,779	356,779
Power and water/waste disposal	—	—	—	521,278	521,278
Rural residential real estate	44,981	6,072	51,053	3,281,945	3,332,998
International	—	—	—	77,274	77,274
Lease receivables	—	—	—	2,925	2,925
Loans to OFIs	—	—	—	142,754	142,754
Other (including Mission Related)	293	—	293	5,323	5,616
Total	\$ 55,537	\$ 6,552	\$ 62,089	\$ 25,123,998	\$ 25,186,087

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

<i>(dollars in thousands)</i>	September 30, 2020	December 31, 2019
Nonaccrual loans:		
Real estate mortgage	\$ 3,353	\$ 1,123
Production and intermediate-term	7,723	—
Loans to cooperatives	5,190	6,352
Rural residential real estate	17,311	16,019
Total	\$ 33,577	\$ 23,494
Accruing restructured loans:		
Real estate mortgage	\$ 425	\$ 440
Production and intermediate-term	12,895	8,391
Rural residential real estate	3,016	2,852
Other (including Mission Related)	3,891	3,956
Total	\$ 20,227	\$ 15,639
Accruing loans 90 days or more past due:		
Rural residential real estate	1,108	—
Total	\$ 1,108	\$ —
Total nonperforming loans	\$ 54,912	\$ 39,133
Other property owned	2,193	3,041
Total nonperforming assets	\$ 57,105	\$ 42,174
Nonaccrual loans as a percentage of total loans	0.13 %	0.09 %
Nonperforming assets as a percentage of total loans and other property owned	0.22 %	0.17 %
Nonperforming assets as a percentage of capital	2.07 %	1.81 %

The following table presents information related to the recorded investment of impaired loans at period end. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

<i>(dollars in thousands)</i>	September 30, 2020	December 31, 2019
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 21,964	\$ 12,090
Past due	11,613	11,404
Total nonaccrual loans	\$ 33,577	\$ 23,494
Impaired accrual loans:		
Restructured	\$ 20,227	\$ 15,639
90 days or more past due	1,108	—
Total impaired accrual loans	\$ 21,335	\$ 15,639
Total impaired loans	\$ 54,912	\$ 39,133
Additional commitments to lend	\$ 3,688	\$ 2,109

The Bank maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Bank has been identified. See Note 3, *Loans and Allowance for Loan Losses*, from the latest Annual Report for further discussion.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. The Bank manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Bank sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the board of directors.

The following tables present additional impaired loan information at period end. Unpaid principal balance represents the contractual principal balance of the loan.

(dollars in thousands)

Impaired Loans	September 30, 2020			Three Months Ended September 30, 2020		Nine Months Ended September 30, 2020	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:							
Real estate mortgage	\$ 103	\$ 103	\$ 1	\$ 105	\$ —	\$ 105	\$ —
Production and intermediate-term	—	—	—	—	—	—	—
Loans to cooperatives	5,190	6,557	128	5,483	—	5,661	—
Rural residential real estate	4,297	4,233	221	4,477	—	4,358	—
Other (including Mission Related)	3,891	3,827	92	3,843	60	3,903	182
Total	\$ 13,481	\$ 14,720	\$ 442	\$ 13,908	\$ 60	\$ 14,027	\$ 182
With no related allowance for credit losses:							
Real estate mortgage	\$ 3,675	\$ 3,677	\$ —	\$ 5,114	\$ 19	\$ 2,768	\$ 65
Production and intermediate-term	20,618	27,912	—	7,164	144	7,793	489
Loans to cooperatives	—	—	—	—	—	—	—
Rural residential real estate	17,138	16,402	—	17,895	211	16,354	594
Other (including Mission Related)	—	—	—	—	—	—	—
Total	\$ 41,431	\$ 47,991	\$ —	\$ 30,173	\$ 374	\$ 26,915	\$ 1,148
Total impaired loans:							
Real estate mortgage	\$ 3,778	\$ 3,780	\$ 1	\$ 5,219	\$ 19	\$ 2,873	\$ 65
Production and intermediate-term	20,618	27,912	—	7,164	144	7,793	489
Loans to cooperatives	5,190	6,557	128	5,483	—	5,661	—
Rural residential real estate	21,435	20,635	221	22,372	211	20,712	594
Other (including Mission Related)	3,891	3,827	92	3,843	60	3,903	182
Total	\$ 54,912	\$ 62,711	\$ 442	\$ 44,081	\$ 434	\$ 40,942	\$ 1,330

(dollars in thousands)

