2021 SECOND QUARTER REPORT
AGFIRST FARM CREDIT BANK

IN SIGHT

SECOND QUARTER 2021

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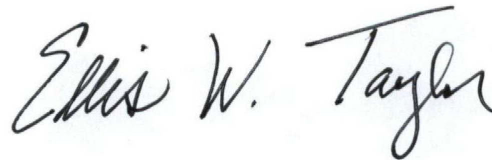
CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2021 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 6, 2021

Report on Internal Control Over Financial Reporting

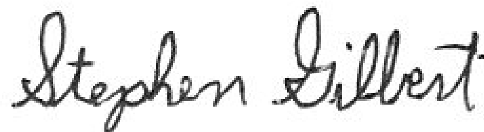
The Bank's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Bank's Financial Statements. For purposes of this report, "internal control over financial 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, 2021. 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, 2021, 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, 2021.

Leon T. Amerson
Chief Executive Officer & President



Stephen Gilbert
Chief Financial Officer

August 6, 2021

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 months ended June 30, 2021. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Financial Statements, and the 2020 Annual Report of AgFirst Farm Credit Bank. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the District. The accompanying financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of AgFirst. However, neither the three months nor the 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.

There have been no material changes to the risks described in the Bank's 2020 Annual Report. Terms not defined herein have the meaning set forth in the 2020 Annual Report.

COVID-19 OVERVIEW

In response to the COVID-19 pandemic, and without disruption to operations, AgFirst transitioned the vast majority of its employees to working remotely in mid-March 2020. The priority was, and continues to be, to ensure the health and safety of employees, while continuing to serve the mission of providing support for rural America and agriculture. The Bank continues to operate in a remote work environment with a limited number of employees working at the Bank's headquarters.

During the first half of 2021, significant progress has been made in the fight against COVID-19 with the distribution of vaccines. However, the highly contagious Delta variant has raised doubts about how quickly the world will return to "pre-pandemic" norms. Uncertainty remains as to the ability to vaccinate those unvaccinated nationwide and globally and when the restrictions that were imposed to slow the spread of the pandemic will be lifted entirely or if those restrictions that were previously lifted will be reinstated. AgFirst will adjust its business continuity plans to maintain effective and efficient business operations while safeguarding the health and safety of employees. In addition, AgFirst continues to work with borrowers and District Associations to offer appropriate solutions to meet their operating and liquidity needs.

See further discussion of business risks associated with COVID-19 in the Bank's 2020 Annual Report.

COVID-19 Support Programs

Since the onset of the COVID-19 pandemic, the U.S. government has taken a number of actions to help businesses, individuals, state/local governments, and educational institutions that have been adversely impacted by the economic disruption caused by the pandemic.

The previously enacted Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was amended by subsequent legislation, included the Paycheck Protection Program (PPP). The PPP provides support to small businesses to cover payroll and certain other expenses. Loans made under the PPP are fully guaranteed by the Small Business Administration (SBA), whose guarantee is backed by the full faith and credit of the United States. As of June 30, 2021, the District had $174.6 million of these loans outstanding to approximately 9,900 borrowers. In addition, through June 30, 2021, the volume of such loans that have received forgiveness from the SBA since the start of the program was $88.7 million.

For a detailed discussion of programs enacted in 2020, see pages 5 and 6 of the Bank's 2020 Annual Report.

CLIMATE CHANGE

Agricultural production is and always has been vulnerable to weather events and climate change. The USDA has recognized that the changing climate presents threats to U.S. and global agricultural production and rural communities. The impact of climate change including its effect on weather is, and will continue to be, a challenge for agricultural producers. Among the risks of climate change are:

- rising average temperatures,
- more frequent and severe storms,
- more forest fires, and
- extremes in flooding and droughts.

However, risks associated with climate change are mitigated, to some degree, by U.S. agricultural producers' ability to navigate changing industry dynamics from numerous perspectives, including trade, government policy, consumer preferences and weather. Producers regularly adopt new technologies, agronomic practices and financial strategies in response to evolving trends to ensure their competitiveness.

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	**June 30,**	**December 31,**	**June 30,**	**June 2021 Compared to December 2020**		**June 2021 Compared to June 2020**	
(dollars in thousands)	**2021**	**2020**	**2020**	**$ Change**	**% Change**	**$ Change**	**% Change**
Direct Notes*	$ 18,688,371	$ 17,945,905	$ 17,322,795	$ 742,466	4.14 %	$1,365,576	7.88 %
Participations/Syndications Purchased, net*	5,132,179	5,094,229	4,919,035	37,950	0.74 %	213,144	4.33 %
Correspondent Lending	2,909,256	3,047,757	3,332,878	(138,501)	(4.54)%	(423,622)	(12.71)%
Loans to OFIs	149,126	137,098	141,455	12,028	8.77 %	7,671	5.42 %
Total	$ 26,878,932	$ 26,224,989	$ 25,716,163	$ 653,943	2.49 %	$1,162,769	4.52 %

	Portfolio Distribution		
	June 30, 2021	**December 31, 2020**	**June 30, 2020**
Direct Notes*	69.53 %	68.43 %	67.36 %
Participations/Syndications Purchased, net*	19.09 %	19.43 %	19.13 %
Correspondent Lending	10.82 %	11.62 %	12.96 %
Loans to OFIs	0.56 %	0.52 %	0.55 %
Total	100.00 %	100.00 %	100.00 %

**Net of participations sold.*

Loans outstanding totaled $26.879 billion at June 30, 2021, an increase of $653.9 million, or 2.49 percent, compared to total loans outstanding at December 31, 2020 and an increase of $1.163 billion, or 4.52 percent, since June 30, 2020.

Loan volume since December 31, 2020 was positively impacted primarily by an increase in Direct Notes. Since the Direct Notes fund District Associations' lending activities, increases and decreases in the Direct Note portfolio are closely linked to the commodities and geographic distribution of the District Associations' loan portfolios. Loan growth since year-end was primarily due to growth in the field crops, dairy, grains, utilities, and cattle segments. Compared to June 30, 2020, the year-over-year increase in loan volume was primarily in the field crops, forestry, grains, dairy, and cattle segments. Growth during both periods was partially offset by declines in the rural home loans segment, as discussed further in the *Correspondent Lending* section below. Growth came from a combination of factors including new client acquisition, customers restructuring their balance sheets to take advantage of the current rate environment, liquidity needs due to commodity price escalation, and merger and acquisition activity.

Credit Quality

Credit quality of AgFirst's loans is shown below:

	Total Loan Portfolio Credit Quality as of:		
Classification	**June 30, 2021**	**December 31, 2020**	**June 30, 2020**
Acceptable	99.37 %	94.00 %	93.82 %
OAEM *	0.45 %	5.85 %	5.84 %
Substandard/doubtful/loss	0.18 %	0.15 %	0.34 %

**Other Assets Especially Mentioned.*

The table above reflects credit quality improvement during the second quarter of 2021 due to the classification change from OAEM to acceptable of a Direct Note to an Association, which totaled approximately $1.512 billion at June 30, 2021.

While the Bank credit quality reflects improvement for the current period, it may deteriorate in future quarters given potential changes in government support for agricultural sectors and unemployment benefits, inflationary pressures, and unforeseen impacts from trade, weather, or agriculture-related events.

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 Farm Credit Administration (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, 2021, the total Direct Note volume outstanding was $18.688 billion, an increase of $742.5 million, or 4.14 percent, compared to December 31, 2020. Growth in Direct Note volume is attributed primarily to funding of Association loan volume increases, offset by Association earnings, including Bank patronage payments to Associations of approximately $370.3 million which were applied to the Association Direct Notes at the beginning of 2021. Compared to June 30, 2020, Direct Note volume increased $1.366 billion, or 7.88 percent. See the *Loan Portfolio* section above for the primary reasons for the change in Direct Notes.

	Direct Note Credit Quality as of:					
	June 30, 2021		December 31, 2020		June 30, 2020	
Classification	% Total	# Total	% Total	# Total	% Total	# Total
Acceptable	100.00 %	19	92.09 %	18	92.05 %	18
OAEM *	— %	—	7.91 %	1	7.95 %	1
Substandard/doubtful/loss	— %	—	— %	—	— %	—

Other Assets Especially Mentioned

At June 30, 2021, no District Associations were operating under a written agreement with the FCA, and none were operating under a special credit agreement pursuant to the GFA. See the *Credit Quality* section above for further discussion of change during the second quarter of 2021.

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, 2021, this portfolio totaled $5.132 billion, an increase of $38.0 million, or 0.74 percent, from December 31, 2020 and an increase of $213.1 million, or 4.33%, from June 30, 2020.

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.

The relatively stable credit quality for the participations/syndications portfolio is shown in the following chart:

	Participations/Syndications Credit Quality as of:		
Classification	June 30, 2021	December 31, 2020	June 30, 2020
Acceptable	96.98 %	97.22 %	95.96 %
OAEM*	2.36 %	2.25 %	2.55 %
Substandard/doubtful/loss	0.66 %	0.53 %	1.49 %

Other Assets Especially Mentioned.

Correspondent Lending

The Correspondent Lending portfolio consists primarily of purchased first lien residential mortgages. As of June 30, 2021, the Correspondent Lending portfolio totaled $2.909 billion, a decrease of $138.5 million, or 4.54 percent, from December 31, 2020 and a decrease of $423.6 million, or 12.71 percent, from June 30, 2020. The decrease compared to year-end 2020 primarily resulted from increased early payoff activity by borrowers taking advantage of falling interest rates by refinancing with other lenders. While AgFirst has purchased a number of refinanced loans and new loans, a significant portion of its purchase volume has traditionally consisted of construction loans, the demand for which has been adversely affected by modifications of qualification standards established by loan insurers in response to the COVID-19 pandemic. Loan sales of $182.8 million during the third quarter of 2020 to capitalize on market premiums and manage risk during a period of market volatility also contributed to the decrease compared to June 30, 2020.

As of June 30, 2021, $811.5 million, or 27.90 percent of loans in the Correspondent Lending portfolio include a long-term standby commitment to purchase (LTSP). The LTSPs from the Federal National Mortgage Association (Fannie Mae) and/or Federal Agricultural Mortgage Corporation (Farmer Mac), give AgFirst the right to deliver

delinquent loans to the guarantor at par. The balance of guaranteed loans will continue to decline as the LTSP program is no longer being utilized.

At June 30, 2021, 99.47 percent of the total Correspondent Lending loans, including accrued interest, was classified as acceptable and 0.53 percent was classified as substandard compared to 99.58 percent acceptable and 0.42 percent substandard at December 31, 2020. There were no loans classified as OAEM for the periods presented.

As a result of the COVID-19 pandemic, the Bank utilized forbearance programs offered by Fannie Mae to eligible borrowers for an initial six-month forbearance, with a potential maximum forbearance of twelve months. At June 30, 2021, loans totaling $20.6 million, or 0.71 percent of the Correspondent Lending portfolio, remained in the forbearance program.

Credit quality is expected to decline in future quarters due to borrowers reaching the end of forbearance programs and transitioning into other loss mitigation programs.

Nonaccrual Loans

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the Bank totaled $42.4 million at June 30, 2021 compared to $26.3 million at December 31, 2020. The increase in nonaccrual loans resulted from two new nonaccrual relationships in the utilities and tobacco segments which totaled $11.0 million and $9.1 million, respectively. At June 30, 2021, nonaccrual loans were primarily in the rural home loan (43.57 percent of the total), utilities (25.96 percent), and tobacco (21.37 percent) segments. Nonaccrual loans were 0.16 percent of total loans outstanding at June 30, 2021 and 0.10 percent at December 31, 2020.

Troubled Debt Restructurings

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms, rates, or amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by the Bank. TDRs increased $4.0 million since December 31, 2020 and totaled $16.5 million at June 30, 2021. TDRs at June 30, 2021 were comprised of $13.5 million of accruing restructured loans and $2.9 million of nonaccrual restructured loans. Restructured loans were primarily in the rural home loan (57.01 percent of the total), other real estate (7.64 percent), and nursery/greenhouse (5.25 percent) segments.

