



PARTNERS IN PROGRESS



AGFIRST
FARM CREDIT BANK

**2020 SECOND
QUARTER REPORT**



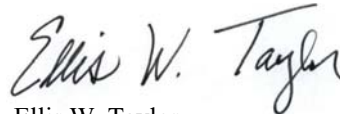
SECOND QUARTER 2020

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CERTIFICATION

The undersigned certify that we have reviewed the June 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

August 7, 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 June 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 June 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 June 30, 2020.



Leon T. Amerson
Chief Executive Officer & President



Stephen Gilbert
Chief Financial Officer

August 7, 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 six month periods ended June 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 (2019 Annual Report). 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 six 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 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 novel coronavirus (COVID-19) pandemic is creating extensive disruptions to the global economy and to the lives of individuals throughout the world. Governments, businesses, and the public 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, significantly increased unemployment levels and economic and market uncertainty, and disrupted trade and supply chains. If these effects continue for a protracted period or result in sustained economic stress or recession, many of the risks identified in the Bank's 2019 Annual Report 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 re-funding 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 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 risks, increased privacy and disclosure hazards, strain on the local technology networks for remote operations and potential impairment of the ability to perform critical functions, all of which could adversely affect the Bank's business, results of operations, and financial condition. The Bank continues to monitor the attempts by third parties to gain unauthorized access to its network and information systems through cyber-attacks. Despite the increased cybersecurity risks presented by a workforce that is operating remotely, the 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 continue 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, the domestic agricultural economy, and any resulting recession. Because there have been no comparable recent global pandemics that resulted in similar global macroeconomic impacts, 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 approximately \$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 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 the current 25% up to 40%.

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 (dollars in thousands)	June 30,	December 31,	June 30,	June 2020 Compared to December 2019		June 2020 Compared to June 2019	
	2020	2019	2019	\$ Change	% Change	\$ Change	% Change
Direct Notes*	\$ 17,322,795	\$ 16,830,432	\$ 16,551,228	\$ 492,363	2.93%	\$ 771,567	4.66%
Participations/Syndications Purchased, net*	4,919,035	4,654,511	4,568,462	264,524	5.68%	350,573	7.67%
Correspondent Lending	3,332,878	3,484,332	3,371,229	(151,454)	(4.35)%	(38,351)	(1.14)%
Loans to OFIs	141,455	142,384	136,266	(929)	(0.65)%	5,189	3.81%
Total	\$ 25,716,163	\$ 25,111,659	\$ 24,627,185	\$ 604,504	2.41%	\$ 1,088,978	4.42%

	Portfolio Distribution		
	June 30, 2020	December 31, 2019	June 30, 2019
Direct Notes*	67.36%	67.02%	67.21%
Participations/Syndications Purchased, net*	19.13%	18.53%	18.55%
Correspondent Lending	12.96%	13.88%	13.69%
Loans to OFIs	0.55%	0.57%	0.55%
Total	100.00%	100.00%	100.00%

*Net of participations sold.

Total loans outstanding were \$25.716 billion at June 30, 2020, an increase of \$604.5 million, or 2.41 percent, compared to total loans outstanding at December 31, 2019 and an increase of \$1.089 billion, or 4.42 percent, since June 30, 2019.

Loan growth since year-end was primarily due to growth in the processing, forestry, utilities, and field crops segments. This growth was due in part to the utilization of existing lines of credit in the participations/syndications portfolio resulting from the economic impacts of the COVID-19 pandemic. Compared to June 30, 2019, loan growth was primarily in the processing, forestry, field crops, utilities, 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:		
	June 30, 2020	December 31, 2019	June 30, 2019
Acceptable	93.82%	93.93%	93.62%
OAEM *	5.84%	5.84%	6.18%
Substandard/doubtful/loss	0.34%	0.23%	0.20%

*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 June, credit quality has remained relatively stable, but it is expected to be negatively affected in future quarters as unemployment benefits decline, the impact of the SBA PPP program completes, and as the deferral 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 June 30, 2020, the total Direct Note volume outstanding was \$17.323 billion, an increase of \$492.4 million, or 2.93 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 June 30, 2019, Direct Note volume increased \$771.6 million, or 4.66 percent. See the *Loan Portfolio* section above for the primary reasons for the change in Direct Notes.

Classification	Direct Note Credit Quality as of:					
	June 30, 2020		December 31, 2019		June 30, 2019	
	%	#	%	#	%	#
	Total	Total	Total	Total	Total	Total
Acceptable	92.05%	18	91.96%	18	91.47%	18
OAEM *	7.95%	1	8.04%	1	8.53%	1
Substandard/doubtful/loss	–%	–	–%	–	–%	–

**Other Assets Especially Mentioned*

At June 30, 2020, no District Associations were operating under a written agreement with the FCA. As of June 30, 2020, one Association, which had total assets of \$1.850 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 June 30, 2020, this portfolio totaled \$4.919 billion, an increase of \$264.5 million, or 5.68 percent, from December 31, 2019 and an increase of \$350.6 million, or 7.67 percent, from June 30, 2019. This increase is primarily due to a steady level of capital markets transactions coming to market, increased utilization of existing lines of credit resulting from the anticipated economic impacts of the COVID-19 pandemic, and the Bank’s purchase of PPP loans originated by Associations.

At June 30, 2020, the Bank had purchased \$97.3 million of PPP loans originated at System 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:		
	June 30, 2020	December 31, 2019	June 30, 2019
Acceptable	95.96%	96.61%	96.76%
OAEM*	2.55%	2.40%	2.42%
Substandard/doubtful/loss	1.49%	0.99%	0.82%

*Other Assets Especially Mentioned.

Credit quality in the participations/syndications portfolio has declined slightly from prior periods and is expected to decline further during 2020 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 June 30, 2020, the Correspondent Lending portfolio totaled \$3.333 billion, a decrease of \$151.5 million, or 4.35 percent, from December 31, 2019 and a decrease of \$38.4 million, or 1.14 percent, from June 30, 2019. The decrease primarily resulted from the sale of \$106.6 million of Correspondent Lending loans during the first six months of 2020 to capitalize on market premiums in the portfolio. In addition, \$51.2 million of Correspondent Lending loans were held as Loans Held for Sale at June 30, 2020. Excluding the impact of these transactions, the Correspondent Lending portfolio would have increased \$6.3 million, or 0.18 percent compared to December 31, 2019. See the *Noninterest Income* section below for further discussion.

As of June 30, 2020, \$1.072 billion, or 32.16 percent, of loans in the Correspondent Lending portfolio were guaranteed and \$2.261 billion, or 67.84 percent, were non-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 June 30, 2020, 99.59 percent of the Correspondent Lending portfolio was classified as acceptable and 0.41 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 deferral programs offered by Fannie Mae to eligible borrowers for an initial six-month forbearance, with a potential maximum forbearance of twelve months. At June 30, 2020, loans of \$73.7 million were in this forbearance program. Credit quality is expected to decline during 2020 due to the economic impact on non-farm income, reduction of unemployment benefits, and the conclusion of forbearance programs as a result of the COVID-19 pandemic.

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 \$24.7 million at June 30, 2020, an increase of 5.00 percent compared to \$23.5 million at December 31, 2019. At June 30, 2020, nonaccrual loans were primarily in the rural home loan (70.86 percent of the total) and field crops (22.24 percent) segments. Nonaccrual loans were 0.10 percent of total loans outstanding at June 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 \$3.5 million since December 31, 2019 and totaled \$27.9 million at June 30, 2020. TDRs at June 30, 2020 were comprised of \$18.8 million of accruing restructured loans and \$9.2 million of nonaccrual restructured loans. Restructured loans were primarily in the field crops (21.63 percent of the total), dairy (21.54 percent), rural home loan (21.43 percent), and nursery/greenhouse (19.40 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.

At June 30, 2020, the District had modified loans of \$875.5 million, or 2.78 percent of combined District loans, under these programs.