Impaired Loans	December 31, 2019			Year Ended December 31, 2019	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	\$ 106	\$ 105	\$ 14	\$ 105	\$ —
Production and intermediate-term	—	—	—	—	—
Loans to cooperatives	6,352	7,433	1,053	6,984	5
Processing and marketing	—	—	—	—	—
Rural residential real estate	3,879	3,819	176	3,499	—
Other (including Mission Related)	3,956	3,958	92	4,028	249
Total	\$ 14,293	\$ 15,315	\$ 1,335	\$ 14,616	\$ 254
With no related allowance for credit losses:					
Real estate mortgage	\$ 1,457	\$ 1,452	\$ —	\$ 1,731	\$ 216
Production and intermediate-term	8,391	16,204	—	8,628	980
Loans to cooperatives	—	—	—	—	—
Processing and marketing	—	—	—	48	—
Rural residential real estate	14,992	14,820	—	14,552	784
Other (including Mission Related)	—	—	—	—	—
Total	\$ 24,840	\$ 32,476	\$ —	\$ 24,959	\$ 1,980
Total impaired loans:					
Real estate mortgage	\$ 1,563	\$ 1,557	\$ 14	\$ 1,836	\$ 216
Production and intermediate-term	8,391	16,204	—	8,628	980
Loans to cooperatives	6,352	7,433	1,053	6,984	5
Processing and marketing	—	—	—	48	—
Rural residential real estate	18,871	18,639	176	18,051	784
Other (including Mission Related)	3,956	3,958	92	4,028	249
Total	\$ 39,133	\$ 47,791	\$ 1,335	\$ 39,575	\$ 2,234

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows:

<i>(dollars in thousands)</i>	Direct Notes	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Other**	Total
Activity related to the allowance for credit losses:										
Balance at June 30, 2020	\$ —	\$ 1,598	\$ 3,774	\$ 4,655	\$ 1,035	\$ 2,123	\$ 5,335	\$ 139	\$ 420	\$ 19,079
Charge-offs	—	—	—	—	—	—	(5)	—	—	(5)
Recoveries	—	—	501	—	—	—	—	—	—	501
Provision for loan losses	—	95	(768)	32	(102)	(440)	797	(1)	(12)	(399)
Balance at September 30, 2020	\$ —	\$ 1,693	\$ 3,507	\$ 4,687	\$ 933	\$ 1,683	\$ 6,127	\$ 138	\$ 408	\$ 19,176
Balance at December 31, 2019	\$ —	\$ 1,667	\$ 3,448	\$ 5,112	\$ 771	\$ 1,438	\$ 5,046	\$ 137	\$ 413	\$ 18,032
Charge-offs	—	—	—	—	—	—	(16)	—	—	(16)
Recoveries	—	—	646	—	—	—	—	—	—	646
Provision for loan losses	—	26	(587)	(425)	162	245	1,097	1	(5)	514
Balance at September 30, 2020	\$ —	\$ 1,693	\$ 3,507	\$ 4,687	\$ 933	\$ 1,683	\$ 6,127	\$ 138	\$ 408	\$ 19,176
Balance at June 30, 2019	\$ —	\$ 1,787	\$ 2,841	\$ 6,607	\$ 682	\$ 1,440	\$ 4,818	\$ 134	\$ 394	\$ 18,703
Charge-offs	—	—	—	—	—	—	(19)	—	—	(19)
Recoveries	—	—	—	—	—	—	1	—	—	1
Provision for loan losses	—	(133)	(267)	1,146	105	247	19	6	7	1,130
Balance at September 30, 2019	\$ —	\$ 1,654	\$ 2,574	\$ 7,753	\$ 787	\$ 1,687	\$ 4,819	\$ 140	\$ 401	\$ 19,815
Balance at December 31, 2018	\$ —	\$ 1,518	\$ 2,614	\$ 6,959	\$ 784	\$ 794	\$ 4,808	\$ 134	\$ 438	\$ 18,049
Charge-offs	—	—	—	—	—	—	(28)	—	—	(28)
Recoveries	—	—	137	—	—	—	174	—	—	311
Provision for loan losses	—	136	(177)	794	3	893	(135)	6	(37)	1,483
Balance at September 30, 2019	\$ —	\$ 1,654	\$ 2,574	\$ 7,753	\$ 787	\$ 1,687	\$ 4,819	\$ 140	\$ 401	\$ 19,815
Allowance on loans evaluated for impairment:										
Individually	\$ —	\$ 1	\$ —	\$ 128	\$ —	\$ —	\$ 221	\$ —	\$ 92	\$ 442
Collectively	—	1,692	3,507	4,559	933	1,683	5,906	138	316	18,734
Balance at September 30, 2020	\$ —	\$ 1,693	\$ 3,507	\$ 4,687	\$ 933	\$ 1,683	\$ 6,127	\$ 138	\$ 408	\$ 19,176
Individually	\$ —	\$ 14	\$ —	\$ 1,053	\$ —	\$ —	\$ 176	\$ —	\$ 92	\$ 1,335
Collectively	—	1,653	3,448	4,059	771	1,438	4,870	137	321	16,697
Balance at December 31, 2019	\$ —	\$ 1,667	\$ 3,448	\$ 5,112	\$ 771	\$ 1,438	\$ 5,046	\$ 137	\$ 413	\$ 18,032
Recorded investment in loans evaluated for impairment:										
Individually	\$ 17,724,717	\$ 147,257	\$ 20,618	\$ 5,190	\$ —	\$ —	\$ 894,240	\$ —	\$ 3,891	\$ 18,795,913
Collectively	—	960,615	1,078,951	1,794,443	439,896	560,510	2,102,302	76,988	143,216	7,156,921
Balance at September 30, 2020	\$ 17,724,717	\$ 1,107,872	\$ 1,099,569	\$ 1,799,633	\$ 439,896	\$ 560,510	\$ 2,996,542	\$ 76,988	\$ 147,107	\$ 25,952,834
Individually	\$ 16,876,144	\$ 158,497	\$ 8,371	\$ 6,352	\$ —	\$ —	\$ 1,039,294	\$ —	\$ 3,956	\$ 18,092,614
Collectively	—	985,155	1,085,597	1,626,347	356,779	521,278	2,293,704	77,274	147,339	7,093,473
Balance at December 31, 2019	\$ 16,876,144	\$ 1,143,652	\$ 1,093,968	\$ 1,632,699	\$ 356,779	\$ 521,278	\$ 3,332,998	\$ 77,274	\$ 151,295	\$ 25,186,087