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 totaled $153 thousand at June 30, 2021 and was comprised of one rural home property. The Bank had no OPO at December 31, 2020.

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 $19.7 million at June 30, 2021, as compared with $18.3 million at December 31, 2020. The allowance at June 30, 2021 included specific reserves of $2.9 million (14.52 percent of the total) and general reserves of $16.8 million (85.48 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 $1.9 million recorded during the six months ended June 30, 2021.

The total allowance at June 30, 2021 was comprised primarily of reserves for the rural home loan (28.98 percent of the total), utilities (20.20 percent), and processing (13.08 percent) segments. The allowance for loan losses was 0.07

percent of total loans outstanding at both June 30, 2021 and December 31, 2020. See Note 2, *Loans and Allowance for Loan Losses*, in the Notes to the Financial Statements for further information.

Interest Rate Risk Management

At June 30, 2021, the Bank's twelve-month Cumulative Repricing/Maturity Gap was a $2.563 billion asset sensitive position, meaning the volume of repricing/maturing assets exceeded the volume of liabilities that mature or reprice during that time period. An asset sensitive position generally implies an increase in net interest income in rising interest rate scenarios and lower net interest income in falling interest rate scenarios. However, a gap analysis does not capture the optionality that is inherent in some of the Bank's assets and liabilities. For example, during a period of rising interest rates, call options on fixed-rate debt may not be exercised and prepayment options on fixed-rate assets also slow as the economic incentive for borrowers to refinance decreases. In contrast, during a period of falling interest rates, call options on debt may be exercised and prepayment activity on loans increases. To supplement the Repricing/Maturity Gap analysis, the Bank utilizes a financial simulation model for measuring interest rate sensitivity of net interest income and market value of equity.

The following tables represent AgFirst's projected change over the next twelve months in net interest income and market value of equity for various rate movements as of June 30, 2021. 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	$586,274	(2.99)%
+2.0% Shock	$610,038	0.94%
Base line **	$604,359	–
-50% of 3M Tbill ***	$603,119	(0.21)%

Market Value of Equity
(dollars in thousands)

Scenarios	Assets	Liabilities*	Equity*	% Change
Book Value	$36,987,546	$34,361,909	$2,625,637	–
+4.0% Shock	$33,526,552	$31,375,393	$2,151,159	(31.09)%
+2.0% Shock	$35,392,189	$32,781,487	$2,610,702	(16.37)%
Base line **	$37,405,500	$34,283,799	$3,121,701	–
-50% of 3M Tbill ***	$37,423,359	$34,298,219	$3,125,140	0.11 %

* *For interest rate risk management, the $39.5 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, 2021, this downward shock was (2) basis points.*

Future of LIBOR

In 2017, the United Kingdom's Financial Conduct Authority (UK FCA), 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.

On March 5, 2021, ICE Benchmark Administration (IBA) (the entity that is responsible for calculating LIBOR) announced its intention to cease the publication of the one-week and two-month US dollar LIBOR settings immediately following the LIBOR publication on December 31, 2021, and the remaining US dollar LIBOR settings immediately following the LIBOR publication on June 30, 2023. On the same day, the UK FCA announced that the IBA had notified the UK FCA of its intent, among other things, to cease providing certain US dollar LIBOR settings as of June 30, 2023. In its announcement, the UK FCA confirmed that all 35 LIBOR tenors (including with respect

to US dollar LIBOR) will be discontinued or declared nonrepresentative as of either: (a) immediately after December 31, 2021 or (b) immediately after June 30, 2023.

The District has exposure to LIBOR arising from loans made to customers, investment securities purchased, Systemwide Debt Securities issued by the Funding Corporation on the Bank's behalf, and preferred stock issued by the Bank. 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.

The FCA has issued guidelines for System institutions to follow as they prepare for the expected phase-out of LIBOR. The guidelines direct each System institution to develop a LIBOR transition plan designed to provide an orderly roadmap of actions that will reduce LIBOR exposure over time. The FCA identified the following as important considerations in the development of each entity's transition plan:

- a governance structure to manage the transition;
- an assessment of exposures to LIBOR;
- an assessment of the fallback provisions in contracts and the impact of a LIBOR phase-out under those provisions;
- the establishment of strategies for reducing each type of LIBOR exposure;
- an assessment of the operational processes that need to be changed;
- a communication strategy for customers and shareholders;
- the establishment of a process to stay abreast of industry developments and best practices;
- the establishment of a process to ensure a coordinated approach, to the extent possible, across the District; and
- a timeframe and action steps for completing key objectives.

The Bank and Associations have established and are in the process of implementing LIBOR transition plans and continue to analyze potential risks associated with the LIBOR transition, including, but not limited to, financial, market, accounting, operational, legal, tax, reputational, and compliance risks.

At this time, the Bank is unable to determine when LIBOR will completely cease to be available or becomes unrepresentative, or if SOFR will become the only benchmark to replace LIBOR. However, in light of the announcements by the UK FCA, the IBA and U.S. prudential regulators noted above, U.S. dollar LIBOR, except in very limited circumstances, will be discontinued or declared unrepresentative (depending on the tenor) as of either immediately after December 31, 2021 or June 30, 2023. Because the Bank and Associations engage in transactions involving financial instruments that reference LIBOR, developments regarding potential replacement indices could have a material impact on the financial results, borrowers, investors, and counterparties.

For example, on April 6, 2021, the New York Governor signed into law the New York State Legislature's Senate Bill 297B/Assembly Bill 164B (the New York LIBOR Legislation). The New York LIBOR Legislation amends the New York General Obligations Law by adding new Article 18-c and mirrors a legislative proposal drafted by the Alternative Reference Rates Committee (the ARRC) aimed at ensuring legal clarity for legacy instruments governed by New York law during the US dollar LIBOR transition. The ARRC is an industry-working group convened by the Federal Reserve Board and the New York Fed to lead the LIBOR transition, which, among other work, has developed industry-specific fallback language that may be used by market participants to address the cessation of US dollar LIBOR. The New York LIBOR Legislation applies to US dollar LIBOR-based contracts, securities, and instruments governed under New York law that (i) do not have any US dollar LIBOR fallback provisions in place, (ii) have US dollar LIBOR fallback provisions that result in replacement rates that are in some way based on US dollar LIBOR, or (iii) have US dollar LIBOR fallback provisions that allow or require one of the parties or an outsider to select a replacement rate for US dollar LIBOR. The New York LIBOR Legislation (a) provides in respect of (i) and (ii) above, upon the occurrence of a "LIBOR Discontinuance Event" and the related "LIBOR Replacement Date" (each as defined in the New York LIBOR Legislation), that the then-current US dollar LIBOR based

benchmark, by operation of law, be replaced by a "Recommended Benchmark Replacement" (as defined in the New York LIBOR Legislation) based on the Secured Overnight Financing Rate (SOFR), or, (b) in respect of (iii), encourages the replacement of LIBOR with the "Recommended Benchmark Replacement" by providing a safe harbor from legal challenges under New York law.

The New York LIBOR Legislation may apply to certain of the System institutions' LIBOR-based instruments. For example, to the extent there is an absence of controlling federal law or unless otherwise provided under the terms and conditions of a particular issue of Systemwide Debt Securities, the Systemwide Debt Securities are governed by and construed in accordance with the laws of the State of New York, including the New York General Obligations Law.

At present, there is no specific federal law akin to the New York LIBOR Legislation addressing the US dollar LIBOR transition. However, United States Congress began working on a draft version of federal legislation in October of 2020 that would provide a statutory substitute benchmark rate for contracts that use US dollar LIBOR as a benchmark and that do not have any sufficient fallback clauses in place. The current version of the legislation, the Adjustable Interest Rate (LIBOR) Act of 2021, was formally introduced in the House of Representatives on July 22, 2021. The bill has been assigned to the House Financial Services, Ways & Means, and Education & Labor Committees. On July 29, 2021, The House Financial Services Committee voted to positively report the bill out of committee and send it to the full House. Consideration by the full House is not expected to take place before September of this year. While similar to the New York LIBOR Legislation, including inclusion of a safe harbor for use of recommended LIBOR fallbacks that are based on SOFR, there are differences in the current draft of the federal legislation, including, perhaps most significantly, that the draft bill specifically provides for the preemption of state law, which would include the New York LIBOR Legislation. At this time, it is uncertain as to whether, when and in what form such federal legislation would be adopted.

In light of the proliferation of alternatives to LIBOR and the slower than expected transition away from LIBOR, regulators, the ARRC and market participants have more aggressively taken steps to speed up this transition. In addition to the recent public positions taken by members of the Financial Stability Oversight Council (FSOC), including from the U.S. prudential regulators and the Securities and Exchange Commission and the Commodity Futures Trading Commission (CFTC), the CFTC (through its Market Risk Advisory Committee (MRAC)), the ARRC and the IBA have also made statements and taken action to move the markets to transition away from LIBOR using SOFR.

In addition, on July 13, the MRAC adopted a market best practice known as "SOFR First". SOFR First is designed to help market participants decrease reliance on USD LIBOR in light of statements from the Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO) on the LIBOR transition which reinforce U.S prudential regulators' guidance that banks should cease entering new contracts that reference USD LIBOR post December 31, 2021. SOFR First recommends a phased approach to be completed by December 31, 2021. The first phase, completed on July 26, implemented the MRAC recommendation that interdealer brokers would replace their trading of LIBOR linear swaps with trading of SOFR linear swaps. In light of the successful implementation of this first phase of SOFR First and the ARRC's assessment of whether a forward looking term rate based on SOFR published by the CME Group (Term SOFR) were being met, the ARRC formally announced that Term SOFR was an appropriate fallback to LIBOR to be used for certain types of currently outstanding loans, floating rate notes (which would include certain outstanding Systemwide Debt Securities) and derivatives based on LIBOR when the LIBOR was discontinued or deemed unrepresentative, and, in more limited circumstances, for new loans, notes and other transactions, including derivatives. The successful implementation of SOFR First and the ARRC's support of Term SOFR are expected to increase the volume of transactions quoted in SOFR, supporting the implementation of the transition away from LIBOR.

The following is a summary of District variable-rate financial instruments outstanding with LIBOR exposure at June 30, 2021:

(dollars in millions)	Due in 2021	Due in 2022	Due in 2023 (On or Before June 30)	Due After June 30, 2023	Total
Investments	$ 6	$ 1	$ —	$ 1,230	$ 1,237
Loans	382	296	139	4,038	4,855
Total	$ 388	$ 297	$ 139	$ 5,268	$ 6,092
Systemwide debt securities	$ 775	$ 275	$ 35	$ —	$ 1,085
Preferred stock	—	—	—	40	40
Total	$ 775	$ 275	$ 35	$ 40	$ 1,125

The LIBOR transition plan includes implementing fallback language into variable-rate financial instruments maturing after December 31, 2021 which provides the ability to move these instruments to another index if the LIBOR market is no longer viable. As of June 30, 2021, less than 1 percent of total District investments, 2 percent of total District loans and 1 percent of Systemwide debt securities maturing after December 31, 2021 do not contain fallback provisions. The Bank's preferred stock may be redeemed on any five-year anniversary of its issuance. The next redemption date for the preferred stock is June, 2022.

Liquidity and Funding Sources

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

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

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

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

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, 2021, AgFirst had $34.210 billion in total debt outstanding compared to $33.356 billion at December 31, 2020, an increase of $853.9 million, or 2.56 percent.

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 $497.6 million from December 31, 2020 to a total of $716.1 million at June 30, 2021, 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 primarily to changes in liquidity needs in relation to upcoming debt maturities and operational funding needs.