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 \$216 thousand since December 31, 2019 and totaled \$2.8 million at June 30, 2020. At June 30, 2020, the OPO balance consisted primarily of one real estate holding in the forestry segment totaling \$2.2 million (77.27 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 \$19.1 million at June 30, 2020, as compared with \$18.0 million at December 31, 2019. The allowance at June 30, 2020 included specific reserves of \$546 thousand (2.86 percent of the total) and general reserves of \$18.5 million (97.14 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 \$913 thousand recorded during the first six months of 2020. The general reserves at June 30, 2020 included \$5.0 million of allowance provided by the Bank for non-guaranteed loans in the Correspondent Lending portfolio. See further discussion in the *Correspondent Lending* section above. None of the allowance relates to the Direct Note portfolio. See further discussion in the *Direct Notes* section above. At June 30, 2020, the Bank's allowance included \$540 thousand of unallocated general reserves for the participations/syndications portfolio due to anticipated stress from the COVID-19 pandemic. The total allowance at June 30, 2020 was comprised primarily of reserves for the rural home loan (27.96 percent of the total), forestry (13.41 percent), processing (12.46 percent), utilities (10.73 percent), and nursery/greenhouse (6.22 percent) segments. The allowance for loan losses was 0.07 percent of total loans outstanding at both June 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 and a \$311.0 million liability sensitive position at June 30, 2020. This change is primarily due to the significantly lower interest rate environment, which provides for a substantial amount of debt to be called in the twelve month period. 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 during the first quarter. As of June 30, 2020 the Gap position had moved to a less liability sensitive position of \$311.0 million. In the second quarter, the Gap position became less liability sensitive as a significant amount of debt was 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. A liability sensitive position generally implies a decrease in net interest income in rising interest rate scenarios and higher 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 market value of equity and projected change over the next twelve months in net interest income for various rate movements as of June 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 (dollars in thousands)		
Scenarios	Net Interest Income	% Change
+4.0% Shock	\$599,763	3.86%
+2.0% Shock	\$620,553	7.46%
Base line **	\$577,447	-%
-50% of 3M Tbill ***	\$577,249	-0.03%

Market Value of Equity (dollars in thousands)				
Scenarios	Assets	Liabilities*	Equity*	% Change
Book Value	\$35,724,618	\$33,137,390	\$2,587,228	-%
+4.0% Shock	\$33,356,962	\$30,928,977	\$2,427,985	(22.15)%
+2.0% Shock	\$35,079,631	\$32,128,490	\$2,951,141	(5.37)%
Base line **	\$36,472,060	\$33,353,365	\$3,118,695	-%
-50% of 3M Tbill ***	\$36,501,811	\$33,383,027	\$3,118,784	0.00%%

*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 June 30, 2020, this downward shock was (7) 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 June 30, 2020:

<i>(dollars in millions)</i>	Due in 2020	Due in 2021	Due in 2022 and Thereafter	Total
Investments	\$ —	\$ 38	\$ 1,990	\$ 2,028
Loans	344	784	4,159	5,287
Total	<u>\$ 344</u>	<u>\$ 822</u>	<u>\$ 6,149</u>	<u>\$ 7,315</u>
Systemwide debt securities	\$ 820	\$ 1,320	\$ 310	\$ 2,450
Preferred stock	—	—	49	49
Total	<u>\$ 820</u>	<u>\$ 1,320</u>	<u>\$ 359</u>	<u>\$ 2,499</u>

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 Federal Farm Credit Banks 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 significantly 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 \$29.362 billion of debt during the first six months of 2020, compared to \$5.075 billion for the first six 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 73 basis points, resulting in interest expense savings of \$760.5 million, net of debt extinguishment expense of \$43.9 million, over the remaining life of the bonds. The average life of the called debt was 4.27 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 June 30, 2020, AgFirst had \$32.971 billion in total debt outstanding compared to \$31.724 billion at December 31, 2019, an increase of \$1.247 billion, or 3.93 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 \$49.4 million from December 31, 2019 to a total of \$1.045 billion at June 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 \$8.553 billion, or 23.94 percent of total assets at June 30, 2020, compared to \$7.933 billion, or 22.99 percent as of December 31, 2019, an increase of \$620.2 million, or 7.82 percent. The

majority of investments, \$8.521 billion as of June 30, 2020, are classified as being available for sale. Available-for-sale investments at June 30, 2020 included \$194.8 million in U.S. Treasury securities, \$4.451 billion in U.S. government guaranteed securities, \$3.049 billion in U.S. government agency guaranteed securities, and \$826.4 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 June 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 total loans outstanding. Based upon FCA guidelines, at June 30, 2020, the Bank's eligible available-for-sale investments were 34.25 percent of the total loans outstanding.

As of June 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 June 30, 2020, AgFirst met each of the individual level criteria above and had a total of 223 days of maturing debt coverage compared to 222 days at December 31, 2019. The increase 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, 2020, 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 \$305.7 million, or 13.11 percent, from December 31, 2019 to \$2.636 billion at June 30, 2020. This increase is primarily attributed to 2020 unallocated retained earnings from net income of \$155.9 million and an increase in net unrealized gains of \$150.0 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

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

	Regulatory Minimum, Including Buffer	6/30/20	12/31/19	6/30/19
Permanent Capital Ratio	7.00%	17.89%	19.32%	19.36%
Common Equity Tier 1 (CET1) Capital Ratio	7.00%	17.48%	18.90%	18.92%
Tier 1 Capital Ratio	8.50%	17.86%	19.29%	19.33%
Total Regulatory Capital Ratio	10.50%	18.00%	19.45%	19.48%
Tier 1 Leverage Ratio	5.00%	6.46%	7.10%	6.96%
Unallocated Retained Earnings (URE) and URE Equivalents Leverage Ratio	1.50%	5.55%	6.17%	6.00%

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

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 June 30, 2020 compared to December 31, 2019 and June 30, 2019 due primarily to the distribution of cash patronage of \$266.9 million, which represented approximately 98.26 percent of 2019 net income at the end of 2019, 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 six months ended June 30, 2020 was \$155.9 million compared to \$130.6 million for the six months ended June 30, 2019, an increase of \$25.3 million, or 19.40 percent. Net income for the three months ended June 30, 2020 was \$83.9 million compared to \$63.2 million for the three months ended June 30, 2019, an increase of \$20.7 million, or 32.81 percent. See below for further discussion of the change in net income by major components.

Key Results of Operations Comparisons

	Annualized for the Six Months Ended June 30, 2020	For the Year Ended December 31, 2019	Annualized for the Six Months Ended June 30, 2019
Return on average assets	0.89%	0.81%	0.80%
Return on average shareholders' equity	12.57%	11.14%	11.31%
Net interest margin	1.48%	1.23%	1.21%
Operating expense as a percentage of net interest income and noninterest income	32.20%	34.36%	34.46%
Net (charge-offs) recoveries to average loans	0.00%	0.00%	0.00%

The annualized return on average assets and return on average shareholders' equity ratios increased for the first six months of 2020 compared to the same period in 2019 and to the year ended December 31, 2019 primarily due to

higher annualized net income for the 2020 period. The higher net interest margin ratio in 2020 compared to both prior periods was primarily due to higher net interest income resulting from lower debt costs in 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 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 June 30, 2020 was \$139.7 million compared to \$99.1 million for the same period of 2019, an increase of \$40.7 million or 41.03 percent. For the six months ended June 30, 2020, net interest income was \$253.4 million compared to \$195.8 million for the same period of 2019, an increase of \$57.6 million, or 29.43 percent. The net interest margin, which is net interest income as a percentage of average earning assets, was 1.60 percent and 1.48 percent for the three and six months periods ended June 30, 2020, increases of 39 and 27 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 six months ended June 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 June 30, 2020 vs. June 30, 2019			For the Six Months Ended June 30, 2020 vs. June 30, 2019		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Loans	\$ 11,845	\$ (46,832)	\$ (34,987)	\$ 21,441	\$ (62,615)	\$ (41,174)
Investments & Cash Equivalents	2,801	(19,335)	(16,534)	5,911	(29,119)	(23,208)
Other	50	(893)	(843)	84	(1,429)	(1,345)
Total Interest Income	14,696	(67,060)	(52,364)	27,436	(93,163)	(65,727)
Interest Expense:						
Interest-Bearing Liabilities	7,442	(100,458)	(93,016)	15,219	(138,552)	(123,333)
Changes in Net Interest Income	\$ 7,254	\$ 33,398	\$ 40,652	\$ 12,217	\$ 45,389	\$ 57,606

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 expense of \$875 thousand and \$913 thousand for the three and six months ended June 30, 2020, respectively, compared to a net expense of \$444 thousand and \$353 thousand, respectively, for the corresponding periods in 2019.