* Includes the loan types: Loans to Cooperatives, Processing and Marketing, and Farm-related Business.

** Includes the loan types: Mission Related Loans, Loans to OFIs, and Lease Receivables.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. The tables do not include any purchased credit impaired loans. There were no new TDRs that occurred during the three months ended September 30, 2019.

<i>(dollars in thousands)</i>	Three Months Ended September 30, 2020				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Rural residential real estate	\$ 315	\$ —	\$ —	\$ 315	
Total	\$ 315	\$ —	\$ —	\$ 315	
Post-modification:					
Rural residential real estate	\$ 328	\$ —	\$ —	\$ 328	\$ —
Total	\$ 328	\$ —	\$ —	\$ 328	\$ —

(dollars in thousands)

Nine Months Ended September 30, 2020

Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Rural residential real estate	\$ 744	\$ 85	\$ —	\$ 829	
Total	\$ 744	\$ 85	\$ —	\$ 829	
Post-modification:					
Rural residential real estate	\$ 766	\$ 87	\$ —	\$ 853	\$ —
Total	\$ 766	\$ 87	\$ —	\$ 853	\$ —

(dollars in thousands)

Nine Months Ended September 30, 2019

Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Production and intermediate-term	\$ —	\$ 781	\$ —	\$ 781	
Rural residential real estate	1,273	186	—	1,459	
Total	\$ 1,273	\$ 967	\$ —	\$ 2,240	
Post-modification:					
Production and intermediate-term	\$ —	\$ 781	\$ —	\$ 781	
Rural residential real estate	1,347	189	—	1,536	—
Total	\$ 1,347	\$ 970	\$ —	\$ 2,317	\$ —

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets.

The following table presents outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

(dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Defaulted troubled debt restructurings:				
Rural residential real estate	\$ 87	\$ 190	\$ 87	\$ 751
Total	\$ 87	\$ 190	\$ 87	\$ 751

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

(dollars in thousands)	Total TDRs		Nonaccrual TDRs	
	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
Real estate mortgage	\$ 619	\$ 643	\$ 194	\$ 203
Production and intermediate-term	12,961	8,437	66	46
Loans to cooperatives	5,205	5,817	5,205	5,817
Rural residential real estate	6,286	5,526	3,270	2,674
Other (including Mission Related)	3,891	3,956	—	—
Total	\$ 28,962	\$ 24,379	\$ 8,735	\$ 8,740
Additional commitments to lend	\$ 2,245	\$ 2,109		

Note 3 — Investments

Equity Investments in Other Farm Credit System Institutions

Equity investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. These investments are carried at cost and evaluated for impairment based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

Investments in Debt Securities

The Bank's investments in debt securities consist primarily of mortgage-backed securities (MBSs) collateralized by U.S. government or U.S. agency guaranteed residential and commercial mortgages (agency securities). Also included are asset-backed securities (ABSs) which are issued through the Small Business Administration and are guaranteed by the full faith and credit of the United States government. They are held to maintain a liquidity reserve, manage short-term surplus funds, and manage interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

Non-agency ABSs are included in available-for-sale investments. These securities must meet the applicable FCA regulatory guidelines which require them to be high quality, senior class, and rated in the top category (AAA/Aaa) by Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. To achieve these ratings, the securities may have a guarantee of timely payment of principal and interest, credit enhancements achieved through over-collateralization or other means, priority of payments for senior classes over junior classes, or bond insurance. All of the non-agency securities owned have one or more credit enhancement features.

The FCA considers a non-agency security ineligible if it falls below the AAA/Aaa credit rating criteria and requires System institutions to provide notification to the FCA when a security becomes ineligible. At September 30, 2020, the Bank held no ineligible available-for-sale investments in debt securities.

Held-to-maturity investments in debt securities consist primarily of Mission Related Investments (MRIs) acquired primarily under the Rural America Bond (RAB) pilot program. RABs are private placement securities, which generally have some form of credit enhancement.