Investments in debt securities totaled $9.046 billion, or 24.46 percent of total assets at June 30, 2021, compared to $8.515 billion, or 23.43 percent as of December 31, 2020, an increase of $530.2 million, or 6.23 percent. The majority of investments, $9.025 billion as of June 30, 2021, are classified as being available for sale. Available-for-sale investments at June 30, 2021 included $618.9 million in U.S. Treasury securities, $4.128 billion in U.S. government guaranteed securities, $3.883 billion in U.S. government agency guaranteed securities, and $394.7 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. See Note 3, *Investments*, in the Notes to the Financial Statements for further information regarding types of securities that may be held under applicable FCA guidelines.

Management maintains the available-for-sale liquidity investment portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines which provide that a System bank may hold certain eligible available-for-sale investments in an amount not to exceed 35.00 percent of its quarterly average daily balance of loans outstanding. Based upon FCA guidelines, at June 30, 2021, the Bank's eligible available-for-sale investments were 34.24 percent of its quarterly average daily balance of loans outstanding.

As of June 30, 2021, 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, 2021, AgFirst met each of the individual level criteria above and had a total of 223 days of maturing debt coverage compared to 196 days at December 31, 2020. 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.

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

Capital

Total shareholders' equity increased $187.3 million, or 7.56 percent, from December 31, 2020 to $2.665 billion at June 30, 2021. This increase is primarily attributed to 2021 unallocated retained earnings from net income of $240.4 million, partially offset by a decrease in net unrealized gains of $45.5 million on investments primarily due to an increase in interest rates which decreased the fair value of existing available-for-sale fixed-rate investment securities, and redemption of perpetual preferred stock of $6.7 million.

During the first quarter of 2021, the Bank repurchased, through privately negotiated transactions, and subsequently cancelled, Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with par value totaling $9.8 million. The effect of the repurchases on shareholders' equity was to reduce preferred stock outstanding by $9.8 million and to increase additional paid-in capital by $3.0 million.

Regulatory Capital Ratios

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

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

	Regulatory Minimum, Including Buffer*	6/30/21	12/31/20	6/30/20
Permanent Capital Ratio	7.00 %	18.34 %	19.39 %	17.89 %
Common Equity Tier 1 (CET1) Capital Ratio	7.00 %	18.01 %	18.99 %	17.48 %
Tier 1 Capital Ratio	8.50 %	18.31 %	19.36 %	17.86 %
Total Regulatory Capital Ratio	10.50 %	18.46 %	19.51 %	18.00 %
Tier 1 Leverage Ratio**	5.00 %	6.54 %	7.09 %	6.46 %
Unallocated Retained Earnings (URE) and URE Equivalents	1.50 %	5.71 %	6.18 %	5.55 %

** Includes fully phased-in capital conservation buffers which were effective as of January 1, 2020.*
*** The Tier 1 Leverage Ratio must include a minimum of 1.50% of URE and URE Equivalents.*

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 an appropriate credit conversion factor as defined by regulation. Generally, higher credit conversion factors are applied to assets with more inherent risk. The tier 1 leverage ratio and URE and URE equivalents component of the tier 1 leverage ratio do not incorporate any risk-adjusted weighting of assets. These 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 requirements for all of the ratios. The Bank's capital ratios declined at June 30, 2021 compared to December 31, 2020 due primarily to the distribution of 2020 cash patronage of $390.4 million on December 31, 2020, which represented approximately 93.46 percent of 2020 net income. In addition, the Bank modified the stock equalization methodology effective December 31, 2020 which resulted in a $16.9 million stock redemption and reduction in capital. Because the capital ratios are calculated using a three-month average daily balance, the full impacts of these reductions in capital were not present in the year-end ratios. Compared to June 30, 2020, the capital ratios increased primarily due to a higher level of net income for the 2021 period.

RESULTS OF OPERATIONS

Net income for the six months ended June 30, 2021 was $240.4 million compared to $155.9 million for the six months ended June 30, 2020, an increase of $84.5 million, or 54.24 percent. Net income for the three months ended June 30, 2021 was $116.6 million compared to $83.9 million for the three months ended June 30, 2020, an increase of $32.7 million, or 38.92 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, 2021	For the Year Ended December 31, 2020	Annualized for the Six Months Ended June 30, 2020
Return on average assets	1.33 %	1.17 %	0.89 %
Return on average shareholders' equity	18.98 %	15.90 %	12.57 %
Net interest margin	1.82 %	1.67 %	1.48 %
Operating expense as a percentage of net interest income and noninterest income	27.60 %	27.91 %	32.20 %
Net (charge-offs) recoveries to average loans	0.00 %	0.03 %	0.00 %

The annualized return on average assets, return on average shareholders' equity, net interest margin, and operating expense as a percentage of net interest income and noninterest income ratios were favorable for the first six months of 2021 compared to the same period in 2020 and to the year ended December 31, 2020 primarily due to higher annualized net interest income in the 2021 period. For the operating expense as a percentage of net interest income and noninterest income ratio, operating expense consists of noninterest expenses excluding losses (gains) from other property owned.

Net (charge-offs) recoveries were minimal for all periods presented.

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, 2021 was $160.6 million compared to $139.7 million for the same period of 2020, an increase of $20.9 million or 14.96 percent. For the six months ended June 30, 2021, net interest income was $321.3 million compared to $253.4 million for the same period of 2020, an increase of $68.0 million, or 26.82 percent. The net interest margin, which is net interest income as a percentage of average earning assets, was 1.79 percent and 1.82 percent for the three and six months ended June 30, 2021, increases of 19 and 34 basis points, respectively, compared to the same periods in the prior year. The increases in net interest income primarily resulted from lower rates paid on interest-bearing liabilities which was achieved by calling debt in response to declining interest rates, partially offset by refinancing of interest-earning assets at lower interest rates.

The COVID-19 impact on interest rates provided the Bank opportunities to call and replace $5.361 billion of debt for the first six months of 2021, and $29.362 billion for the first six months of 2020. The average rate reduction for the debt called during the six months of 2021 (the difference between the rates on the called bonds and the rates on the replacement bonds) was 20 basis points, resulting in interest expense savings of $23.1 million, net of debt extinguishment expense of $4.8 million, over the remaining life of the bonds of 2.31 years. Replacement bonds generally have terms similar to those of the bonds being replaced. For the year ended December 31, 2020, $43.043 billion of debt was called and replaced. The average rate reduction was 63 basis points resulting in interest expense savings of $954.8 million, net of debt extinguishment expense of $65.5 million, over the remaining life of the bonds called.

The effects of changes in volume and interest rates on net interest income for the three and six months ended June 30, 2021, as compared with the corresponding periods in 2020, 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.

(dollars in thousands)	For the Three Months Ended June 30, 2021 vs June 30, 2020			For the Six Months Ended June 30, 2021 vs June 30, 2020		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
	Volume	**Rate**	**Total**	**Volume**	**Rate**	**Total**
Interest Income:						
Loans	$ 4,904	$ (23,980)	$ (19,076)	$ 11,261	$ (74,880)	$ (63,619)
Investments & Cash Equivalents	1,034	(8,650)	(7,616)	2,566	(28,169)	(25,603)
Other	(23)	(467)	(490)	(49)	(1,224)	(1,273)
Total Interest Income	5,915	(33,097)	(27,182)	13,778	(104,273)	(90,495)
Interest Expense:						
Interest-Bearing Liabilities	1,097	(49,177)	(48,080)	2,813	(161,270)	(158,457)
Changes in Net Interest Income	$ 4,818	$ 16,080	$ 20,898	$ 10,965	$ 56,997	$ 67,962

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 $831 thousand and $1.9 million for the three and six months ended June 30, 2021, respectively, compared to a net expense of $875 thousand and $913 thousand, respectively, for the corresponding periods in 2020.

For the three and six months ended June 30, 2021, the provision for loan losses included net provision expense for specific reserves of $2.6 million and $2.9 million, respectively, and net provision reversals for general reserves of $1.8 million and $1.0 million, respectively. Total net provision expense for the three months ended June 30, 2021 primarily related to provision expense for borrowers in the utilities ($1.5 million) and tobacco ($211 thousand) segments, partially offset by provision reversals in the nursery/greenhouse ($278 thousand) and forestry ($180 thousand) segments. For the six-month period in 2021, the net provision expense primarily related to provision expense for borrowers in the utilities ($2.4 million), processing ($186 thousand), and tobacco ($170 thousand) segments, partially offset by provision reversals in the forestry ($642 thousand), rural home loan ($189 thousand), and nursery/greenhouse ($153 thousand) segments.

For the three and six months 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. Total net provision expense for the three months ended June 30, 2020 primarily related to provision expense for borrowers in the forestry ($775 thousand) and processing ($400 thousand) segments, partially offset by provision reversals in the field crops ($281 thousand) and nursery/greenhouse ($224 thousand) segments. For the six-month period in 2020, the net provision expense primarily related to provision expense for borrowers in the forestry ($1.0 million), processing ($658 thousand), and rural home loan ($301 thousand) segments, partially offset by provision reversals in the field crops ($993 thousand) segment.

See the *Allowance for Loan Losses* section above and 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	**For the Three Months Ended June 30,**			**For the Six Months Ended June 30,**		
(dollars in thousands)	**2021**	**2020**	**Increase/ (Decrease)**	**2021**	**2020**	**Increase/ (Decrease)**
Loan fees	$ 3,184	$ 2,574	$ 610	$ 6,212	$ 4,843	$ 1,369
Lease income	769	782	(13)	1,555	1,555	—
Gains (losses) on investments, net	330	—	330	330	7,215	(6,885)
Gains (losses) on debt extinguishment	(2,614)	(23,203)	20,589	(4,834)	(43,947)	39,113
Gains (losses) on other transactions	1,238	3,271	(2,033)	2,474	2,543	(69)
Insurance premium refund	—	(16)	16	—	2,622	(2,622)
Other noninterest income	2,068	590	1,478	7,699	3,745	3,954
Total noninterest income	$ 4,975	$ (16,002)	$ 20,977	$ 13,436	$ (21,424)	$ 34,860

For the three and six months ended June 30, 2021 compared to the corresponding periods in 2020, noninterest income increased $21.0 million and $34.9 million, respectively. Significant line item dollar variances are discussed below.

For the three months ended June 30, 2021 compared to the same period in the prior year, loan fees increased $610 thousand primarily due to increases of $367 thousand in commitment fees in the participations portfolio and $226 thousand in lock-in fees in the Correspondent Lending portfolio. The increase of $1.4 million for the six-month period was primarily due to an increase of $565 thousand in commitment fees in the participations portfolio, and increases of $373 thousand in modification fees and $288 thousand in servicing fees in the Correspondent Lending portfolio.

Gains on investments decreased $6.9 million for the six-month period ended June 30, 2021 compared to the same period in 2020. As part of its normal portfolio management activities, the Bank periodically packages and sells amortizing securities that have relatively small remaining balances and correspondingly high administrative costs. During the first six months of 2021, the Bank sold securities with a par value of approximately $43.9 million and recognized net gains of $330 thousand compared to sales of securities with a par value of approximately $55.9 million and net gains of $7.2 million recorded during the first six months of 2020.

Debt issuance expense is amortized into interest expense over the contractual life of the underlying debt security. Debt is called to take advantage of favorable market interest rate changes. When debt securities are called prior to maturity, any unamortized issuance cost is expensed through gains (losses) on debt extinguishment. The amount of issuance cost expensed when a bond is called is dependent upon both the size and remaining maturity of the bond when called. Losses on called debt are more than offset by interest expense savings realized over the life of the replacement debt. Call options were exercised on bonds totaling $2.670 billion and $5.361 billion for the three and six months ended June 30, 2021, respectively, compared to $15.108 billion and $29.362 billion for the three and six months ended June 30, 2020, respectively. Accordingly, losses on debt extinguishment decreased $20.6 million and $39.1 million for the three and six months ended June 30, 2021, respectively, compared to the same periods in 2020. See *Net Interest Income* section above for further discussion.