For the three and six month periods ended June 30, 2020, the provision for loan losses included net provision reversals for specific reserves of \$342 thousand and \$923 thousand, respectively, and net provision expense for general reserves of \$1.2 million and \$1.8 million, respectively. For the three and six month periods in 2020, the Bank's provision for general reserves included a provision reversal of \$65 thousand and provision expense of \$540 thousand, respectively, for unallocated general reserves due to anticipated stress from the COVID-19 pandemic. Total net provision expense for the three months ended June 30, 2020 primarily related to borrowers in the forestry (\$775 thousand expense), processing (\$400 thousand expense), field crops (\$281 thousand reversal), and nursery/greenhouse (\$224 thousand reversal) segments. For the six month period in 2020, the provision for loan losses primarily related to borrowers in the forestry (\$1.0 million expense), processing (\$658 thousand expense), rural home loan (\$301 thousand expense), and field crops (\$993 thousand reversal) segments.

For the three and six month periods ended June 30, 2019, the provision for loan losses included net provision reversals for specific reserves of \$120 thousand and \$1.4 million, respectively, and net provision expense for general reserves of \$565 thousand and \$1.7 million. Total net provision expense for the three months ended June 30, 2019 resulted primarily from \$510 thousand expense in the nursery/greenhouse segment. For the six month period in 2019, the provision for loan losses primarily related to borrowers in the nursery/greenhouse (\$682 thousand expense), utilities (\$469 thousand expense), and field crops (\$709 thousand reversal) 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 June 30,			For the Six Months Ended June 30,		
	2020	2019	Increase/ (Decrease)	2020	2019	Increase/ (Decrease)
Loan fees	\$ 2,574	\$ 2,136	\$ 438	\$ 4,843	\$ 4,119	\$ 724
Lease income	782	1,290	(508)	1,555	1,990	(435)
Gains (losses) on investments, net	—	—	—	7,215	—	7,215
Gains (losses) on debt extinguishment	(23,203)	(5,163)	(18,040)	(43,947)	(8,376)	(35,571)
Gains (losses) on other transactions	3,271	(343)	3,614	2,543	(259)	2,802
Insurance premium refund	(16)	—	(16)	2,622	2,620	2
Other noninterest income	590	1,444	(854)	3,745	4,025	(280)
Total noninterest income	\$ (16,002)	\$ (636)	\$ (15,366)	\$ (21,424)	\$ 4,119	\$ (25,543)

For the three and six months ended June 30, 2020 compared to the corresponding periods in 2019, noninterest income decreased \$15.4 million and \$25.5 million, respectively. Significant line item dollar variances are discussed below.

For the six month period ended June 30, 2020, loan fees increased \$724 thousand primarily due to an increase of \$444 thousand in fee income on the Bank's Correspondent Lending portfolio, mainly in underwriting fees.

During the six months ended June 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 \$18.0 million and \$35.6 million for the three and six months ended June 30, 2020, respectively, compared to the same periods in 2019. Call options were exercised on bonds totaling \$15.108 billion and \$29.362 billion for the three and six month periods in 2020, respectively, compared to \$3.340 billion and \$5.075 billion for the three and six 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 six month periods ended June 30, 2020, net gains on other transactions increased \$3.6 million and \$2.8 million, respectively. The higher gains for both the three and six month periods resulted primarily from \$2.7 million in gains on the sale of \$106.6 million of Correspondent Lending loans in the second quarter of 2020 to capitalize on market premiums in the portfolio. For the three month period, an increase of \$639 thousand in the fair value of mortgage servicing rights resulting from these mortgage sales and an increase of \$272 thousand in market value gains on certain retirement plan trust assets also contributed to the increase. For the six month period, an increase of \$716 thousand in the fair value of mortgage servicing rights was partially offset by a decrease of \$540 thousand in market value gains on certain retirement plan trust assets.

Other noninterest income decreased \$854 thousand for the three month period ended June 30, 2020 primarily due to a decrease of \$957 thousand in patronage income received from other Farm Credit institutions.

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 June 30,			For the Six Months Ended June 30,		
	2020	2019	Increase/ (Decrease)	2020	2019	Increase/ (Decrease)
Salaries and employee benefits	\$ 18,401	\$ 16,303	\$ 2,098	\$ 36,183	\$ 32,462	\$ 3,721
Occupancy and equipment	1,801	6,083	(4,282)	3,728	12,095	(8,367)
Insurance Fund premiums	2,292	2,246	46	4,448	4,420	28
Other operating expenses	16,044	10,164	5,880	30,334	19,898	10,436
Losses (gains) from other property owned	405	22	383	450	95	355
Total noninterest expenses	\$ 38,943	\$ 34,818	\$ 4,125	\$ 75,143	\$ 68,970	\$ 6,173

Noninterest expenses for the three and six months ended June 30, 2020 increased \$4.1 million and \$6.2 million, respectively, compared to the corresponding periods in 2019. Significant line item dollar variances are discussed below.

Salaries and employee benefits increased \$2.1 million and \$3.7 million for the three and six months ended June 30, 2020, respectively, compared to the same periods in 2019. The increase resulted primarily from \$1.6 million and \$2.8 million for the three and six month periods, respectively, in higher salaries and incentives due to normal salary administration and an increase in headcount. For the three and six month periods, increases of \$293 thousand and \$512 thousand, respectively, in pension expense due to higher service cost also contributed to the increase.

Occupancy and equipment expenses decreased \$4.3 million and \$8.4 million, respectively, and other operating expenses increased \$5.9 million and \$10.4 million, respectively, for the three and six months ended June 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 \$4.7 million and \$9.2 million for the three and six month periods, respectively, were included in other operating expenses rather than in occupancy expense as previously reported. In addition, increases of \$1.7 million and \$1.8 million for the three and six month periods, respectively, in consultant and professional fees predominantly related to technology initiatives also contributed to the increase in other operating expenses.

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 June 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 June 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	418
Unallocated retained earnings	1,967,916
Paid-in capital	58,883
Regulatory adjustments and deductions made to CET1*	(73,376)
Total CET1 Capital	<u>\$ 2,279,119</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>\$ 2,328,369</u>
Tier 2 Capital	
Allowance for loan losses	\$ 18,072
Reserve for unfunded commitments	430
Regulatory adjustments and deductions made to total capital	—
Total Tier 2 Capital	<u>\$ 18,502</u>
Total Regulatory Capital	<u>\$ 2,346,871</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 June 30, 2020:

<i>(dollars in thousands)</i>	Risk-Weighted Assets
Exposures to:	
Government-sponsored entities, including Direct Notes to Associations	\$ 4,236,855
Depository institutions	45,817
Corporate exposures, including borrower loans and leases	5,691,867
Residential mortgage loans	1,121,619
Past due > 90 days and nonaccrual loans	22,738
Securitized assets	195,605
Exposures to obligors and other assets	141,292
Off-balance sheet exposures	1,579,893
Total risk-weighted assets	<u>\$ 13,035,686</u>

As of June 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 7.50 percent. Additionally, the Bank's leverage ratio was 1.46 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 June 30, 2020:

Ratio	Regulatory Minimum Requirement	Capital Conservation Buffer	Minimum Requirement, Including Buffer	Capital Ratios as of June 30, 2020
Risk-adjusted ratios:				
CET1 Capital	4.50%	2.50%	7.00%	17.48%
Tier 1 Capital	6.00%	2.50%	8.50%	17.86%
Total Regulatory Capital	8.00%	2.50%	10.50%	18.00%
Permanent Capital	7.00%	0.00%	7.00%	17.89%
Non-risk-adjusted ratios:				
Tier 1 Leverage	4.00%	1.00%	5.00%	6.46%
URE and URE Equivalents Leverage	1.50%	0.00%	1.50%	5.55%

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 June 30, 2020. The Bank's allowance for loan losses at June 30, 2020 included \$540 thousand of unallocated general reserves for the participations/syndications portfolio due to anticipated stress from the COVID-19 pandemic. 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 June 30, 2020:

<i>(dollars in thousands)</i>	Ending Balance	3-Month Average Balance	Risk-Weighted Exposures	% of Total Loans
Loans with unconditional guarantee	\$ 102,670	\$ 74,217	\$ —	—%
Loans with conditional guarantee	1,076,068	1,113,525	222,705	4%
Direct Notes	17,361,820	17,231,195	3,446,239	67%
Total	<u>\$ 18,540,558</u>	<u>\$ 18,418,937</u>	<u>\$ 3,668,944</u>	<u>71%</u>

The Bank's credit risk associated with its Direct Note portfolio approximates that of the aggregate District Associations' portfolios. Excluding accrued interest receivable, at June 30, 2020, the Bank's Direct Note portfolio totaled \$17.323 billion and aggregate District Associations' loan portfolios totaled \$23.150 billion.