In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9. Any other bonds purchased under the MRI program, approved on a case-by-case basis by the FCA, may have different eligibility requirements. The FCA requires System institutions to provide notification when a security becomes ineligible. At September 30, 2020, the Bank held three RABs with a fair value totaling \$600 thousand whose credit quality had deteriorated beyond the program limits.

Effective December 31, 2014, the FCA ended the pilot programs approved after 2004 as part of the Investment in Rural America initiative. Each institution participating in such programs may continue to hold its investments through the maturity dates for the investments, provided the institution continues to meet all approval conditions. The FCA can consider future participation in these programs on a case-by-case basis.

An agreement with a commercial bank requires AgFirst to maintain \$50.0 million as a compensating balance. At September 30, 2020, the Bank held \$42.9 million in U.S. Treasury securities for that purpose. The remainder of the compensating balance was held in cash in a demand deposit account. These securities are excluded when calculating the amount of eligible liquidity investments.

During the first nine months of 2020, proceeds from sales of investments were \$62.9 million and realized gains were \$7.2 million. The Bank did not sell any investments during the first nine months of 2019.

Available-for-sale

A summary of the amortized cost and fair value of debt securities held as available-for-sale investments at period end follows:

September 30, 2020					
<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Treasury Securities	\$ 267,848	\$ 1,386	\$ —	\$ 269,234	0.58%
U.S. Govt. Guaranteed	4,375,808	144,085	(2,712)	4,517,181	1.91
U.S. Govt. Agency Guaranteed	3,021,425	53,785	(1,026)	3,074,184	1.41
Non-Agency ABSs	712,289	9,191	(25)	721,455	1.41
Total	\$ 8,377,370	\$ 208,447	\$ (3,763)	\$ 8,582,054	1.65%

December 31, 2019					
<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Treasury Securities	\$ 143,260	\$ 581	\$ (2)	\$ 143,839	2.04%
U.S. Govt. Guaranteed	4,495,273	60,110	(15,996)	4,539,387	2.60
U.S. Govt. Agency Guaranteed	2,465,080	16,581	(11,146)	2,470,515	2.32
Non-Agency ABSs	739,631	2,343	(146)	741,828	2.16
Total	\$ 7,843,244	\$ 79,615	\$ (27,290)	\$ 7,895,569	2.46%

Held-to-maturity

A summary of the amortized cost and fair value of debt securities held as held-to-maturity investments at period end follows:

September 30, 2020					
<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	\$ 1,141	\$ —	\$ (22)	\$ 1,119	5.68%
RABs and Other	30,521	5,653	—	36,174	5.98
Total	\$ 31,662	\$ 5,653	\$ (22)	\$ 37,293	5.97%

December 31, 2019					
<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	\$ 1,239	\$ —	\$ (26)	\$ 1,213	3.41%
RABs and Other	36,027	3,620	(18)	39,629	6.07
Total	\$ 37,266	\$ 3,620	\$ (44)	\$ 40,842	5.99%

A summary of the contractual maturity, estimated fair value and amortized cost of investment securities at September 30, 2020 follows:

Available-for-sale

<i>(dollars in thousands)</i>	Due in 1 Year or Less		Due After 1 Year Through 5 Years		Due After 5 Years Through 10 Years		Due After 10 Years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Treasury Securities	\$ 187,313	0.14 %	\$ 81,921	1.61 %	\$ —	— %	\$ —	— %	\$ 269,234	0.58 %
U.S. Govt. Guaranteed	—	—	41,602	0.54	331,545	2.33	4,144,034	1.89	4,517,181	1.91
U.S. Govt. Agency Guaranteed	27,461	0.43	281,580	1.27	429,280	1.10	2,335,863	1.49	3,074,184	1.41
Non-Agency ABSs	3,351	1.14	718,104	1.42	—	—	—	—	721,455	1.41
Total fair value	\$ 218,125	0.19 %	\$1,123,207	1.36 %	\$ 760,825	1.63 %	\$6,479,897	1.75 %	\$8,582,054	1.65 %
Total amortized cost	\$ 218,159		\$1,111,847		\$ 739,252		\$6,308,112		\$8,377,370	

Held-to-maturity

	Due in 1 Year or Less		Due After 1 Year Through 5 Years		Due After 5 Years Through 10 Years		Due After 10 Years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
<i>(dollars in thousands)</i>										
U.S. Govt. Agency Guaranteed	\$ —	— %	\$ —	— %	\$ —	— %	\$ 1,141	5.68 %	\$ 1,141	5.68 %
RABs and Other	1,184	5.59	8,167	6.12	—	—	21,170	5.95	30,521	5.98
Total amortized cost	\$ 1,184	5.59 %	\$ 8,167	6.12 %	—	— %	\$ 22,311	5.94 %	\$ 31,662	5.97 %
Total fair value	\$ 1,199		\$ 8,657		\$ —		\$ 27,437		\$ 37,293	