For the three months ended June 30, 2021 compared to the prior year, net gains on other transactions decreased $2.0 million. The decrease was primarily due to gains of $2.7 million 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 and manage risk during a period of market volatility. This decrease was partially offset by an increase of $1.1 million in market value gains in 2021 on supplemental retirement plan trust assets due to favorable market returns.

In the first quarter of 2020, the Bank received an insurance premium refund of $2.6 million from the FCSIC which insures the System's debt obligations. This refund is nonrecurring and resulted from the assets of the FCSIC exceeding the secure base amount, as defined by the Farm Credit Act, at the end of the preceding year. No refund was received in 2021.

For the three and six months ended June 30, 2021, other noninterest income increased $1.5 million and $4.0 million, respectively, due to an increase in patronage income received from other Farm Credit institutions, primarily from entities outside the District related to participations sold to them.

Noninterest Expenses

The following table illustrates the changes in noninterest expenses:

Change in Noninterest Expenses	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
(dollars in thousands)	2021	2020	Increase/ (Decrease)	2021	2020	Increase/ (Decrease)
Salaries and employee benefits	$ 20,157	$ 18,401	$ 1,756	$ 39,877	$ 36,183	$ 3,694
Occupancy and equipment	1,719	1,801	(82)	3,553	3,728	(175)
Insurance Fund premiums	4,458	2,292	2,166	8,790	4,448	4,342
Other operating expenses	21,825	16,044	5,781	40,175	30,334	9,841
Losses (gains) from other property owned	52	405	(353)	19	450	(431)
Total noninterest expenses	$ 48,211	$ 38,943	$ 9,268	$ 92,414	$ 75,143	$ 17,271

Noninterest expenses for the three and six months ended June 30, 2021 increased $9.3 million and $17.3 million compared to the corresponding periods in 2020. Significant line item dollar variances are discussed below.

Salaries and employee benefits increased $1.8 million and $3.7 million for the three and six months ended June 30, 2021, respectively, compared to the same periods in 2020. These increases resulted from $1.3 million and $3.2 million in higher salaries and incentives primarily due to normal salary administration and an increase in headcount.

Insurance Fund premiums increased $2.2 million and $4.3 million for the three and six months ended June 30, 2021, respectively, compared to the same periods in 2020. The increases resulted primarily from an increase in the base annual premium rate to 16 basis points in the first half of 2021 from 8 basis points in the first half of 2020. The FCSIC Board makes premium rate adjustments, as necessary, to maintain the secure base amount which is based upon insured debt outstanding at System banks. The Insurance Fund premium rate will remain at 16 basis points for the second half of 2021.

For the three and six months ended June 30, 2021, other operating expenses increased $5.8 million and $9.8 million, respectively, compared to the same periods in the prior year. The increase for both periods was primarily related to technology initiatives which resulted in higher contractor costs of $3.8 million and $7.4 million for the three- and six-month periods, respectively, and higher hardware and software maintenance and depreciation costs of $1.9 million and $2.9 million for the three- and six-month periods, respectively.

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 Farm Credit Bank (AgFirst or the Bank) is one of the four banks of the Farm Credit System (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, 2021, 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, 2021:

(dollars in thousands)	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	112,873
Allocated equities:	
Allocated stock subject to retirement	198,963
Nonqualified allocated surplus subject to retirement	416
Unallocated retained earnings	2,062,889
Paid-in capital	61,905
Regulatory adjustments and deductions made to CET1*	(77,052)
Total CET1 Capital	$ 2,360,017
Additional Tier 1 Capital (AT1)	
Non-cumulative perpetual preferred stock	$ 39,500
Regulatory adjustments and deductions made to AT1	—
Total AT1 Capital	$ 39,500
Total Tier 1 Capital	$ 2,399,517
Tier 2 Capital	
Allowance for loan losses	$ 18,977
Reserve for unfunded commitments	349
Regulatory adjustments and deductions made to total capital	—
Total Tier 2 Capital	$ 19,326
Total Regulatory Capital	$ 2,418,843

**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, 2021:

(dollars in thousands)	Risk-Weighted Assets
Exposures to:	
Government-sponsored entities, including Direct Notes to Associations	$ 4,575,131
Depository institutions	26,471
Corporate exposures, including borrower loans and leases	5,476,153
Residential mortgage loans	1,021,819
Past due > 90 days and nonaccrual loans	31,204
Securitizations	97,154
Exposures to obligors and other assets	159,871
Off-balance sheet exposures	1,717,499
Total risk-weighted assets	$ 13,105,302

As of June 30, 2021, the Bank exceeded all capital requirements to which it was subject, including applicable capital buffers. The risk-adjusted capital ratios exceeded the regulatory minimum levels, including the conservation buffer, by at least 7.96 percent. Additionally, the Tier 1 leverage ratio was 1.54 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, 2021:

Ratio	Regulatory Minimum Requirement	Capital Conservation Buffer	Minimum Requirement, Including Buffer	Capital Ratios
Risk-adjusted ratios:				
CET1 Capital	4.50 %	2.50 %	7.00 %	18.01 %
Tier 1 Capital	6.00 %	2.50 %	8.50 %	18.31 %
Total Regulatory Capital	8.00 %	2.50 %	10.50 %	18.46 %
Permanent Capital	7.00 %	0.00 %	7.00 %	18.34 %
Non-risk-adjusted ratios:				
Tier 1 Leverage*	4.00 %	1.00 %	5.00 %	6.54 %
URE and URE Equivalents Leverage	1.50 %	0.00 %	1.50 %	5.71 %

**The Tier 1 Leverage Ratio must include a minimum of 1.5% of URE and URE Equivalents.*

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 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, 2021. The Bank's allowance for loan losses at June 30, 2021 included a qualitative reserve of $927 thousand for additional risks for loans remaining in forbearance in the Correspondent Lending portfolio. See Note 2, *Loans and Allowance for Loan Losses*, and Note 3, *Investments*, in the Notes to the Financial Statements for quantitative disclosures related to the Bank's credit risk.

CREDIT RISK MITIGATION

Credit Risk Mitigation Related to Loans

The Bank uses various strategies to mitigate credit risk in its lending portfolio. As described in Note 1 of the Bank's Annual Report, a substantial portion of the loan balance is concentrated in notes receivable from the District Associations to fund their earning assets, which collateralize the notes. In addition, the earnings, capital and loan loss reserves of the Associations provide additional layers of protection against losses in their respective retail loan portfolios. Excluding accrued interest receivable, at June 30, 2021, the Bank's Direct Note portfolio totaled $18.688 billion and aggregate District Associations' loan portfolios totaled $24.871 billion.

The following table illustrates certain significant credit risk mitigants within AgFirst's loan portfolio which reduce capital requirements as of June 30, 2021:

(dollars in thousands)	Ending Balance	3-Month Average Balance	Risk-Weighted Exposures	% of Total Loans
Loans with unconditional guarantee	$ 103,993	$ 130,810	$ —	— %
Loans with conditional guarantee	813,336	847,199	169,440	3 %
Direct Notes	18,725,317	18,357,205	3,671,441	70 %
Total	$ 19,642,646	$ 19,335,214	$ 3,840,881	73 %

The following table illustrates the geographic distribution of the aggregate loan portfolios for AgFirst District Associations which approximates the credit risk in the Direct Note portfolio as of June 30, 2021:

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
Alabama	6
South Carolina	6
Kentucky	4
Mississippi	2
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, 2021:

AgFirst Total District Associations
Loan Portfolios by Commodity Group
Based on Eligibility

	Percent of Portfolio
Forestry	15 %
Poultry	13
Field Crops	12
Cattle	9
Grains	8
Corn	6
Other Real Estate	5
Dairy	5
Tree Fruits and Nuts	3
Nursery/Greenhouse	3
Cotton	3
Rural Home Loan	3
Swine	3
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, 2021:

AgFirst Total District Associations
Loan Portfolios by Commodity Group
Based on Repayment Dependency

	Percent of Portfolio
Non-Farm Income	35 %
Grains	14
Poultry	13
Timber	5
Dairy	5
Fruit & Vegetables	4
Beef	4
Farm Related Business	3
Cotton	3
Swine	2
Landlords	2
Nursery	2
Tobacco	2
Other	6
Total	100 %

The following table illustrates AgFirst's loan portfolio by geographic distribution at June 30, 2021. 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		
(dollars in thousands)	**Outstanding Loans**	**Unfunded Amounts**	**Total Exposure**	**Outstanding Loans**	**Unfunded Amounts**	**Total Exposure**
North Carolina	$ 1,328,824	$ 198,309	$ 1,527,133	$ 1,406,023	$ 181,699	$ 1,587,722
Georgia	979,153	454,838	1,433,991	977,223	438,360	1,415,583
Florida	584,962	338,335	923,297	629,245	330,795	960,040
Minnesota	314,878	326,500	641,378	331,309	301,280	632,589
Virginia	453,240	93,522	546,762	477,074	49,212	526,286
Texas	429,625	181,122	610,747	417,163	127,748	544,911
South Carolina	423,430	67,689	491,119	442,142	47,044	489,186
California	289,026	101,980	391,006	289,625	96,186	385,811
New York	309,337	120,250	429,587	251,606	127,173	378,779
Ohio	157,011	202,748	359,759	196,915	151,456	348,371
Pennsylvania	249,819	137,086	386,905	211,628	134,661	346,289
Maryland	265,261	30,270	295,531	281,276	22,509	303,785
Louisiana	178,199	126,659	304,858	173,617	120,521	294,138
Missouri	177,438	111,680	289,118	196,388	97,259	293,647
Illinois	179,704	102,871	282,575	168,128	107,818	275,946
Kentucky	216,694	6,856	223,550	216,240	5,201	221,441
All other states	1,653,960	1,084,568	2,738,528	1,702,338	999,951	2,702,289
Direct Notes	18,688,371	2,541,248	21,229,619	17,921,503	2,735,860	20,657,363
Total loans	$ 26,878,932	$ 6,226,531	$ 33,105,463	$ 26,289,443	$ 6,074,733	$ 32,364,176

The following table shows the various major commodity groups in the portfolio based on borrower eligibility at June 30, 2021. 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

	At Period End			Year-to-Date Average Balance		
(dollars in thousands)	**Outstanding Loans**	**Unfunded Amounts**	**Total Exposure**	**Outstanding Loans**	**Unfunded Amounts**	**Total Exposure**
Rural Home Loan	$ 2,768,368	$ 94,633	$ 2,863,001	$ 2,852,324	$ 70,779	$ 2,923,103
Processing	919,082	861,886	1,780,968	1,021,533	788,156	1,809,689
Utilities	1,096,717	805,969	1,902,686	1,026,001	744,485	1,770,486
Forestry	826,651	491,083	1,317,734	891,130	399,666	1,290,796
Field Crops	361,127	196,689	557,816	358,018	229,878	587,896
Tree Fruits and Nuts	212,322	166,366	378,688	226,218	151,767	377,985
Swine	160,925	90,826	251,751	177,386	88,004	265,390
Grains	204,298	101,895	306,193	195,196	94,753	289,949
Nursery/Greenhouse	142,172	89,721	231,893	171,548	65,572	237,120
Dairy	267,503	62,825	330,328	169,107	65,073	234,180
Other Real Estate	192,778	16,516	209,294	199,666	16,418	216,084
Cattle	150,421	56,753	207,174	145,598	44,241	189,839
Other	888,197	650,121	1,538,318	934,215	580,081	1,514,296
Direct Notes	18,688,371	2,541,248	21,229,619	17,921,503	2,735,860	20,657,363
Total loans	$ 26,878,932	$ 6,226,531	$ 33,105,463	$ 26,289,443	$ 6,074,733	$ 32,364,176

The following table segregates loans based upon repayment dependency by commodity at June 30, 2021. 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

	At Period End			Year-to-Date Average Balance		
(dollars in thousands)	Outstanding Loans	Unfunded Amounts	Total Exposure	Outstanding Loans	Unfunded Amounts	Total Exposure
Non-Farm Income	$ 3,065,475	$ 161,505	$ 3,226,980	$ 3,150,884	$ 123,549	$ 3,274,433
Rural Utilities	1,088,215	805,969	1,894,184	1,026,027	744,485	1,770,512
Timber	685,314	479,047	1,164,361	765,431	372,789	1,138,220
Processing and Marketing	289,805	538,912	828,717	306,453	507,493	813,946
Fruit & Vegetables	471,129	338,458	809,587	482,638	364,703	847,341
Grains	532,824	268,236	801,060	526,775	245,247	772,022
Swine	279,442	179,584	459,026	289,065	149,402	438,467
Poultry	235,986	220,962	456,948	244,042	223,069	467,111
Farm Related Business	378,221	135,977	514,198	363,043	133,239	496,282
Dairy	267,772	100,311	368,083	262,114	108,297	370,411
Beef	159,459	82,472	241,931	161,575	61,302	222,877
Cooperatives	85,851	99,285	185,136	97,782	67,490	165,272
Other	651,068	274,565	925,633	692,111	237,808	929,919
Direct Notes	18,688,371	2,541,248	21,229,619	17,921,503	2,735,860	20,657,363
Total loans	$ 26,878,932	$ 6,226,531	$ 33,105,463	$ 26,289,443	$ 6,074,733	$ 32,364,176

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. This table does not include accrued interest.