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

AgFirst Total District Associations Loan Portfolios by State	
	Percent of Portfolio
North Carolina	16 %
Georgia	11
Pennsylvania	10
Virginia	10
Ohio	8
Florida	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 June 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
Other Real Estate	5
Dairy	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 June 30, 2020:

AgFirst Total District Associations Loan Portfolios by Commodity Group Based on Repayment Dependency	
	Percent of Portfolio
Non-Farm Income	32%
Grains	15
Poultry	13
Timber	6
Dairy	5
Fruit and Vegetables	4
Beef	4
Cotton	3
Swine	3
Farm-Related Business	3
Landlords	2
Tobacco	2
Nursery	2
Other	6
Total	<u>100%</u>

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

	AgFirst Loan Portfolio by State					
	At Period End			Year-to-Date Average Balance		
<i>(dollars in thousands)</i>	Outstanding Loans	Unfunded Amounts	Total Exposure	Outstanding Loans	Unfunded Amounts	Total Exposure
North Carolina	\$ 1,479,719	\$ 233,832	\$ 1,713,551	\$ 1,519,578	\$ 222,009	\$ 1,741,587
Georgia	1,044,843	380,261	1,425,104	1,058,415	371,554	1,429,969
Florida	661,087	277,967	939,054	652,732	253,203	905,935
Virginia	593,540	103,660	697,200	593,790	102,812	696,602
Minnesota	351,685	265,949	617,634	355,498	256,425	611,923
Texas	418,274	123,541	541,815	419,040	128,256	547,296
South Carolina	437,946	43,506	481,452	477,081	41,317	518,398
Pennsylvania	209,640	148,982	358,622	212,319	128,607	340,926
California	258,210	79,405	337,615	274,310	64,622	338,932
Ohio	169,908	167,258	337,166	195,940	143,388	339,328
New York	199,972	128,221	328,193	194,246	96,173	290,419
Maryland	303,017	21,642	324,659	317,445	18,753	336,198
Missouri	176,235	123,487	299,722	198,922	99,630	298,552
Louisiana	159,248	93,411	252,659	157,313	91,275	248,588
Illinois	114,581	130,716	245,297	100,666	106,983	207,649
Washington	122,555	76,146	198,701	125,363	58,246	183,609
Kentucky	186,797	6,946	193,743	189,872	8,375	198,247
Mississippi	88,309	102,620	190,929	84,079	107,477	191,556
Nebraska	67,561	117,704	185,265	71,033	85,096	156,129
All other states	1,350,241	734,615	2,084,856	1,337,484	664,102	2,001,586
Direct Notes	17,322,795	2,813,223	20,136,018	16,847,957	2,949,551	19,797,508
Total loans	<u>\$ 25,716,163</u>	<u>\$ 6,173,092</u>	<u>\$ 31,889,255</u>	<u>\$ 25,383,083</u>	<u>\$ 5,997,854</u>	<u>\$ 31,380,937</u>

The following table shows the various major commodity groups in the portfolio based on borrower eligibility at June 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 Loans	\$ 3,179,351	\$ 117,001	\$ 3,296,352	\$ 3,319,341	\$ 129,287	\$ 3,448,628
Processing	931,323	892,578	1,823,901	919,429	774,327	1,693,756
Utilities	930,168	750,630	1,680,798	873,250	695,248	1,568,498
Forestry	1,000,620	330,824	1,331,444	991,979	299,639	1,291,618
Field Crops	334,862	183,778	518,640	333,298	165,344	498,642
Tree Fruits and Nuts	232,283	119,711	351,994	236,911	124,863	361,774
Swine	174,018	89,268	263,286	178,044	95,020	273,064
Grains	130,592	123,846	254,438	119,731	118,497	238,228
Nursery/Greenhouse	164,891	78,879	243,770	194,704	40,079	234,783
Other Real Estate	206,490	9,488	215,978	213,090	8,933	222,023
Dairy	150,647	64,537	215,184	139,340	45,097	184,437
Cattle	126,502	86,121	212,623	131,717	78,423	210,140
Other	831,621	513,208	1,344,829	884,292	473,546	1,357,838
Direct Notes	17,322,795	2,813,223	20,136,018	16,847,957	2,949,551	19,797,508
Total loans	\$ 25,716,163	\$ 6,173,092	\$ 31,889,255	\$ 25,383,083	\$ 5,997,854	\$ 31,380,937

The following table segregates loans based upon repayment dependency by commodity at June 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	\$ 3,463,309	\$ 161,422	\$ 3,624,731	\$ 3,618,630	\$ 161,439	\$ 3,780,069
Rural Utilities	920,121	750,630	1,670,751	873,250	695,248	1,568,498
Timber	883,169	291,972	1,175,141	867,818	261,912	1,129,730
Processing and Marketing	331,888	506,306	838,194	337,990	464,844	802,834
Fruit and Vegetables	456,084	347,089	803,173	467,407	302,986	770,393
Grains	364,924	290,802	655,726	370,459	270,495	640,954
Swine	314,606	185,184	499,790	295,442	171,035	466,477
Farm Related Business	356,121	80,541	436,662	353,627	87,083	440,710
Poultry	231,047	199,596	430,643	222,073	198,142	420,215
Dairy	234,239	102,112	336,351	218,106	80,455	298,561
Beef	128,030	126,434	254,464	140,422	96,891	237,313
Other	709,830	317,781	1,027,611	769,902	257,773	1,027,675
Direct Notes	17,322,795	2,813,223	20,136,018	16,847,957	2,949,551	19,797,508
Total loans	\$ 25,716,163	\$ 6,173,092	\$ 31,889,255	\$ 25,383,083	\$ 5,997,854	\$ 31,380,937

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

Total Outstanding Impaired Loans by State		
<i>(dollars in thousands)</i>	Year-to-Date	
	At Period End	Average Balance
Florida	\$ 8,762	\$ 3,694
North Carolina	7,251	7,316
Ohio	5,618	7,219
Colorado	5,610	6,018
Arkansas	3,789	3,874
Georgia	3,216	1,995
South Carolina	1,924	1,476
Virginia	1,473	1,101
Maryland	1,457	1,634
Texas	833	849
Missouri	746	778
All other states	2,683	2,624
Total impaired loans	\$ 43,362	\$ 38,578

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 June 30, 2020:

<i>(dollars in thousands)</i>	Amortized Cost	Fair Value	% of Total Investments	Risk- Weighted Exposures
Unconditional Guarantee:				
U.S. Govt. Treasury Securities	\$ 193,123	\$ 194,825	2%	\$ –
U.S. Govt. Guaranteed	4,312,326	4,450,690	52%	–
Conditional Guarantee:				
U.S. Govt. Agency Guaranteed	2,997,895	3,049,700	36%	568,814
Total	\$ 7,503,344	\$ 7,695,215	90%	\$ 568,814

COUNTERPARTY CREDIT RISK

Counterparty credit risk exposures may exist in 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 June 30, 2020, the Bank had outstanding \$50.2 million in forward sales derivatives resulting from commitments to sell Correspondent Lending loans.

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 June 30, 2020, the ABS risk-weights ranged from 20.00 percent to 97.74 percent, with a weighted average risk-weight of 25.95 percent.

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

<i>(dollars in thousands)</i>	ABS Securities by SSFA Risk Weight Classification		
	Automobile	Credit Card	Total
	ABSs	ABSs	
0% – 50%	\$ 114,824	\$ 656,590	\$ 771,414
Greater than 50% – 100%	44,594	–	44,594
Greater than 100% – 150%	–	–	–
Total Exposure	\$ 159,418	\$ 656,590	\$ 816,008

As of June 30, 2020, the Bank did not hold any off-balance sheet securitization exposures nor were any securitization exposures deducted from capital. For the six months ended June 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 June 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 June 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 April 9, 2020, the Farm Credit Administration voted to delay publication of certain rules in the Federal Register that were previously approved until at least June 8, 2020 to allow both the Farm Credit Administration and the System to focus their efforts on responding to the COVID-19 pandemic. On June 1, 2020, the Farm Credit Administration extended the regulatory pause until at least July 10 and on July 16, it was determined that some regulatory activities would resume. Accordingly, the Farm Credit Administration will seek to publish its final rule on criteria to reinstate nonaccrual loans this summer. 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 Farm Credit Administration will also seek to publish final rules to: (1) amend the investment rule to allow System institutions to invest in certain USDA loan guarantees, (2) update the amortization rule and (3) amend regulations governing how the banks present association financial information in their annual report to shareholders.