A substantial portion of these investments has contractual maturities in excess of ten years. However, expected maturities for these types of securities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. This also applies to those securities other-than-temporarily impaired for which a credit loss has been recognized but noncredit-related losses continue to remain unrealized. The following tables show the fair value and gross unrealized losses for all investments that have been in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	September 30, 2020					
	Less Than 12 Months		12 Months Or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(dollars in thousands)</i>						
U.S. Govt. Guaranteed	\$ 141,057	\$ (461)	\$ 468,258	\$ (2,251)	\$ 609,315	\$ (2,712)
U.S. Govt. Agency Guaranteed	178,175	(411)	174,529	(637)	352,704	(1,048)
Non-Agency ABSs	21,652	(25)	—	—	21,652	(25)
Total	\$ 340,884	\$ (897)	\$ 642,787	\$ (2,888)	\$ 983,671	\$ (3,785)

	December 31, 2019					
	Less Than 12 Months		12 Months Or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(dollars in thousands)</i>						
U.S. Govt. Treasury Securities	\$ 14,972	\$ (2)	\$ —	\$ —	\$ 14,972	\$ (2)
U.S. Govt. Guaranteed	947,579	(6,832)	1,103,003	(9,164)	2,050,582	(15,996)
U.S. Govt. Agency Guaranteed	824,382	(4,078)	879,926	(7,094)	1,704,308	(11,172)
Non-Agency ABSs	78,037	(108)	99,098	(38)	177,135	(146)
RABs and Other	—	—	272	(18)	272	(18)
Total	\$ 1,864,970	\$ (11,020)	\$ 2,082,299	\$ (16,314)	\$ 3,947,269	\$ (27,334)

The recording of an impairment loss is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Bank intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss recognized equals the full difference between amortized cost and fair value of the security. When the Bank does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and noncredit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The Bank performs periodic credit reviews, including other-than-temporary impairment (OTTI) analyses, on its investment securities portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others: (1) the length of time and the extent to which the fair value is less than cost, (2) adverse conditions specifically related to the industry, (3) geographic area and the condition of the underlying collateral, (4)

payment structure of the security, (5) ratings by rating agencies, (6) the creditworthiness of bond insurers, and (7) volatility of the fair value changes.

The Bank uses the present value of cash flows expected to be collected from each debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, amount and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics, and collateral type.

Significant inputs used to estimate the amount of credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The Bank obtains assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party.

Based on the credit reviews discussed above, none of the securities currently in the Bank's portfolio were determined to be other-than-temporarily impaired.

The Bank has not recognized any credit losses as the impairments are deemed temporary and result from non-credit related factors. The Bank has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities. Substantially all of these investments were in U.S. government agency securities and the Bank expects these securities would not be settled at a price less than their amortized cost.

Note 4 — Debt

Bonds and Notes

AgFirst, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide Debt Securities issued jointly by the System banks through the Funding Corporation. Certain conditions must be met before AgFirst can participate in the issuance of Systemwide Debt Securities. As one condition of participation, AgFirst is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable. This requirement does not provide holders of Systemwide Debt Securities with a security interest in any assets of the banks.

In accordance with FCA regulations, each issuance of Systemwide Debt Securities ranks equally with other unsecured Systemwide Debt Securities. Systemwide Debt Securities are not issued under an indenture and no trustee is provided with respect to these securities. Systemwide Debt Securities are not subject to acceleration prior to maturity upon the occurrence of any default or similar event.

The following table provides a summary of AgFirst's participation in outstanding Systemwide Debt Securities by maturity.

	September 30, 2020					
	Bonds		Discount Notes		Total	
	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate
<i>(dollars in thousands)</i>						
Maturities						
One year or less	\$ 7,138,735	0.42 %	\$ 7,923,403	0.44 %	\$ 15,062,138	0.43 %
Greater than one year to two years	6,399,299	0.44	—	—	6,399,299	0.44
Greater than two years to three years	2,964,199	0.51	—	—	2,964,199	0.51
Greater than three years to four years	2,423,610	0.58	—	—	2,423,610	0.58
Greater than four years to five years	2,048,516	0.85	—	—	2,048,516	0.85
Greater than five years	4,052,942	1.18	—	—	4,052,942	1.18
Total	\$ 25,027,301	0.61 %	\$ 7,923,403	0.44 %	\$ 32,950,704	0.57 %

Discount notes are issued with maturities of one year or less. The weighted average maturity of discount notes at September 30, 2020 was 146 days.

Note 5 — Shareholders' Equity

Perpetual Preferred Stock

Payment of dividends or redemption price on issued Preferred Stock may be restricted if the Bank fails to satisfy applicable minimum capital adequacy, surplus, and collateral requirements.