	June 30, 2021			
(dollars in thousands)	Due Less Than 1 Year	Due 1 Through 5 Years	Due After 5 Years	Total
Direct Notes	$ 4,189,701	$ 12,847,569	$ 1,651,101	$ 18,688,371
Real estate mortgage	13,490	221,846	869,061	1,104,397
Production and intermediate-term	192,070	523,296	208,882	924,248
Loans to cooperatives	90,199	295,993	191,723	577,915
Processing and marketing	63,076	892,515	363,920	1,319,511
Farm-related business	942	40,962	8,501	50,405
Communication	786	251,040	242,465	494,291
Power and water/waste disposal	60,750	248,342	359,747	668,839
Rural residential real estate	52,745	20,824	2,694,799	2,768,368
International	38,884	41,452	45,550	125,886
Lease receivables	—	261	2,102	2,363
Loans to OFIs	134,414	14,712	—	149,126
Other (including Mission Related)	—	6	5,206	5,212
Total loans	$ 4,837,057	$ 15,398,818	$ 6,643,057	$ 26,878,932
Percentage	18.00 %	57.29 %	24.71 %	100.00 %

The following table illustrates AgFirst's impaired loans by geographic distribution at June 30, 2021. This table does not include accrued interest.

Total Outstanding Impaired Loans by State

(dollars in thousands)	**At Period End**	**Year-to-Date Average Balance**
North Carolina	$ 24,148	$ 14,247
Texas	13,143	5,202
Arkansas	3,648	3,772
Georgia	2,806	2,656
South Carolina	2,152	2,061
Florida	2,081	2,149
Virginia	1,916	1,911
Maryland	1,345	1,645
Kentucky	1,228	938
Pennsylvania	1,034	979
All other states	4,205	3,750
Total impaired loans	$ 57,706	$ 39,310

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, 2021. This table does not include accrued interest.

(dollars in thousands)	**Amortized Cost**	**Fair Value**	**% of Total Investments**	**Risk- Weighted Exposures**
Unconditional Guarantee:				
U.S. Govt. Treasury Securities	$ 618,442	$ 618,866	7 %	$ —
U.S. Govt. Guaranteed	4,021,028	4,128,265	46 %	—
Conditional Guarantee:				
U.S. Govt. Agency Guaranteed	3,851,115	3,883,759	43 %	734,912
Total	$ 8,490,585	$ 8,630,890	96 %	$ 734,912

COUNTERPARTY CREDIT RISK

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

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

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

At June 30, 2021, the Bank had no derivative contracts outstanding.

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, 2021, the ABS risk-weights ranged from 20.00 percent to 58.46%, with a weighted average risk-weight of 21.23 percent. Total risk-weighted assets for these investment securities utilizing a three-month average daily balance was $93.4 million at June 30, 2021.

The following table shows the risk-weight distribution of the amortized cost for ABS securities as of June 30, 2021 which are risk weighted using the SSFA approach. This table does not include accrued interest.

	ABS Securities by SSFA Risk Weight Classification		
(dollars in thousands)	**Automobile ABSs**	**Credit Card ABSs**	**Total**
0% – 50%	$ 35,510	$ 341,967	$ 377,477
Greater than 50% – 100%	12,506	—	12,506
Total Exposure	$ 48,016	$ 341,967	$ 389,983

As of June 30, 2021, the Bank did not hold any off-balance sheet securitization exposures nor were any securitization exposures deducted from capital. For the three months ended June 30, 2021, 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 Bank's investment portfolio.

EQUITIES

At June 30, 2021, 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, 2021, see the *Interest Rate Sensitivity* section of Management's Discussion and Analysis of Financial Condition and Results of Operations.

OTHER REGULATORY MATTERS

On July 8, 2021, the FCA approved a proposed rule to revise its regulatory capital requirements to define and establish risk-weightings for High Volatility Commercial Real Estate (HVCRE) by assigning a 150 percent risk-weighting to such exposures, instead of the current 100 percent. The proposed rule would ensure that the FCA's rule remains comparable with the capital rule of other federal banking regulatory agencies and recognizes the

increased risk posed by HVCRE exposures. Once the proposed rule is published in the Federal Register, the 90-day public comment period will commence.

On June 10, 2021, the FCA approved an advance notice of proposed rulemaking to request public comments on whether to amend or restructure the System bank liquidity regulations. The purpose of this advance notice is to evaluate the applicability of the Basel III framework to the Farm Credit System and gather input to ensure that System banks have the liquidity to withstand crises that adversely impact liquidity and threaten their viability.

On September 10, 2020, the FCA issued a proposed rule that would amend certain sections of the FCA's regulations to provide technical corrections, amendments, and clarification to certain provisions in the FCA's tier 1/tier 2 capital framework for the Farm Credit System. The proposed rule incorporates guidance previously provided by the FCA related to its tier 1/tier 2 capital framework as well as ensures that the FCA's capital requirements continue to be comparable to the standardized approach that the other federal banking regulatory agencies have adopted. The public comment period ended on November 9, 2020.

On September 23, 2019, the FCA 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.

EXECUTIVE MANAGEMENT RETIREMENT

Charl L. Butler, Executive Vice President and Chief Operating Officer, retired effective May 10, 2021. Subsequently, the Bank restructured the roles of its executive management team to assume this role.

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 2020 Annual Report of AgFirst Farm Credit Bank for recently issued accounting pronouncements.

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

<table>
<tr><th>Summary of Guidance</th><th>Adoption and Potential Financial Statement Impact</th></tr>
<tr><td colspan="2">ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</td></tr>
<tr><td>• 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.
• 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.</td><td>• 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:
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 allowance 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 January 1, 2023.</td></tr>
</table>

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

(dollars in thousands)	June 30, 2021	December 31, 2020
	(unaudited)	*(audited)*
Assets		
Cash	**$ 536,076**	$ 693,685
Cash equivalents	**180,000**	520,000
Investments in debt securities:		
Available-for-sale (amortized cost of $8,879,536 and $8,294,821, respectively)	**9,024,605**	8,485,350
Held-to-maturity (fair value of $24,015 and $35,235, respectively)	**21,048**	30,078
Total investments in debt securities	**9,045,653**	8,515,428
Loans	**26,878,932**	26,224,989
Allowance for loan losses	**(19,669)**	(18,257)
Net loans	**26,859,263**	26,206,732
Accrued interest receivable	**81,442**	81,564
Accounts receivable	**99,545**	145,300
Equity investments in other Farm Credit institutions	**81,276**	80,647
Premises and equipment, net	**67,572**	61,164
Other property owned	**153**	—
Other assets	**36,566**	33,686
Total assets	**$ 36,987,546**	$ 36,338,206
Liabilities		
Systemwide bonds payable	**$ 28,550,389**	$ 25,693,876
Systemwide notes payable	**5,659,697**	7,662,337
Accrued interest payable	**32,692**	27,097
Accounts payable	**32,778**	428,425
Other liabilities	**46,853**	48,607
Total liabilities	**34,322,409**	33,860,342
Commitments and contingencies (Note 8)		
Shareholders' Equity		
Perpetual preferred stock	**39,500**	49,250
Capital stock and participation certificates	**311,859**	311,859
Additional paid-in-capital	**61,905**	58,883
Retained earnings		
Allocated	**416**	416
Unallocated	**2,110,671**	1,871,594
Accumulated other comprehensive income (loss)	**140,786**	185,862
Total shareholders' equity	**2,665,137**	2,477,864
Total liabilities and equity	**$ 36,987,546**	$ 36,338,206

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

Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended June 30, 2021	For the Three Months Ended June 30, 2020	For the Six Months Ended June 30, 2021	For the Six Months Ended June 30, 2020
Interest Income				
Investments	**$ 32,086**	$ 39,702	**$ 63,591**	$ 89,194
Loans	**172,052**	191,128	**340,521**	404,140
Other	**20**	510	**40**	1,313
Total interest income	**204,158**	231,340	**404,152**	494,647
Interest Expense	**43,537**	91,617	**82,818**	241,275
Net interest income	**160,621**	139,723	**321,334**	253,372
Provision for (reversal of allowance for) loan losses	**831**	875	**1,915**	913
Net interest income after provision for loan losses	**159,790**	138,848	**319,419**	252,459
Noninterest Income				
Loan fees	**3,184**	2,574	**6,212**	4,843
Lease income	**769**	782	**1,555**	1,555
Gains (losses) on investments, net	**330**	—	**330**	7,215
Gains (losses) on debt extinguishment	**(2,614)**	(23,203)	**(4,834)**	(43,947)
Gains (losses) on other transactions	**1,238**	3,271	**2,474**	2,543
Insurance premium refund	**—**	(16)	**—**	2,622
Other noninterest income	**2,068**	590	**7,699**	3,745
Total noninterest income	**4,975**	(16,002)	**13,436**	(21,424)
Noninterest Expenses				
Salaries and employee benefits	**20,157**	18,401	**39,877**	36,183
Occupancy and equipment	**1,719**	1,801	**3,553**	3,728
Insurance Fund premiums	**4,458**	2,292	**8,790**	4,448
Other operating expenses	**21,825**	16,044	**40,175**	30,334
Losses (gains) from other property owned	**52**	405	**19**	450
Total noninterest expenses	**48,211**	38,943	**92,414**	75,143
Net income	**$ 116,554**	$ 83,903	**$ 240,441**	$ 155,892
Other comprehensive income:				
Unrealized gains (losses) on investments	**48,993**	95,554	**(45,460)**	149,996
Change in value of cash flow hedges	**(24)**	(68)	**(41)**	(136)
Employee benefit plans adjustments	**212**	148	**425**	295
Other comprehensive income (Note 5)	**49,181**	95,634	**(45,076)**	150,155
Comprehensive income	**$ 165,735**	$ 179,537	**$ 195,365**	$ 306,047

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

Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	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, 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
Balance at December 31, 2020	$ 49,250	$ 311,859	$ 58,883	$ 416	$ 1,871,594	$ 185,862	$ 2,477,864
Comprehensive income					**240,441**	**(45,076)**	**195,365**
Redemption of perpetual preferred stock (Note 5)	**(9,750)**		**3,022**				**(6,728)**
Dividends paid on perpetual preferred stock					**(301)**		**(301)**
Patronage distribution adjustment					**(1,063)**		**(1,063)**
Balance at June 30, 2021	**$ 39,500**	**$ 311,859**	**$ 61,905**	**$ 416**	**$ 2,110,671**	**$ 140,786**	**$ 2,665,137**