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>	June 30, 2020	December 31, 2019
	<i>(unaudited)</i>	<i>(audited)</i>
Assets		
Cash	\$ 620,138	\$ 444,559
Cash equivalents	425,000	650,000
Investments in debt securities:		
Available-for-sale (amortized cost of \$8,318,191 and \$7,843,244, respectively)	8,520,512	7,895,569
Held-to-maturity (fair value of \$37,907 and \$40,842, respectively)	32,539	37,266
Total investments in debt securities	8,553,051	7,932,835
Loans	25,716,163	25,111,659
Allowance for loan losses	(19,079)	(18,032)
Net loans	25,697,084	25,093,627
Loans held for sale	51,186	—
Accrued interest receivable	85,306	94,806
Accounts receivable	123,068	126,865
Equity investments in other Farm Credit institutions	77,220	76,710
Premises and equipment, net	57,389	54,219
Other property owned	2,825	3,041
Other assets	32,351	28,427
Total assets	\$ 35,724,618	\$ 34,505,089
Liabilities		
Systemwide bonds payable	\$ 25,435,184	\$ 27,291,279
Systemwide notes payable	7,535,365	4,432,488
Accrued interest payable	33,002	104,587
Accounts payable	44,131	300,141
Other liabilities	40,458	45,776
Total liabilities	33,088,140	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	2,004,014	1,848,506
Accumulated other comprehensive income (loss)	198,638	48,483
Total shareholders' equity	2,636,478	2,330,818
Total liabilities and equity	\$ 35,724,618	\$ 34,505,089

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

Statements of Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
Interest Income				
Investments	\$ 39,702	\$ 56,236	\$ 89,194	\$ 112,402
Loans	191,128	226,115	404,140	445,314
Other	510	1,353	1,313	2,658
Total interest income	231,340	283,704	494,647	560,374
Interest Expense				
Net interest income	139,723	99,071	253,372	195,766
Provision for (reversal of allowance for) loan losses	875	444	913	353
Net interest income after provision for loan losses	138,848	98,627	252,459	195,413
Noninterest Income				
Loan fees	2,574	2,136	4,843	4,119
Lease income	782	1,290	1,555	1,990
Gains (losses) on investments, net	—	—	7,215	—
Gains (losses) on debt extinguishment	(23,203)	(5,163)	(43,947)	(8,376)
Gains (losses) on other transactions	3,271	(343)	2,543	(259)
Insurance premium refund	(16)	—	2,622	2,620
Other noninterest income	590	1,444	3,745	4,025
Total noninterest income	(16,002)	(636)	(21,424)	4,119
Noninterest Expenses				
Salaries and employee benefits	18,401	16,303	36,183	32,462
Occupancy and equipment	1,801	6,083	3,728	12,095
Insurance Fund premiums	2,292	2,246	4,448	4,420
Other operating expenses	16,044	10,164	30,334	19,898
Losses (gains) from other property owned	405	22	450	95
Total noninterest expenses	38,943	34,818	75,143	68,970
Net income	\$ 83,903	\$ 63,173	\$ 155,892	\$ 130,562
Other comprehensive income:				
Unrealized gains (losses) on investments	95,554	73,983	149,996	115,272
Change in value of cash flow hedges	(68)	(101)	(136)	(151)
Employee benefit plans adjustments	148	82	295	164
Other comprehensive income (Note 5)	95,634	73,964	150,155	115,285
Comprehensive income	\$ 179,537	\$ 137,137	\$ 306,047	\$ 245,847

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						(140)	(140)
Comprehensive income					130,562	115,285	245,847
Capital stock/participation certificates issued/(retired), net		(2,177)					(2,177)
Dividends paid on perpetual preferred stock					(953)		(953)
Retained earnings retired				(18)			(18)
Patronage distribution adjustment		156			(115)		41
Balance at June 30, 2019	\$ 49,250	\$ 315,819	\$ 58,883	\$ 422	\$ 1,978,290	\$ 63,633	\$ 2,466,297
Balance at December 31, 2019	\$ 49,250	\$ 325,278	\$ 58,883	\$ 418	\$ 1,848,506	\$ 48,483	\$ 2,330,818
Comprehensive income					155,892	150,155	306,047
Dividends paid on perpetual preferred stock					(609)		(609)
Retained earnings retired				(3)			(3)
Patronage distribution adjustment					225		225
Balance at June 30, 2020	\$ 49,250	\$ 325,278	\$ 58,883	\$ 415	\$ 2,004,014	\$ 198,638	\$ 2,636,478

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

Statements of Cash Flows

For the Six Months
Ended June 30,

(dollars in thousands)

	2020	2019
Cash flows from operating activities:		
Net income	\$ 155,892	\$ 130,562
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	3,887	4,143
Amortization of net deferred loan (fees) costs and premium amortization (discount accretion)	3,474	1,138
Premium amortization (discount accretion) on investment securities	8,976	643
(Premium amortization) discount accretion on bonds and notes	45,578	59,555
Provision for loan losses	913	353
(Gains) losses on other property owned, net	394	72
(Gains) losses on investments, net	(7,215)	—
(Gains) losses on debt extinguishment	43,947	8,376
(Gains) losses on other transactions	(2,543)	259
Net change in loans held for sale	(46,455)	2,295
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	9,500	(7,098)
(Increase) decrease in accounts receivable	3,797	6,100
Increase (decrease) in accrued interest payable	(71,585)	(7,902)
Increase (decrease) in accounts payable	10,920	(12,266)
Change in other, net	(9,130)	(3,985)
Total adjustments	(5,542)	51,683
Net cash provided by (used in) operating activities	150,350	182,245
Cash flows from investing activities:		
Investment securities purchased	(1,818,269)	(980,581)
Investment securities sold or matured	1,346,152	1,157,365
Net (increase) decrease in loans	(610,065)	(354,434)
(Increase) decrease in equity investments in other Farm Credit System institutions	(510)	(509)
Purchase of premises and equipment, net	(7,049)	(3,043)
Proceeds from sale of premises and equipment	11	18
Proceeds from sale of other property owned	19	29
Net cash provided by (used in) investing activities	(1,089,711)	(181,155)
Cash flows from financing activities:		
Bonds and notes issued	40,745,459	13,170,568
Bonds and notes retired	(39,588,202)	(12,484,019)
Capital stock and participation certificates issued/retired, net	—	(2,177)
Distribution to shareholders	(266,705)	(297,752)
Dividends paid on perpetual preferred stock	(609)	(953)
Retained earnings retired	(3)	(18)
Net cash provided by (used in) financing activities	889,940	385,649
Net increase (decrease) in cash and cash equivalents	(49,421)	386,739
Cash and cash equivalents, beginning of period	1,094,559	521,485
Cash and cash equivalents, end of period	\$ 1,045,138	\$ 908,224
Supplemental schedule of non-cash activities:		
Receipt of property in settlement of loans	\$ 197	\$ —
Change in unrealized gains (losses) on investments, net	149,996	115,272
Employee benefit plans adjustments	(295)	(164)
Supplemental information:		
Interest paid	\$ 267,282	\$ 312,955

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 and Effective in Future Periods

The following ASU was 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>	June 30, 2020	December 31, 2019
Direct Notes	\$ 17,322,795	\$ 16,830,432
Real estate mortgage	1,137,054	1,135,611
Production and intermediate-term	1,118,665	1,089,174
Loans to cooperatives	514,300	473,462
Processing and marketing	1,123,768	1,091,959
Farm-related business	45,643	62,595
Communication	442,258	356,584
Power and water/waste disposal	588,669	519,111
Rural residential real estate	3,179,351	3,325,122
International	94,289	76,775
Lease receivables	2,509	2,917
Loans to other financing institutions (OFIs)	141,455	142,384
Other (including Mission Related)	5,407	5,533
Total loans	<u>\$ 25,716,163</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 \$370.1 million of residential mortgage loans from various Farm Credit System (System) associations and sold \$107.6 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>	June 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	\$ —	\$ —	\$ —	\$ 1,151,770	\$ —	\$ —	\$ —	\$ 1,151,770
Real estate mortgage	949,666	268,622	487,774	159,865	—	—	1,437,440	428,487
Production and intermediate-term	749,381	274,598	584,712	361,657	423,837	—	1,757,930	636,255
Loans to cooperatives	—	105,121	620,253	—	—	—	620,253	105,121
Processing and marketing	431,983	419,792	545,072	342,470	927,887	16,454	1,904,942	778,716
Farm-related business	33,458	3,127	15,383	—	—	—	48,841	3,127
Communication	—	129,148	572,124	—	—	—	572,124	129,148
Power and water/waste disposal	—	59,087	649,106	—	—	—	649,106	59,087
International	—	37,465	131,875	—	—	—	131,875	37,465
Lease receivables	2,204	—	305	—	—	—	2,509	—
Other (including Mission Related)	5,452	—	—	—	—	—	5,452	—
Total	<u>\$ 2,172,144</u>	<u>\$ 1,296,960</u>	<u>\$ 3,606,604</u>	<u>\$ 2,015,762</u>	<u>\$ 1,351,724</u>	<u>\$ 16,454</u>	<u>\$ 7,130,472</u>	<u>\$ 3,329,176</u>