Accumulated Other Comprehensive Income

The following tables present the activity related to accumulated other comprehensive income (AOCI):

<i>(dollars in thousands)</i>	Changes in Accumulated Other Comprehensive Income by Component (a)			
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
Investment Securities:				
Balance at beginning of period	\$ 202,320	\$ 65,843	\$ 52,324	\$ (49,429)
Other comprehensive income before reclassifications	2,363	19,985	159,574	135,257
Amounts reclassified from AOCI	—	—	(7,215)	—
Net current period other comprehensive income	2,363	19,985	152,359	135,257
Balance at end of period	\$ 204,683	\$ 85,828	\$ 204,683	\$ 85,828
Cash Flow Hedges:				
Balance at beginning of period	\$ 397	\$ 735	\$ 533	\$ 886
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	(79)	(116)	(215)	(267)
Net current period other comprehensive income	(79)	(116)	(215)	(267)
Balance at end of period	\$ 318	\$ 619	\$ 318	\$ 619
Employee Benefit Plans:				
Balance at beginning of period	\$ (4,079)	\$ (2,945)	\$ (4,374)	\$ (3,109)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	147	82	442	246
Net current period other comprehensive income	147	82	442	246
Balance at end of period	\$ (3,932)	\$ (2,863)	\$ (3,932)	\$ (2,863)
Total Accumulated Other Comprehensive Income:				
Balance at beginning of period	\$ 198,638	\$ 63,633	\$ 48,483	\$ (51,652)
Other comprehensive income before reclassifications	2,363	19,985	159,574	135,257
Amounts reclassified from AOCI	68	(34)	(6,988)	(21)
Net current period other comprehensive income	2,431	19,951	152,586	135,236
Balance at end of period	\$ 201,069	\$ 83,584	\$ 201,069	\$ 83,584

<i>(dollars in thousands)</i>	Reclassifications Out of Accumulated Other Comprehensive Income (b)				Income Statement Line Item
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		
	2020	2019	2020	2019	
Investment Securities:					
Sales gains & losses	\$ —	\$ —	\$ 7,215	\$ —	Gains (losses) on investments, net
Holding gains & losses	—	—	—	—	Net other-than-temporary impairment
Net amounts reclassified	—	—	7,215	—	
Cash Flow Hedges:					
Interest income	79	116	215	267	Interest income on investment securities
Gains (losses) on other transactions	—	—	—	—	Gains (losses) on other transactions
Net amounts reclassified	79	116	215	267	
Employee Benefit Plans:					
Periodic pension costs	(147)	(82)	(442)	(246)	See Note 7.
Net amounts reclassified	(147)	(82)	(442)	(246)	
Total reclassifications for period	\$ (68)	\$ 34	\$ 6,988	\$ 21	

(a) Amounts in parentheses indicate debits to AOCI.

(b) Amounts in parentheses indicate debits to profit/loss.

Note 6 — Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

The classifications within the fair value hierarchy are as follows:

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. Level 1 assets and liabilities could include investment securities and derivative contracts that are traded in an active exchange market, in addition to certain U.S. Treasury securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. Level 2 assets and liabilities could include investment securities that are traded in active, non-exchange markets and derivative contracts that are traded in active, over-the-counter markets.

Level 3 inputs are unobservable and supported by little or no market activity. Level 3 assets and liabilities could include investments and derivative contracts whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, and other instruments for which the determination of fair value requires significant management judgment or estimation. Level 3 assets and liabilities could also include investments and derivative contracts whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see the most recent Annual Report to Shareholders.

The following table presents the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the periods presented. The Bank had no transfers of assets or liabilities measured on a recurring basis into or out of Level 1 or Level 2 during the reporting period.

<i>(dollars in thousands)</i>	Mortgage Servicing Rights, net			
	For the Nine Months Ended September 30,			
	2020		2019	
Balance at beginning of period	\$	686	\$	1,033
Gains or (losses) included in earnings		—		—
Gains or (losses) included in OCI		—		—
Purchases		—		—
Sales		—		—
Issuances		1,726		—
Settlements		—		(301)
Transfers in and/or out of Level 3		—		—
Balance at end of period	\$	2,412	\$	732

Fair values are estimated at each period end date for assets and liabilities measured at fair value on a recurring basis. Other Financial Instruments are not measured at fair value in the statement of financial position, but their fair values are estimated as of each period end date. The following tables summarize the carrying amounts of these assets and liabilities at period end, and their related fair values.