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the Six Months Ended June 30, 2021	2020
Cash flows from operating activities:		
Net income	**$ 240,441**	$ 155,892
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation on premises and equipment	**6,367**	3,887
Amortization of net deferred loan (fees) costs and premium amortization (discount accretion)	**4,983**	3,474
Premium amortization (discount accretion) on investment securities	**10,819**	8,976
(Premium amortization) discount accretion on bonds and notes	**9,587**	45,578
Provision for loan losses	**1,915**	913
(Gains) losses on other property owned, net	**(41)**	394
(Gains) losses on investments, net	**(330)**	(7,215)
(Gains) losses on debt extinguishment	**4,834**	43,947
(Gains) losses on other transactions	**(2,474)**	(2,543)
Net change in loans held for sale	**—**	(46,455)
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	**122**	9,500
(Increase) decrease in accounts receivable	**45,755**	3,797
Increase (decrease) in accrued interest payable	**5,595**	(71,585)
Increase (decrease) in accounts payable	**(5,418)**	10,920
Change in other, net	**(1,897)**	(9,130)
Total adjustments	**79,817**	(5,542)
Net cash provided by (used in) operating activities	**320,258**	150,350
Cash flows from investing activities:		
Investment securities purchased	**(1,985,905)**	(1,818,269)
Proceeds from maturities and prepayments of investment securities	**1,355,466**	1,283,287
Proceeds from sales of investment securities	**44,224**	62,865
Net (increase) decrease in loans	**(659,821)**	(610,065)
(Increase) decrease in equity investments in other Farm Credit System institutions	**(629)**	(510)
Purchase of premises and equipment, net	**(12,638)**	(7,049)
Proceeds from sale of premises and equipment	**25**	11
Proceeds from sale of other property owned	**280**	19
Net cash provided by (used in) investing activities	**(1,258,998)**	(1,089,711)
Cash flows from financing activities:		
Bonds and notes issued	**15,079,452**	40,745,459
Bonds and notes retired	**(14,240,000)**	(39,588,202)
Redemption of perpetual preferred stock	**(6,728)**	—
Distribution to shareholders	**(391,292)**	(266,705)
Dividends paid on perpetual preferred stock	**(301)**	(609)
Retained earnings retired	**—**	(3)
Net cash provided by (used in) financing activities	**441,131**	889,940
Net increase (decrease) in cash and cash equivalents	**(497,609)**	(49,421)
Cash and cash equivalents, beginning of period	**1,213,685**	1,094,559
Cash and cash equivalents, end of period	**$ 716,076**	$ 1,045,138
Supplemental schedule of non-cash activities:		
Receipt of property in settlement of loans	**$ 392**	$ 197
Change in unrealized gains (losses) on investments, net	**(45,460)**	149,996
Employee benefit plans adjustments	**(425)**	(295)
Supplemental information:		
Interest paid	**$ 67,636**	$ 267,282

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, 2020 are contained in the 2020 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 Applicable to the Bank

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

- In January 2021, the FASB issued ASU 2021-01—Reference Rate Reform (Topic 848): Scope. The amendments clarify that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. This Update to the expedients and exceptions in Topic 848 captures the incremental consequences of the scope clarification and tailors the existing guidance to derivative instruments affected by the discounting transition. At period end, there were no derivative instruments outstanding within the scope of this guidance.

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 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 through the life of the financial instrument. 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. 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 October 2020, the FASB issued ASU 2020-10 Codification Improvements. The amendments represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The Update moves or references several disclosure requirements from Section 45 - Other Presentation Matters to Section 50 - Disclosures. It also includes minor changes to other guidance such as Cash Balance Plans, Unusual or Infrequent Items, Transfers and Servicing, Guarantees, Income Taxes, Foreign Currency, Imputation of Interest, Not For Profits and Real Estate Projects. The amendments had no impact on the statements of financial condition and results of operations.

- 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. Adoption of this guidance had no effect on the statements of financial condition and results of operations.

- 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. Adoption of this guidance did not have a material impact on the statements of financial condition and results of operations.

Note 2 — Loans and Allowance for Loan Losses

A summary of loans outstanding at period end follows:

(dollars in thousands)	June 30, 2021	December 31, 2020
Direct Notes	$ 18,688,371	$ 17,945,905
Real estate mortgage	1,104,397	1,116,668
Production and intermediate-term	924,248	1,163,424
Loans to cooperatives	577,915	561,335
Processing and marketing	1,319,511	1,229,744
Farm-related business	50,405	46,732
Communication	494,291	462,287
Power and water/waste disposal	668,839	569,315
Rural residential real estate	2,768,368	2,899,911
International	125,886	84,948
Lease receivables	2,363	2,274
Loans to other financing institutions (OFIs)	149,126	137,098
Other (including Mission Related)	5,212	5,348
Total loans	$ 26,878,932	$ 26,224,989

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 the first six months of 2021, the Bank purchased $301.6 million of residential mortgage loans from various Farm Credit System (System) associations and sold $4.0 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:

	June 30, 2021							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Direct Notes	$ —	$ —	$ —	$ 1,172,227	$ —	$ —	$ —	$ 1,172,227
Real estate mortgage	968,679	261,409	441,629	173,444	—	—	1,410,308	434,853
Production and intermediate-term	658,796	255,013	480,090	238,142	281,156	—	1,420,042	493,155
Loans to cooperatives	—	93,248	672,046	—	—	—	672,046	93,248
Processing and marketing	462,492	445,489	637,389	406,843	1,091,797	17,277	2,191,678	869,609
Farm-related business	38,262	3,127	15,361	—	—	—	53,623	3,127
Communication	—	146,841	641,817	—	—	—	641,817	146,841
Power and water/waste disposal	—	21,879	692,081	—	—	—	692,081	21,879
International	—	51,563	177,537	—	—	—	177,537	51,563
Lease receivables	—	—	2,363	—	—	—	2,363	—
Other (including Mission Related)	5,254	—	—	—	—	—	5,254	—
Total	$ 2,133,483	$ 1,278,569	$ 3,760,313	$ 1,990,656	$ 1,372,953	$ 17,277	$ 7,266,749	$ 3,286,502

	December 31, 2020							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Direct Notes	$ —	$ —	$ —	$ 1,140,679	$ —	$ —	$ —	$ 1,140,679
Real estate mortgage	925,168	268,995	461,829	139,113	—	—	1,386,997	408,108
Production and intermediate-term	1,006,855	289,335	566,819	414,651	293,111	—	1,866,785	703,986
Loans to cooperatives	—	100,108	662,244	—	—	—	662,244	100,108
Processing and marketing	427,406	492,099	585,801	374,018	1,105,058	16,095	2,118,265	882,212
Farm-related business	34,777	3,127	15,197	—	—	—	49,974	3,127
Communication	—	147,445	610,556	—	—	—	610,556	147,445
Power and water/waste disposal	—	23,332	593,855	—	—	—	593,855	23,332
International	—	40,659	125,704	—	—	—	125,704	40,659
Lease receivables	1,829	—	445	—	—	—	2,274	—
Other (including Mission Related)	5,392	—	—	—	—	—	5,392	—
Total	$ 2,401,427	$ 1,365,100	$ 3,622,450	$ 2,068,461	$ 1,398,169	$ 16,095	$ 7,422,046	$ 3,449,656

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, 2021	December 31, 2020
Direct Notes:		
Acceptable	100.00 %	92.09 %
OAEM	—	7.91
Substandard/doubtful/loss	—	—
	100.00 %	100.00 %
Real estate mortgage:		
Acceptable	98.66 %	97.58 %
OAEM	0.87	1.20
Substandard/doubtful/loss	0.47	1.22
	100.00 %	100.00 %
Production and intermediate-term:		
Acceptable	93.07 %	94.17 %
OAEM	5.99	4.67
Substandard/doubtful/loss	0.94	1.16
	100.00 %	100.00 %
Loans to cooperatives:		
Acceptable	94.69 %	96.15 %
OAEM	5.31	3.85
Substandard/doubtful/loss	—	—
	100.00 %	100.00 %
Processing and marketing:		
Acceptable	97.38 %	97.96 %
OAEM	1.94	2.04
Substandard/doubtful/loss	0.68	—
	100.00 %	100.00 %
Farm-related business:		
Acceptable	100.00 %	100.00 %
OAEM	—	—
Substandard/doubtful/loss	—	—
	100.00 %	100.00 %
Communication:		
Acceptable	100.00 %	100.00 %
OAEM	—	—
Substandard/doubtful/loss	—	—
	100.00 %	100.00 %

	June 30, 2021	December 31, 2020
Power and water/waste disposal:		
Acceptable	98.36 %	100.00 %
OAEM	—	—
Substandard/doubtful/loss	1.64	—
	100.00 %	100.00 %
Rural residential real estate:		
Acceptable	99.45 %	99.56 %
OAEM	—	—
Substandard/doubtful/loss	0.55	0.44
	100.00 %	100.00 %
International:		
Acceptable	100.00 %	100.00 %
OAEM	—	—
Substandard/doubtful/loss	—	—
	100.00 %	100.00 %
Lease receivables:		
Acceptable	100.00 %	100.00 %
OAEM	—	—
Substandard/doubtful/loss	—	—
	100.00 %	100.00 %
Loans to OFIs:		
Acceptable	100.00 %	100.00 %
OAEM	—	—
Substandard/doubtful/loss	—	—
	100.00 %	100.00 %
Other (including Mission Related):		
Acceptable	100.00 %	100.00 %
OAEM	—	—
Substandard/doubtful/loss	—	—
	100.00 %	100.00 %
Total loans:		
Acceptable	99.37 %	94.00 %
OAEM	0.45	5.85
Substandard/doubtful/loss	0.18	0.15
	100.00 %	100.00 %

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

	June 30, 2021				
(dollars in thousands)	**30 Through 89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**
Direct Notes	$ —	$ —	$ —	$ 18,725,317	$ 18,725,317
Real estate mortgage	1,182	—	1,182	1,109,305	1,110,487
Production and intermediate-term	500	—	500	927,275	927,775
Loans to cooperatives	—	—	—	578,496	578,496
Processing and marketing	—	—	—	1,322,583	1,322,583
Farm-related business	—	—	—	50,530	50,530
Communication	—	—	—	494,387	494,387
Power and water/waste disposal	—	11,000	11,000	659,772	670,772
Rural residential real estate	6,527	13,601	20,128	2,755,598	2,775,726
International	—	—	—	126,305	126,305
Lease receivables	—	—	—	2,368	2,368
Loans to OFIs	—	—	—	149,385	149,385
Other (including Mission Related)	—	—	—	5,291	5,291
Total	$ 8,209	$ 24,601	$ 32,810	$ 26,906,612	$ 26,939,422

	December 31, 2020				
(dollars in thousands)	**30 Through 89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**
Direct Notes	$ —	$ —	$ —	$ 17,982,813	$ 17,982,813
Real estate mortgage	205	1,939	2,144	1,120,679	1,122,823
Production and intermediate-term	5,459	—	5,459	1,161,619	1,167,078
Loans to cooperatives	—	—	—	562,094	562,094
Processing and marketing	208	—	208	1,232,500	1,232,708
Farm-related business	112	—	112	46,705	46,817
Communication	—	—	—	462,394	462,394
Power and water/waste disposal	—	—	—	570,922	570,922
Rural residential real estate	48,459	10,606	59,065	2,848,659	2,907,724
International	—	—	—	85,328	85,328
Lease receivables	—	—	—	2,281	2,281
Loans to OFIs	—	—	—	137,379	137,379
Other (including Mission Related)	—	—	—	5,428	5,428
Total	$ 54,443	$ 12,545	$ 66,988	$ 26,218,801	$ 26,285,789

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

(dollars in thousands)	June 30, 2021	December 31, 2020
Nonaccrual loans:		
Real estate mortgage	$ 2,437	$ 3,169
Production and intermediate-term	2,426	6,960
Processing and marketing	9,054	—
Power and water/waste disposal	11,000	—
Rural residential real estate	17,459	16,124
Total	$ 42,376	$ 26,253
Accruing restructured loans:		
Real estate mortgage	$ 1,071	$ 418
Production and intermediate-term	1,376	1,385
Rural residential real estate	7,388	2,990
Other (including Mission Related)	3,692	3,829
Total	$ 13,527	$ 8,622
Accruing loans 90 days or more past due:		
Real estate mortgage	$ —	$ 596
Rural residential real estate	2,004	534
Total	$ 2,004	$ 1,130
Total nonperforming loans	$ 57,907	$ 36,005
Other property owned	153	—
Total nonperforming assets	$ 58,060	$ 36,005
Nonaccrual loans as a percentage of total loans	0.16 %	0.10 %
Nonperforming assets as a percentage of total loans and other property owned	0.22 %	0.14 %
Nonperforming assets as a percentage of capital	2.18 %	1.45 %

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.