AgFirst Farm Credit Bank

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

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

June 30, 2020

<i>(dollars in thousands)</i>	Due Less Than 1 Year		Due 1 Through 5 Years		Due After 5 Years		Total
Direct Notes	\$ 493,883	\$ 2,879,571	\$ 13,949,341	\$ 17,322,795			
Real estate mortgage	17,721	270,902	848,431	1,137,054			
Production and intermediate-term	156,290	683,944	278,431	1,118,665			
Loans to cooperatives	27,398	280,868	206,034	514,300			
Processing and marketing	122,067	472,173	529,528	1,123,768			
Farm-related business	283	20,844	24,516	45,643			
Communication	30,853	205,568	205,837	442,258			
Power and water/waste disposal	34,937	260,027	293,705	588,669			
Rural residential real estate	130,152	16,281	3,032,918	3,179,351			
International	17,495	9,068	67,726	94,289			
Lease receivables	—	2,249	260	2,509			
Loans to OFIs	114,087	27,368	—	141,455			
Other (including Mission Related)	—	17	5,390	5,407			
Total loans	\$ 1,145,166	\$ 5,128,880	\$ 19,442,117	\$ 25,716,163			
Percentage	4.45%	19.95%	75.60%	100.00%			

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

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

	June 30, 2020	December 31, 2019		June 30, 2020	December 31, 2019
Direct Notes:			Power and water/waste disposal:		
Acceptable	92.05%	91.96%	Acceptable	92.44%	91.17%
OAEM	7.95	8.04	OAEM	—	5.72
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	7.56	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	95.48%	95.57%	Acceptable	99.57%	99.66%
OAEM	3.62	3.59	OAEM	—	—
Substandard/doubtful/loss	0.90	0.84	Substandard/doubtful/loss	0.43	0.34
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Production and intermediate-term:			International:		
Acceptable	94.97%	96.37%	Acceptable	100.00%	100.00%
OAEM	3.87	2.33	OAEM	—	—
Substandard/doubtful/loss	1.16	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	98.92%	98.66%	Acceptable	100.00%	100.00%
OAEM	—	—	OAEM	—	—
Substandard/doubtful/loss	1.08	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	97.92%	98.56%	Acceptable	100.00%	100.00%
OAEM	2.08	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	96.01%	100.00%	Acceptable	93.82%	93.93%
OAEM	3.99	—	OAEM	5.84	5.84
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	0.34	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:

	June 30, 2020				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
<i>(dollars in thousands)</i>					
Direct Notes	\$ —	\$ —	\$ —	\$ 17,361,820	\$ 17,361,820
Real estate mortgage	1,343	950	2,293	1,142,021	1,144,314
Production and intermediate-term	—	—	—	1,123,029	1,123,029
Loans to cooperatives	—	—	—	514,803	514,803
Processing and marketing	—	—	—	1,126,830	1,126,830
Farm-related business	—	—	—	45,790	45,790
Communication	—	—	—	442,472	442,472
Power and water/waste disposal	—	—	—	590,386	590,386
Rural residential real estate	25,914	8,170	34,084	3,153,592	3,187,676
International	—	—	—	94,733	94,733
Lease receivables	—	—	—	2,516	2,516
Loans to OFIs	—	—	—	141,765	141,765
Other (including Mission Related)	—	—	—	5,489	5,489
Total	\$ 27,257	\$ 9,120	\$ 36,377	\$ 25,745,246	\$ 25,781,623

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	<u>\$ 55,537</u>	<u>\$ 6,552</u>	<u>\$ 62,089</u>	<u>\$ 25,123,998</u>	<u>\$ 25,186,087</u>

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

<i>(dollars in thousands)</i>	June 30, 2020	December 31, 2019
Nonaccrual loans:		
Real estate mortgage	\$ 1,702	\$ 1,123
Loans to cooperatives	5,486	6,352
Rural residential real estate	17,481	16,019
Total	<u>\$ 24,669</u>	<u>\$ 23,494</u>
Accruing restructured loans:		
Real estate mortgage	\$ 432	\$ 440
Production and intermediate-term	11,900	8,391
Rural residential real estate	2,596	2,852
Other (including Mission Related)	3,834	3,956
Total	<u>\$ 18,762</u>	<u>\$ 15,639</u>
Accruing loans 90 days or more past due:		
Total	<u>\$ —</u>	<u>\$ —</u>
Total nonperforming loans	\$ 43,431	\$ 39,133
Other property owned	2,825	3,041
Total nonperforming assets	<u>\$ 46,256</u>	<u>\$ 42,174</u>
Nonaccrual loans as a percentage of total loans	0.10%	0.09%
Nonperforming assets as a percentage of total loans and other property owned	0.18%	0.17%
Nonperforming assets as a percentage of capital	<u>1.75%</u>	<u>1.81%</u>

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>	June 30, 2020	December 31, 2019
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 12,990	\$ 12,090
Past due	11,679	11,404
Total nonaccrual loans	<u>\$ 24,669</u>	<u>\$ 23,494</u>
Impaired accrual loans:		
Restructured	\$ 18,762	\$ 15,639
90 days or more past due	—	—
Total impaired accrual loans	<u>\$ 18,762</u>	<u>\$ 15,639</u>
Total impaired loans	<u>\$ 43,431</u>	<u>\$ 39,133</u>
Additional commitments to lend	<u>\$ 2,245</u>	<u>\$ 2,109</u>

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.

<i>(dollars in thousands)</i>	June 30, 2020			Three Months Ended June 30, 2020		Six Months Ended June 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
Impaired Loans							
With a related allowance for credit losses:							
Real estate mortgage	\$ 105	\$ 104	\$ 1	\$ 105	\$ —	\$ 105	\$ —
Production and intermediate-term	—	—	—	—	—	—	—
Loans to cooperatives	5,486	6,776	127	5,569	—	5,751	—
Rural residential real estate	3,962	3,911	326	4,083	—	4,298	—
Other (including Mission Related)	3,834	3,830	92	3,889	60	3,933	122
Total	\$ 13,387	\$ 14,621	\$ 546	\$ 13,646	\$ 60	\$ 14,087	\$ 122
With no related allowance for credit losses:							
Real estate mortgage	\$ 2,029	\$ 2,027	\$ —	\$ 1,744	\$ 20	\$ 1,595	\$ 47
Production and intermediate-term	11,900	20,691	—	7,938	167	8,100	345
Loans to cooperatives	—	—	—	—	—	—	—
Rural residential real estate	16,115	15,895	—	15,176	194	14,796	382
Other (including Mission Related)	—	—	—	—	—	—	—
Total	\$ 30,044	\$ 38,613	\$ —	\$ 24,858	\$ 381	\$ 24,491	\$ 774
Total impaired loans:							
Real estate mortgage	\$ 2,134	\$ 2,131	\$ 1	\$ 1,849	\$ 20	\$ 1,700	\$ 47
Production and intermediate-term	11,900	20,691	—	7,938	167	8,100	345
Loans to cooperatives	5,486	6,776	127	5,569	—	5,751	—
Rural residential real estate	20,077	19,806	326	19,259	194	19,094	382
Other (including Mission Related)	3,834	3,830	92	3,889	60	3,933	122
Total	\$ 43,431	\$ 53,234	\$ 546	\$ 38,504	\$ 441	\$ 38,578	\$ 896