<i>(dollars in thousands)</i>	September 30, 2020				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<u>Recurring Measurements</u>					
Assets:					
Investments in debt securities available-for-sale:					
U.S. Govt. Treasury securities	\$ 269,234	\$ —	\$ 269,234	\$ —	\$ 269,234
U.S. Govt. guaranteed	4,517,181	—	4,517,181	—	4,517,181
U.S. Govt. agency guaranteed	3,074,184	—	3,074,184	—	3,074,184
Non-agency ABSs	721,455	—	721,455	—	721,455
Total investments in debt securities available-for-sale	8,582,054	—	8,582,054	—	8,582,054
Federal funds sold, securities purchased under resale agreements, and other	495,000	—	495,000	—	495,000
Mortgage servicing rights	2,475	—	—	2,475	2,475
Assets held in trust funds	17,782	17,782	—	—	17,782
Recurring Assets	\$ 9,097,311	\$ 17,782	\$ 9,077,054	\$ 2,475	\$ 9,097,311
Liabilities:					
Mortgage servicing rights	\$ 63	\$ —	\$ —	\$ 63	\$ 63
Recurring Liabilities	\$ 63	\$ —	\$ —	\$ 63	\$ 63
<u>Nonrecurring Measurements</u>					
Assets:					
Impaired loans	\$ 13,039	\$ —	\$ —	\$ 13,039	\$ 13,039
Other property owned	2,193	—	—	2,481	2,481
Nonrecurring Assets	\$ 15,232	\$ —	\$ —	\$ 15,520	\$ 15,520
<u>Other Financial Instruments</u>					
Assets:					
Cash	\$ 373,604	\$ 373,604	\$ —	\$ —	\$ 373,604
Investments in debt securities held-to-maturity	31,662	—	1,119	36,174	37,293
Loans	25,862,246	—	—	26,192,732	26,192,732
Other Financial Assets	\$ 26,267,512	\$ 373,604	\$ 1,119	\$ 26,228,906	\$ 26,603,629
Liabilities:					
Systemwide debt securities	\$ 32,950,704	\$ —	\$ —	\$ 33,074,224	\$ 33,074,224
Other Financial Liabilities	\$ 32,950,704	\$ —	\$ —	\$ 33,074,224	\$ 33,074,224

	December 31, 2019				
<i>(dollars in thousands)</i>	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Investments in debt securities available-for-sale:					
U.S. Govt. Treasury securities	\$ 143,839	\$ —	\$ 143,839	\$ —	\$ 143,839
U.S. Govt. guaranteed	4,539,387	—	4,539,387	—	4,539,387
U.S. Govt. agency guaranteed	2,470,515	—	2,470,515	—	2,470,515
Non-agency ABSs	741,828	—	741,828	—	741,828
Total investments in debt securities available-for-sale	7,895,569	—	7,895,569	—	7,895,569
Federal funds sold, securities purchased under resale agreements, and other	650,000	—	650,000	—	650,000
Mortgage servicing rights	756	—	—	756	756
Assets held in trust funds	16,065	16,065	—	—	16,065
Recurring Assets	\$ 8,562,390	\$ 16,065	\$ 8,545,569	\$ 756	\$ 8,562,390
Liabilities:					
Mortgage servicing rights	\$ 70	\$ —	\$ —	\$ 70	\$ 70
Recurring Liabilities	\$ 70	\$ —	\$ —	\$ 70	\$ 70
Nonrecurring Measurements					
Assets:					
Impaired loans	\$ 12,958	\$ —	\$ —	\$ 12,958	\$ 12,958
Other property owned	3,041	—	—	3,671	3,671
Nonrecurring Assets	\$ 15,999	\$ —	\$ —	\$ 16,629	\$ 16,629
Other Financial Instruments					
Assets:					
Cash	\$ 444,559	\$ 444,559	\$ —	\$ —	\$ 444,559
Investments in debt securities held to maturity	37,266	—	1,213	39,629	40,842
Loans	25,080,669	—	—	25,130,187	25,130,187
Other Financial Assets	\$ 25,562,494	\$ 444,559	\$ 1,213	\$ 25,169,816	\$ 25,615,588
Liabilities:					
Systemwide debt securities	\$ 31,723,767	\$ —	\$ —	\$ 31,795,514	\$ 31,795,514
Other Financial Liabilities	\$ 31,723,767	\$ —	\$ —	\$ 31,795,514	\$ 31,795,514

Uncertainty in Measurements of Fair Value

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Investments in Debt Securities

The fair values of predominantly all Level 3 investments in debt securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease). Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these Level 3 assets.

Inputs to Valuation Techniques

Management determines the Bank’s valuation policies and procedures. Internal valuation processes are calibrated annually by an independent consultant. Fair value measurements are analyzed on a periodic basis. Documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing.

Quoted market prices are generally not available for the instruments presented below. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

<i>(dollars in thousands)</i>	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 15,520	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*
Mortgage servicing rights, net	\$ 2,412	Discounted cash flow	Constant prepayment rate	**
			Fees and costs	**

Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

	Valuation Technique(s)	Input
Debt securities available-for-sale	Discounted cash flow	Constant prepayment rate
		Probability of default
	Quoted prices Vendor priced	Loss severity
		Price for similar security
Federal funds sold, securities purchased under resale agreements and other	Carrying value	**
		Par/principal and appropriate interest yield

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Cash and cash equivalents	Carrying value	Par/principal and appropriate interest yield
Debt securities held-to-maturity	Discounted cash flow	Constant prepayment rate Prepayment rates Probability of default Risk-adjusted spread Loss severity
	Quoted prices	Price for similar security
	Vendor priced	**
Systemwide debt securities	Discounted cash flow	Benchmark yield curve Derived yield spread Own credit risk
Cash collateral	Carrying value	Par/principal and appropriate interest yield

* Ranges for this type of input are not useful because each collateral property is unique.