(dollars in thousands)	June 30, 2021	December 31, 2020
Impaired nonaccrual loans:		
Current as to principal and interest	$ 19,027	$ 11,971
Past due	23,349	14,282
Total nonaccrual loans	$ 42,376	$ 26,253
Impaired accrual loans:		
Restructured	$ 13,527	$ 8,622
90 days or more past due	2,004	1,130
Total impaired accrual loans	$ 15,531	$ 9,752
Total impaired loans	$ 57,907	$ 36,005
Additional commitments to lend	$ 502	$ 1,889

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

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

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

(dollars in thousands)	June 30, 2021			Three Months Ended June 30, 2021		Six Months Ended June 30, 2021	
Impaired Loans	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:							
Real estate mortgage	$ —	$ —	$ —	$ —	$ —	$ 351	$ —
Production and intermediate-term	—	—	—	—	—	—	—
Processing and marketing	9,054	9,079	246	105	—	53	—
Power and water/waste disposal	11,000	11,000	2,200	5,149	—	2,575	—
Rural residential real estate	7,959	7,811	319	8,006	—	6,919	—
Other (including Mission Related)	3,692	3,686	92	3,738	58	3,785	118
Total	$ 31,705	$ 31,576	$ 2,857	$ 16,998	$ 58	$ 13,683	$ 118
With no related allowance for credit losses:							
Real estate mortgage	$ 3,508	$ 3,584	$ —	$ 3,853	$ 33	$ 3,458	$ 69
Production and intermediate-term	3,802	4,529	—	5,705	30	6,664	107
Processing and marketing	—	—	—	—	—	—	—
Power and water/waste disposal	—	—	—	—	—	—	—
Rural residential real estate	18,892	18,256	—	16,874	372	15,505	572
Other (including Mission Related)	—	—	—	—	—	—	—
Total	$ 26,202	$ 26,369	$ —	$ 26,432	$ 435	$ 25,627	$ 748
Total impaired loans:							
Real estate mortgage	$ 3,508	$ 3,584	$ —	$ 3,853	$ 33	$ 3,809	$ 69
Production and intermediate-term	3,802	4,529	—	5,705	30	6,664	107
Processing and marketing	9,054	9,079	246	105	—	53	—
Power and water/waste disposal	11,000	11,000	2,200	5,149	—	2,575	—
Rural residential real estate	26,851	26,067	319	24,880	372	22,424	572
Other (including Mission Related)	3,692	3,686	92	3,738	58	3,785	118
Total	$ 57,907	$ 57,945	$ 2,857	$ 43,430	$ 493	$ 39,310	$ 866

(dollars in thousands)	December 31, 2020			Year Ended December 31, 2020	
Impaired Loans	**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	$ 103	$ 103	$ 1	$ 105	$ —
Production and intermediate-term	—	—	—	—	—
Loans to cooperatives	—	—	—	4,654	1,247
Rural residential real estate	9,420	9,268	338	5,680	—
Other (including Mission Related)	3,829	3,824	92	3,887	241
Total	$ 13,352	$ 13,195	$ 431	$ 14,326	$ 1,488
With no related allowance for credit losses:					
Real estate mortgage	$ 4,080	$ 4,084	$ —	$ 3,094	$ 80
Production and intermediate-term	8,345	8,988	—	9,418	1,814
Loans to cooperatives	—	—	—	—	—
Rural residential real estate	10,228	9,659	—	15,475	764
Other (including Mission Related)	—	—	—	—	—
Total	$ 22,653	$ 22,731	$ —	$ 27,987	$ 2,658
Total impaired loans:					
Real estate mortgage	$ 4,183	$ 4,187	$ 1	$ 3,199	$ 80
Production and intermediate-term	8,345	8,988	—	9,418	1,814
Loans to cooperatives	—	—	—	4,654	1,247
Rural residential real estate	19,648	18,927	338	21,155	764
Other (including Mission Related)	3,829	3,824	92	3,887	241
Total	$ 36,005	$ 35,926	$ 431	$ 42,313	$ 4,146

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

(dollars in thousands)	**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, 2021	$ —	$ 1,554	$ 3,352	$ 4,994	$ 929	$ 1,706	$ 5,974	$ 140	$ 364	$ 19,013
Charge-offs	—	—	—	—	—	—	(182)	—	—	(182)
Recoveries	—	—	—	—	—	—	7	—	—	7
Provision for loan losses	—	(53)	(640)	110	71	1,409	(98)	4	28	831
Balance at June 30, 2021	$ —	$ 1,501	$ 2,712	$ 5,104	$ 1,000	$ 3,115	$ 5,701	$ 144	$ 392	$ 19,669
Balance at December 31, 2020	$ —	$ 1,551	$ 3,289	$ 4,553	$ 923	$ 1,024	$ 6,394	$ 130	$ 393	$ 18,257
Charge-offs	—	—	—	—	—	—	(524)	—	—	(524)
Recoveries	—	—	—	—	—	—	21	—	—	21
Provision for loan losses	—	(50)	(577)	551	77	2,091	(190)	14	(1)	1,915
Balance at June 30, 2021	$ —	$ 1,501	$ 2,712	$ 5,104	$ 1,000	$ 3,115	$ 5,701	$ 144	$ 392	$ 19,669
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
Allowance on loans evaluated for impairment:										
Individually	$ —	$ —	$ —	$ 246	$ —	$ 2,200	$ 319	$ —	$ 92	$ 2,857
Collectively	—	1,501	2,712	4,858	1,000	915	5,382	144	300	16,812
Balance at June 30, 2021	$ —	$ 1,501	$ 2,712	$ 5,104	$ 1,000	$ 3,115	$ 5,701	$ 144	$ 392	$ 19,669
Individually	$ —	$ 1	$ —	$ —	$ —	$ —	$ 338	$ —	$ 92	$ 431
Collectively	—	1,550	3,289	4,553	923	1,024	6,056	130	301	17,826
Balance at December 31, 2020	$ —	$ 1,551	$ 3,289	$ 4,553	$ 923	$ 1,024	$ 6,394	$ 130	$ 393	$ 18,257
Recorded investment in loans evaluated for impairment:										
Individually	$ 18,725,317	$ 141,814	$ 3,802	$ 9,054	$ —	$ 11,000	$ 705,326	$ —	$ 3,692	$ 19,600,005
Collectively	—	968,673	923,973	1,942,555	494,387	659,772	2,070,400	126,305	153,352	7,339,417
Balance at June 30, 2021	$ 18,725,317	$ 1,110,487	$ 927,775	$ 1,951,609	$ 494,387	$ 670,772	$ 2,775,726	$ 126,305	$ 157,044	$ 26,939,422
Individually	$ 17,982,813	$ 148,634	$ 8,345	$ —	$ —	$ —	$ 814,606	$ —	$ 3,829	$ 18,958,227
Collectively	—	974,189	1,158,733	1,841,619	462,394	570,922	2,093,118	85,328	141,259	7,327,562
Balance at December 31, 2020	$ 17,982,813	$ 1,122,823	$ 1,167,078	$ 1,841,619	$ 462,394	$ 570,922	$ 2,907,724	$ 85,328	$ 145,088	$ 26,285,789

* *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.

(dollars in thousands)	Three Months Ended June 30, 2021				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 58	$ —	$ —	$ 58	
Rural residential real estate	3,063	—	—	3,063	
Total	$ 3,121	$ —	$ —	$ 3,121	
Post-modification:					
Real estate mortgage	$ 59	$ —	$ —	$ 59	
Rural residential real estate	3,262	—	—	3,262	—
Total	$ 3,321	$ —	$ —	$ 3,321	$ —

(dollars in thousands)	Six Months Ended June 30, 2021				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 644	$ —	$ —	$ 644	
Rural residential real estate	3,642	—	—	3,642	
Total	$ 4,286	$ —	$ —	$ 4,286	
Post-modification:					
Real estate mortgage	$ 651	$ —	$ —	$ 651	
Rural residential real estate	3,878	—	—	3,878	—
Total	$ 4,529	$ —	$ —	$ 4,529	$ —

(dollars in thousands)	Six Months Ended June 30, 2020				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Rural residential real estate	$ 429	$ 85	$ —	$ 514	
Total	$ 429	$ 85	$ —	$ 514	
Post-modification:					
Rural residential real estate	$ 438	$ 87	$ —	$ 525	$ —
Total	$ 438	$ 87	$ —	$ 525	$ —

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.

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2021	2020	2021	2020
Defaulted troubled debt restructurings:				
Real estate mortgage	$ 605	$ —	$ 605	$ —
Rural residential real estate	$ 383	$ —	$ 383	$ —
Total	$ 988	$ —	$ 988	$ —

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

	Total TDRs		Nonaccrual TDRs	
(dollars in thousands)	June 30, 2021	December 31, 2020	June 30, 2021	December 31, 2020
Real estate mortgage	$ 1,959	$ 1,344	$ 888	$ 926
Production and intermediate-term	1,422	1,444	46	59
Rural residential real estate	9,378	5,801	1,990	2,811
Other (including Mission Related)	3,692	3,829	—	—
Total	$ 16,451	$ 12,418	$ 2,924	$ 3,796
Additional commitments to lend	$ —	$ —		

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.

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

An agreement with a commercial bank requires AgFirst to maintain $50.0 million as a compensating balance. At June 30, 2021, the Bank held $42.6 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.

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, 2021				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Treasury Securities	$ 618,442	$ 532	$ (108)	$ 618,866	0.30 %
U.S. Govt. Guaranteed	4,021,028	114,710	(7,473)	4,128,265	1.82
U.S. Govt. Agency Guaranteed	3,850,083	40,386	(7,722)	3,882,747	1.30
Non-Agency ABSs	389,983	4,744	—	394,727	1.73
Total	$ 8,879,536	$ 160,372	$ (15,303)	$ 9,024,605	1.48 %

	December 31, 2020				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Treasury Securities	$ 317,755	$ 1,121	$ (6)	$ 318,870	0.50 %
U.S. Govt. Guaranteed	4,229,674	134,591	(2,841)	4,361,424	2.19
U.S. Govt. Agency Guaranteed	3,105,575	50,946	(964)	3,155,557	1.25
Non-Agency ABSs	641,817	7,699	(17)	649,499	1.30
Total	$ 8,294,821	$ 194,357	$ (3,828)	$ 8,485,350	1.70 %

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, 2021				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	$ 1,032	$ —	$ (20)	$ 1,012	5.55 %
RABs and Other	20,016	2,987	—	23,003	5.95
Total	$ 21,048	$ 2,987	$ (20)	$ 24,015	5.93 %

	December 31, 2020				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	$ 1,121	$ —	$ (22)	$ 1,099	5.67 %
RABs and Other	28,957	5,179	—	34,136	5.99
Total	$ 30,078	$ 5,179	$ (22)	$ 35,235	5.98 %

A summary of the contractual maturity, estimated fair value and amortized cost of investment securities at June 30, 2021 follows:

Available-for-sale

	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	
(dollars in thousands)	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	$ 503,662	0.34 %	$ 115,204	0.14 %	$ —	— %	$ —	— %	$ 618,866	0.30 %
U.S. Govt. Guaranteed	—	—	—	—	359,836	2.18	3,768,429	1.79	4,128,265	1.82
U.S. Govt. Agency Guaranteed	6,366	(0.44)	233,604	0.75	788,512	0.75	2,854,265	1.50	3,882,747	1.30
Non-Agency ABSs	—	—	394,727	1.73	—	—	—	—	394,727	1.73
Total fair value	$ 510,028	0.33 %	$ 743,535	1.17 %	$1,148,348	1.19 %	$6,622,694	1.66 %	$9,024,605	1.48 %
Total amortized cost	$ 509,523		$ 738,376		$1,129,024		$6,502,613		$8,879,536	

Held-to-maturity

	Due in 1 Year or Less		Due After 1 Year Through 5 Years		Due After 5 Years Through 10 Years		Due After 10 Years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Agency Guaranteed	$ —	— %	$ —	— %	$ —	— %	$ 1,032	5.55 %	$ 1,032	5.55 %
RABs and Other	—	—	6,576	6.12	—	—	13,440	5.87	20,016	5.95
Total amortized cost	$ —	— %	$ 6,576	6.12 %	—	— %	$ 14,472	5.84 %	$ 21,048	5.93 %
Total fair value	$ —		$ 6,970		$ —		$ 17,045		$ 24,015	

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.