(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 March 31, 2020	\$ —	\$ 1,541	\$ 3,421	\$ 4,964	\$ 927	\$ 1,445	\$ 5,217	\$ 137	\$ 409	\$ 18,061
Charge-offs	—	—	—	—	—	—	(2)	—	—	(2)
Recoveries	—	—	145	—	—	—	—	—	—	145
Provision for loan losses	—	57	208	(309)	108	678	120	2	11	875
Balance at June 30, 2020	\$ —	\$ 1,598	\$ 3,774	\$ 4,655	\$ 1,035	\$ 2,123	\$ 5,335	\$ 139	\$ 420	\$ 19,079
Balance at December 31, 2019	\$ —	\$ 1,667	\$ 3,448	\$ 5,112	\$ 771	\$ 1,438	\$ 5,046	\$ 137	\$ 413	\$ 18,032
Charge-offs	—	—	—	—	—	—	(11)	—	—	(11)
Recoveries	—	—	145	—	—	—	—	—	—	145
Provision for loan losses	—	(69)	181	(457)	264	685	300	2	7	913
Balance at June 30, 2020	\$ —	\$ 1,598	\$ 3,774	\$ 4,655	\$ 1,035	\$ 2,123	\$ 5,335	\$ 139	\$ 420	\$ 19,079
Balance at March 31, 2019	\$ —	\$ 1,431	\$ 2,564	\$ 6,647	\$ 744	\$ 1,463	\$ 4,589	\$ 134	\$ 380	\$ 17,952
Charge-offs	—	—	—	—	—	—	(3)	—	—	(3)
Recoveries	—	—	137	—	—	—	173	—	—	310
Provision for loan losses	—	356	140	(40)	(62)	(23)	59	—	14	444
Balance at June 30, 2019	\$ —	\$ 1,787	\$ 2,841	\$ 6,607	\$ 682	\$ 1,440	\$ 4,818	\$ 134	\$ 394	\$ 18,703
Balance at December 31, 2018	\$ —	\$ 1,518	\$ 2,614	\$ 6,959	\$ 784	\$ 794	\$ 4,808	\$ 134	\$ 438	\$ 18,049
Charge-offs	—	—	—	—	—	—	(9)	—	—	(9)
Recoveries	—	—	137	—	—	—	173	—	—	310
Provision for loan losses	—	269	90	(352)	(102)	646	(154)	—	(44)	353
Balance at June 30, 2019	\$ —	\$ 1,787	\$ 2,841	\$ 6,607	\$ 682	\$ 1,440	\$ 4,818	\$ 134	\$ 394	\$ 18,703
Allowance on loans evaluated for impairment:										
Individually	\$ —	\$ 1	\$ —	\$ 127	\$ —	\$ —	\$ 326	\$ —	\$ 92	\$ 546
Collectively	—	1,597	3,774	4,528	1,035	2,123	5,009	139	328	18,533
Balance at June 30, 2020	\$ —	\$ 1,598	\$ 3,774	\$ 4,655	\$ 1,035	\$ 2,123	\$ 5,335	\$ 139	\$ 420	\$ 19,079
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	\$ 17,361,820	\$ 152,428	\$ 12,787	\$ 5,506	\$ —	\$ —	\$ 951,605	\$ —	\$ 3,814	\$ 18,487,960
Collectively	—	991,886	1,110,242	1,681,917	442,472	590,386	2,236,071	94,733	145,956	7,293,663
Balance at June 30, 2020	\$ 17,361,820	\$ 1,144,314	\$ 1,123,029	\$ 1,687,423	\$ 442,472	\$ 590,386	\$ 3,187,676	\$ 94,733	\$ 149,770	\$ 25,781,623
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 June 30, 2020.

<i>(dollars in thousands)</i>	Six Months Ended June 30, 2020				
	Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Charge-offs
Pre-modification:					
Rural residential real estate	\$ —	\$ 429	\$ 85	\$ —	\$ 514
Total	\$ —	\$ 429	\$ 85	\$ —	\$ 514
Post-modification:					
Rural residential real estate	\$ —	\$ 438	\$ 87	\$ —	\$ —
Total	\$ —	\$ 438	\$ 87	\$ —	\$ —

(dollars in thousands)

Three Months Ended June 30, 2019

Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Rural residential real estate	\$ 383	\$ 186	\$ —	\$ 569	
Total	\$ 383	\$ 186	\$ —	\$ 569	
Post-modification:					
Rural residential real estate	\$ 428	\$ 189	\$ —	\$ 617	\$ —
Total	\$ 428	\$ 189	\$ —	\$ 617	\$ —

(dollars in thousands)

Six Months Ended June 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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Defaulted troubled debt restructurings:				
Rural residential real estate	\$ —	\$ 561	\$ —	\$ 561
Total	\$ —	\$ 561	\$ —	\$ 561

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	
	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
Real estate mortgage	\$ 629	\$ 643	\$ 197	\$ 203
Production and intermediate-term	11,966	8,437	66	46
Loans to cooperatives	5,501	5,817	5,501	5,817
Rural residential real estate	5,983	5,526	3,387	2,674
Other (including Mission Related)	3,834	3,956	—	—
Total	\$ 27,913	\$ 24,379	\$ 9,151	\$ 8,740
Additional commitments to lend	\$ 2,245	\$ 2,109		

The following table presents foreclosure information as of period end:

(dollars in thousands)	June 30, 2020
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ 642
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ 329

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 June 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 June 30, 2020, the Bank held three RABs with a fair value totaling \$598 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 June 30, 2020, the Bank held \$43.1 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 six 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 six 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:

June 30, 2020					
<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Treasury Securities	\$ 193,123	\$ 1,703	\$ (1)	\$ 194,825	0.97%
U.S. Govt. Guaranteed	4,312,326	142,832	(4,468)	4,450,690	2.02
U.S. Govt. Agency Guaranteed	2,996,734	54,543	(2,715)	3,048,562	1.43
Non-Agency ABSs	816,008	10,480	(53)	826,435	1.66
Total	<u>\$ 8,318,191</u>	<u>\$ 209,558</u>	<u>\$ (7,237)</u>	<u>\$ 8,520,512</u>	<u>1.75%</u>

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	<u>\$ 7,843,244</u>	<u>\$ 79,615</u>	<u>\$ (27,290)</u>	<u>\$ 7,895,569</u>	<u>2.46 %</u>

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:

June 30, 2020					
<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	\$ 1,161	\$ —	\$ (23)	\$ 1,138	5.67%
RABs and Other	31,378	5,391	—	36,769	5.98
Total	<u>\$ 32,539</u>	<u>\$ 5,391</u>	<u>\$ (23)</u>	<u>\$ 37,907</u>	<u>5.97%</u>

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	<u>\$ 37,266</u>	<u>\$ 3,620</u>	<u>\$ (44)</u>	<u>\$ 40,842</u>	<u>5.99%</u>

A summary of the contractual maturity, estimated fair value and amortized cost of investment securities at June 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	\$ 127,522	0.47%	\$ 67,303	1.94 %	\$ —	— %	\$ —	— %	\$ 194,825	0.97 %
U.S. Govt. Guaranteed	—	—	44,463	0.89	276,726	2.60	4,129,501	1.99	4,450,690	2.02
U.S. Govt. Agency Guaranteed	—	—	341,179	1.00	301,145	1.20	2,406,238	1.52	3,048,562	1.43
Non-Agency ABSs	13,046	0.99	813,389	1.67	—	—	—	—	826,435	1.66
Total fair value	<u>\$ 140,568</u>	<u>0.52%</u>	<u>\$ 1,266,334</u>	<u>1.48 %</u>	<u>\$ 577,871</u>	<u>1.87 %</u>	<u>\$ 6,535,739</u>	<u>1.82 %</u>	<u>\$ 8,520,512</u>	<u>1.75 %</u>
Total amortized cost	<u>\$ 140,472</u>		<u>\$ 1,253,421</u>		<u>\$ 558,306</u>		<u>\$ 6,365,992</u>		<u>\$ 8,318,191</u>	

Held-to-maturity

<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	
	Weighted Average		Weighted Average		Weighted Average		Weighted Average		Weighted Average	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Govt. Agency Guaranteed RABs and Other	\$ —	—%	\$ —	—%	\$ —	—%	\$ 1,161	5.67%	\$ 1,161	5.67%
Total amortized cost	\$ 1,514	5.62%	\$ 8,674	6.12%	\$ —	—%	\$ 21,190	5.95%	\$ 32,378	5.98%
Total fair value	\$ 1,534		\$ 9,019		\$ —		\$ 27,354		\$ 37,907	

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.