** The inputs used to estimate fair value for assets and liabilities that are obtained from third party vendors are not included in the table as the specific inputs applied are not provided by the vendor.

Note 7 — Employee Benefit Plans

Following are retirement and other postretirement benefit expenses for the Bank:

<i>(dollars in thousands)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
Pension	\$ 1,621	\$ 1,414	\$ 4,825	\$ 4,013
401k	917	821	2,734	2,511
Other postretirement benefits	250	255	746	743
Total	<u>\$ 2,788</u>	<u>\$ 2,490</u>	<u>\$ 8,305</u>	<u>\$ 7,267</u>

Expenses in the above table include allocated estimates of funding for multiemployer plans in which the Bank participates. These amounts may change when a total funding amount and allocation is determined by the respective Plans' Sponsor Committees. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2020.

Further details regarding employee benefit plans are contained in the most recent annual report to Shareholders.

Note 8 — Commitments and Contingencies

Under the Farm Credit Act of 1971, each System bank is primarily liable for its portion of Systemwide bond and discount note obligations. Additionally, the four banks are jointly and severally liable for the bonds and notes of the other System banks under the terms of the Joint and Several Liability Allocation Agreement. Published in the Federal Register, the agreement prescribes the payment mechanisms to be employed in the event one of the banks is unable to meet its debt obligations.

In the event a bank is unable to timely pay principal or interest on an insured debt obligation for which the bank is primarily liable, the Farm Credit System Insurance Corporation (FCSIC) must expend amounts in the Insurance Fund to the extent available to ensure the timely payment of principal and interest on the insured debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the banks on the obligation cannot be invoked until the amounts in the Insurance Fund have been exhausted. However, because of other mandatory and

discretionary uses of the Insurance Fund, there is no assurance that there will be sufficient funds to pay the principal or interest on the insured debt obligation.

Once joint and several liability provisions are initiated, the FCA is required to make “calls” to satisfy the liability first on all non-defaulting banks in the proportion that each non-defaulting bank’s available collateral (collateral in excess of collateralized obligations) bears to the aggregate available collateral of all non-defaulting banks. If these calls do not satisfy the liability, then a further call would be made in proportion to each non-defaulting bank’s remaining assets. Upon making a call on non-defaulting banks with respect to a Systemwide Debt Security issued on behalf of a defaulting bank, the FCA is required to appoint FCSIC as the receiver for the defaulting bank. The receiver would be required to expeditiously liquidate assets of the bank.

AgFirst did not anticipate making any payments on behalf of its co-obligors under the Joint and Several Liability Allocation Agreement for any of the periods presented. The total amount outstanding and the carrying amount of the Bank’s liability under the agreement are as follows:

<i>(dollars in billions)</i>	September 30, 2020	December 31, 2019
Total System bonds and notes	\$ 309.066	\$ 293.538
AgFirst bonds and notes	\$ 32.951	\$ 31.724

From time to time, legal actions are pending against the Bank in which claims for money damages are asserted. On at least a quarterly basis, the Bank assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management and legal counsel are of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Bank. No material liabilities have been recorded for any claims that may be pending.

Note 9 — Additional Financial Information

Offsetting of Financial Assets

<i>(dollars in thousands)</i>	September 30, 2020	December 31, 2019
Reverse repurchase and similar arrangements	\$ 495,000	\$ 650,000
Gross Amount of Recognized Assets	495,000	650,000
Reverse repurchase and similar arrangements	—	—
Gross Amounts Offset in the Balance Sheets	—	—
Net Amounts of Assets Presented in the Balance Sheets	\$ 495,000	\$ 650,000
Financial Instruments	(495,000)	(650,000)
Gross Amounts Not Offset in the Balance Sheets	(495,000)	(650,000)
Net Amount	\$ —	\$ —

There were no liabilities subject to master netting arrangements or similar agreements during the reporting periods.

The reverse repurchase agreements are accounted for as collateralized lending.

Combined Districtwide Financial Statements

The accompanying financial statements exclude financial information of the Bank’s affiliated Associations. The Bank and its affiliated Associations are collectively referred to as the AgFirst District. The Bank separately publishes certain unaudited combined financial information of the AgFirst District, including a statement of condition and statement of income, which can be found on the Bank’s website at www.agfirst.com. Such information is not incorporated by reference into, and should not be considered a part of, this Third Quarter 2020 Report.

Note 10 — Subsequent Events

The Bank evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through November 6, 2020, which was the date the financial statements were issued.

On October 19, 2020, the Bank's Board of Directors indicated an intention to declare, in December 2020, a special patronage distribution between \$160.0 million and \$180.0 million.

On October 28, 2020, the Funding Corporation completed a voluntary debt exchange of approximately \$237.0 million, or 76.45 percent, of the Bank's LIBOR-indexed debt securities maturing after December 31, 2021 to insert reference rate contractual fallback language in the event LIBOR is discontinued or no longer becomes a representative rate index. No other contractual terms were modified in the debt exchange that would impact the amount or timing of cash flows.