<i>(dollars in thousands)</i>	June 30, 2020					
	Less Than 12 Months		12 Months Or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	U.S. Govt. Treasury Securities	\$ 49,991	\$ (1)	\$ —	\$ —	\$ 49,991
U.S. Govt. Guaranteed	222,617	(501)	670,918	(3,967)	893,535	(4,468)
U.S. Govt. Agency Guaranteed	317,653	(1,032)	464,034	(1,706)	781,687	(2,738)
Non-Agency ABSs	31,376	(53)	—	—	31,376	(53)
Total	\$ 621,637	\$ (1,587)	\$ 1,134,952	\$ (5,673)	\$ 1,756,589	\$ (7,260)

<i>(dollars in thousands)</i>	December 31, 2019					
	Less Than 12 Months		12 Months Or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	U.S. Govt. Treasury Securities	\$ 14,972	\$ (2)	\$ —	\$ —	\$ 14,972
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.

<i>(dollars in thousands)</i>	June 30, 2020					
	Bonds		Discount Notes		Total	
	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate
Maturities						
One year or less	\$ 6,328,295	0.63%	\$ 7,535,365	0.78%	\$ 13,863,660	0.71%
Greater than one year to two years	7,132,002	0.46	—	—	7,132,002	0.46
Greater than two years to three years	2,826,834	0.75	—	—	2,826,834	0.75
Greater than three years to four years	2,518,611	0.86	—	—	2,518,611	0.86
Greater than four years to five years	1,958,535	0.97	—	—	1,958,535	0.97
Greater than five years	4,670,907	1.39	—	—	4,670,907	1.39
Total	\$ 25,435,184	0.78%	\$ 7,535,365	0.78%	\$ 32,970,549	0.78%

Discount notes are issued with maturities of one year or less. The weighted average maturity of discount notes at June 30, 2020 was 149 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 June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
Investment Securities:				
Balance at beginning of period	\$ 106,766	\$ (8,140)	\$ 52,324	\$ (49,429)
Other comprehensive income before reclassifications	95,554	73,983	157,211	115,272
Amounts reclassified from AOCI	—	—	(7,215)	—
Net current period other comprehensive income	95,554	73,983	149,996	115,272
Balance at end of period	\$ 202,320	\$ 65,843	\$ 202,320	\$ 65,843
Cash Flow Hedges:				
Balance at beginning of period	\$ 465	\$ 836	\$ 533	\$ 886
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	(68)	(101)	(136)	(151)
Net current period other comprehensive income	(68)	(101)	(136)	(151)
Balance at end of period	\$ 397	\$ 735	\$ 397	\$ 735
Employee Benefit Plans:				
Balance at beginning of period	\$ (4,227)	\$ (3,027)	\$ (4,374)	\$ (3,109)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	148	82	295	164
Net current period other comprehensive income	148	82	295	164
Balance at end of period	\$ (4,079)	\$ (2,945)	\$ (4,079)	\$ (2,945)
Total Accumulated Other Comprehensive Income:				
Balance at beginning of period	\$ 103,004	\$ (10,331)	\$ 48,483	\$ (51,652)
Other comprehensive income before reclassifications	95,554	73,983	157,211	115,272
Amounts reclassified from AOCI	80	(19)	(7,056)	13
Net current period other comprehensive income	95,634	73,964	150,155	115,285
Balance at end of period	\$ 198,638	\$ 63,633	\$ 198,638	\$ 63,633

Reclassifications Out of Accumulated Other Comprehensive Income (b)

<i>(dollars in thousands)</i>	For the Three Months Ended June 30,		For the Six Months Ended June 30,		Income Statement Line Item
	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	68	101	136	151	Interest income on investment securities
Gains (losses) on other transactions	—	—	—	—	Gains (losses) on other transactions
Net amounts reclassified	68	101	136	151	
Employee Benefit Plans:					
Periodic pension costs	(148)	(82)	(295)	(164)	See Note 7.
Net amounts reclassified	(148)	(82)	(295)	(164)	
Total reclassifications for period	\$ (80)	\$ 19	\$ 7,056	\$ (13)	

(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	
	For the Six Months Ended June 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	418	—
Settlements	—	(264)
Transfers in and/or out of Level 3	—	—
Balance at end of period	\$ 1,104	\$ 769

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.

	June 30, 2020				
<i>(dollars in thousands)</i>	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	\$ 194,825	\$ —	\$ 194,825	\$ —	\$ 194,825
U.S. Govt. guaranteed	4,450,690	—	4,450,690	—	4,450,690
U.S. Govt. agency guaranteed	3,048,562	—	3,048,562	—	3,048,562
Non-agency ABSs	826,435	—	826,435	—	826,435
Total investments in debt securities available-for-sale	8,520,512	—	8,520,512	—	8,520,512
Federal funds sold, securities purchased under resale agreements, and other	425,000	—	425,000	—	425,000
Mortgage servicing rights	1,167	—	—	1,167	1,167
Assets held in trust funds	16,488	16,488	—	—	16,488
Recurring Assets	<u>\$ 8,963,167</u>	<u>\$ 16,488</u>	<u>\$ 8,945,512</u>	<u>\$ 1,167</u>	<u>\$ 8,938,167</u>
Liabilities:					
Mortgage servicing rights	\$ 63	\$ —	\$ —	\$ 63	\$ 63
Recurring Liabilities	<u>\$ 63</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 63</u>	<u>\$ 63</u>
<u>Nonrecurring Measurements</u>					
Assets:					
Impaired loans	\$ 12,841	\$ —	\$ —	\$ 12,841	\$ 12,841
Other property owned	2,825	—	—	3,167	3,167
Nonrecurring Assets	<u>\$ 15,666</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 16,008</u>	<u>\$ 16,008</u>
<u>Other Financial Instruments</u>					
Assets:					
Cash	\$ 620,138	\$ 620,138	\$ —	\$ —	\$ 620,138
Investments in debt securities held-to-maturity	32,539	—	1,138	36,769	37,907
Loans	25,735,429	—	—	26,071,480	26,071,480
Other Financial Assets	<u>\$ 26,388,106</u>	<u>\$ 620,138</u>	<u>\$ 1,138</u>	<u>\$ 26,108,249</u>	<u>\$ 26,729,525</u>
Liabilities:					
Systemwide debt securities	\$ 32,970,549	\$ —	\$ —	\$ 33,108,172	\$ 33,108,172
Other Financial Liabilities	<u>\$ 32,970,549</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 33,108,172</u>	<u>\$ 33,108,172</u>

December 31, 2019

<i>(dollars in thousands)</i>	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	\$ 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
<u>Nonrecurring Measurements</u>					
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
<u>Other Financial Instruments</u>					
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	\$ 16,008	Appraisal	Income and expense Comparable sales Replacement cost Comparability adjustments	* * * *
Mortgage servicing rights, net	\$ 1,104	Discounted cash flow	Constant prepayment rate Probability of default Loss severity 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 Loss severity
	Quoted prices Vendor priced	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 Vendor priced	Price for similar security **
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 June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
Pension	\$ 1,654	\$ 1,314	\$ 3,204	\$ 2,599
401k	945	842	1,817	1,690
Other postretirement benefits	247	243	496	488
Total	<u>\$ 2,846</u>	<u>\$ 2,399</u>	<u>\$ 5,517</u>	<u>\$ 4,777</u>

Expenses in the above table are computed using 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>	June 30, 2020		December 31, 2019	
Total System bonds and notes	\$	310.213	\$	293.538
AgFirst bonds and notes	\$	32.971	\$	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>	June 30, 2020	December 31, 2019
Reverse repurchase and similar arrangements	\$ 425,000	\$ 650,000
Gross Amount of Recognized Assets	<u>425,000</u>	<u>650,000</u>
Reverse repurchase and similar arrangements	—	—
Gross Amounts Offset in the Balance Sheets	<u>—</u>	<u>—</u>
Net Amounts of Assets Presented in the Balance Sheets	\$ 425,000	\$ 650,000
Financial Instruments	(425,000)	(650,000)
Gross Amounts Not Offset in the Balance Sheets	<u>(425,000)</u>	<u>(650,000)</u>
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 Second Quarter 2020 Report.

Note 10 — Subsequent Events

The Bank evaluated subsequent events and determined there were none requiring disclosure through August 7, 2020, which was the date the financial statements were issued.