	June 30, 2021					
	Less Than 12 Months		12 Months Or Greater		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Treasury Securities	$ 150,171	$ (108)	$ —	$ —	$ 150,171	$ (108)
U.S. Govt. Guaranteed	728,137	(6,716)	178,022	(757)	906,159	(7,473)
U.S. Govt. Agency Guaranteed	714,015	(7,272)	103,049	(470)	817,064	(7,742)
Total	$ 1,592,323	$ (14,096)	$ 281,071	$ (1,227)	$ 1,873,394	$ (15,323)

	December 31, 2020					
	Less Than 12 Months		12 Months Or Greater		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Treasury Securities	$ 49,955	$ (6)	$ —	$ —	$ 49,955	$ (6)
U.S. Govt. Guaranteed	443,230	(1,371)	442,431	(1,470)	885,661	(2,841)
U.S. Govt. Agency Guaranteed	225,320	(378)	161,265	(608)	386,585	(986)
Non-Agency ABSs	17,589	(17)	—	—	17,589	(17)
Total	$ 736,094	$ (1,772)	$ 603,696	$ (2,078)	$ 1,339,790	$ (3,850)

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 non-credit 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 OTTI analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio.

The Bank has not recognized any credit losses for the periods presented as the impairments were 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.

	June 30, 2021					
(dollars in thousands)	Bonds		Discount Notes		Total	
Maturities	**Amortized Cost**	**Weighted Average Interest Rate**	**Amortized Cost**	**Weighted Average Interest Rate**	**Amortized Cost**	**Weighted Average Interest Rate**
One year or less	$ 7,854,036	0.26 %	$ 5,659,697	0.09 %	$ 13,513,733	0.19 %
Greater than one year to two years	6,338,140	0.20	—	—	6,338,140	0.20
Greater than two years to three years	3,393,714	0.38	—	—	3,393,714	0.38
Greater than three years to four years	2,333,613	0.53	—	—	2,333,613	0.53
Greater than four years to five years	2,218,332	0.74	—	—	2,218,332	0.74
Greater than five years	6,412,554	1.34	—	—	6,412,554	1.34
Total	$ 28,550,389	0.56 %	$ 5,659,697	0.09 %	$ 34,210,086	0.48 %

Discount notes are issued with maturities of one year or less. The weighted average maturity of discount notes at June 30, 2021 was 148 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.

During the first quarter of 2021, the Bank repurchased, through privately negotiated transactions, and subsequently cancelled, Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with par value totaling $9.8 million. The effect of the repurchases on shareholders' equity was to reduce preferred stock outstanding by $9.8 million and to increase additional paid-in capital by $3.0 million.

Accumulated Other Comprehensive Income

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

Changes in Accumulated Other Comprehensive Income by Component *(a)*

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(dollars in thousands)	**2021**	**2020**	**2021**	**2020**
Investment Securities:				
Balance at beginning of period	$ 96,076	$ 106,766	$ 190,529	$ 52,324
Other comprehensive income before reclassifications	49,323	95,554	(45,130)	157,211
Amounts reclassified from AOCI	(330)	—	(330)	(7,215)
Net current period other comprehensive income	48,993	95,554	(45,460)	149,996
Balance at end of period	$ 145,069	$ 202,320	$ 145,069	$ 202,320
Cash Flow Hedges:				
Balance at beginning of period	$ 270	$ 465	$ 287	$ 533
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	(24)	(68)	(41)	(136)
Net current period other comprehensive income	(24)	(68)	(41)	(136)
Balance at end of period	$ 246	$ 397	$ 246	$ 397
Employee Benefit Plans:				
Balance at beginning of period	$ (4,741)	$ (4,227)	$ (4,954)	$ (4,374)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	212	148	425	295
Net current period other comprehensive income	212	148	425	295
Balance at end of period	$ (4,529)	$ (4,079)	$ (4,529)	$ (4,079)
Total Accumulated Other Comprehensive Income:				
Balance at beginning of period	$ 91,605	$ 103,004	$ 185,862	$ 48,483
Other comprehensive income before reclassifications	49,323	95,554	(45,130)	157,211
Amounts reclassified from AOCI	(142)	80	54	(7,056)
Net current period other comprehensive income	49,181	95,634	(45,076)	150,155
Balance at end of period	$ 140,786	$ 198,638	$ 140,786	$ 198,638

Reclassifications Out of Accumulated Other Comprehensive Income *(b)*

	For the Three Months Ended June 30,		For the Six Months Ended June 30,		
(dollars in thousands)	**2021**	**2020**	**2021**	**2020**	**Income Statement Line Item**
Investment Securities:					
Sales gains & losses	$ 330	$ —	$ 330	$ 7,215	Gains (losses) on investments, net
Holding gains & losses	—	—	—	—	Net other-than-temporary impairment
Net amounts reclassified	330	—	330	7,215	
Cash Flow Hedges:					
Interest income	$ 24	$ 68	$ 41	$ 136	Interest income on investment securities
Gains (losses) on other transactions	—	—	—	—	Gains (losses) on other transactions
Net amounts reclassified	24	68	41	136	
Employee Benefit Plans:					
Periodic pension costs	$ (212)	$ (148)	$ (425)	$ (295)	See Note 7.
Net amounts reclassified	(212)	(148)	(425)	(295)	
Total reclassifications for period	$ 142	$ (80)	$ (54)	$ 7,056	

(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.

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, 2021				
(dollars in thousands)	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Investments in debt securities available-for-sale:					
U.S. Govt. Treasury securities	$ 618,866	$ —	$ 618,866	$ —	$ 618,866
U.S. Govt. guaranteed	4,128,265	—	4,128,265	—	4,128,265
U.S. Govt. Agency guaranteed	3,882,747	—	3,882,747	—	3,882,747
Non-agency ABSs	394,727	—	394,727	—	394,727
Total investments in debt securities available-for-sale	9,024,605	—	9,024,605	—	9,024,605
Federal funds sold, securities purchased under resale agreements, and other	180,000	—	180,000	—	180,000
Mortgage servicing rights	2,437	—	—	2,437	2,437
Assets held in trust funds	20,372	20,372	—	—	20,372
Recurring Assets	$ 9,227,414	$ 20,372	$ 9,204,605	$ 2,437	$ 9,227,414
Liabilities:					
Mortgage servicing rights	$ 76	$ —	$ —	$ 76	$ 76
Recurring Liabilities	$ 76	$ —	$ —	$ 76	$ 76
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 28,848	$ —	$ —	$ 28,848	$ 28,848
Other property owned	153	—	—	170	170
Nonrecurring Assets	$ 29,001	$ —	$ —	$ 29,018	$ 29,018
Other Financial Instruments					
Assets:					
Cash	$ 536,076	$ 536,076	$ —	$ —	$ 536,076
Investments in debt securities held-to-maturity	21,048	—	1,012	23,003	24,015
Loans	26,830,415	—	—	26,913,113	26,913,113
Other Financial Assets	$ 27,387,539	$ 536,076	$ 1,012	$ 26,936,116	$ 27,473,204
Liabilities:					
Systemwide debt securities	$ 34,210,086	$ —	$ —	$ 34,189,530	$ 34,189,530
Other Financial Liabilities	$ 34,210,086	$ —	$ —	$ 34,189,530	$ 34,189,530

(dollars in thousands)	December 31, 2020 Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Investments in debt securities available-for-sale:					
U.S. Govt. Treasury securities	$ 318,870	$ —	$ 318,870	$ —	$ 318,870
U.S. Govt. guaranteed	4,361,424	—	4,361,424	—	4,361,424
U.S. Govt. agency guaranteed	3,155,557	—	3,155,557	—	3,155,557
Non-agency ABSs	649,499	—	649,499	—	649,499
Total investments in debt securities available-for-sale	8,485,350	—	8,485,350	—	8,485,350
Federal funds sold, securities purchased under resale agreements, and other	520,000	—	520,000	—	520,000
Mortgage servicing rights	2,356	—	—	2,356	2,356
Assets held in trust funds	18,463	18,463	—	—	18,463
Recurring Assets	$ 9,026,169	$ 18,463	$ 9,005,350	$ 2,356	$ 9,026,169
Liabilities:					
Mortgage servicing rights	$ 64	$ —	$ —	$ 64	$ 64
Recurring Liabilities	$ 64	$ —	$ —	$ 64	$ 64
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 12,921	$ —	$ —	$ 12,921	$ 12,921
Other property owned	—	—	—	—	—
Nonrecurring Assets	$ 12,921	$ —	$ —	$ 12,921	$ 12,921
Other Financial Instruments					
Assets:					
Cash	$ 693,685	$ 693,685	$ —	$ —	$ 693,685
Investments in debt securities held to maturity	30,078	—	1,099	34,136	35,235
Loans	26,193,811	—	—	26,505,373	26,505,373
Other Financial Assets	$ 26,917,574	$ 693,685	$ 1,099	$ 26,539,509	$ 27,234,293
Liabilities:					
Systemwide debt securities	$ 33,356,213	$ —	$ —	$ 33,459,724	$ 33,459,724
Other Financial Liabilities	$ 33,356,213	$ —	$ —	$ 33,459,724	$ 33,459,724

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

(dollars in thousands)	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 29,018	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*
Mortgage servicing rights, net	$ 2,361	Discounted cash flow	Constant prepayment rate	**
			Fees and costs	**

Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

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

Information about Other Financial Instrument Fair Value Measurements

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

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

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

Note 7 — Employee Benefit Plans

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

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
(dollars in thousands)	2021		2020		2021		2020	
Pension	$	2,225	$	1,654	$	4,210	$	3,204
401k		1,007		945		2,022		1,817
Other postretirement benefits		241		247		490		496
Total	$	3,473	$	2,846	$	6,722	$	5,517

Expenses in the above table include allocated estimates of funding for multiemployer plans in which the Bank participates. These amounts may change when a total funding amount and allocation is determined by the respective Plans' Sponsor Committees. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2021.

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:

(dollars in billions)	June 30, 2021		December 31, 2020	
Total System bonds and notes	$	328.835	$	322.655
AgFirst bonds and notes		34.210		33,356

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.

Because it is remote that the Bank will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

Note 9 — Additional Financial Information

Offsetting of Financial Assets

(dollars in thousands)	**June 30, 2021**	**December 31, 2020**
Reverse repurchase and similar arrangements	$ 180,000	$ 520,000
Gross Amount of Recognized Assets	180,000	520,000
Reverse repurchase and similar arrangements	—	—
Gross Amounts Offset in the Balance Sheets	—	—
Net Amounts of Assets Presented in the Balance Sheets	$ 180,000	$ 520,000
Financial Instruments	(180,000)	(520,000)
Gross Amounts Not Offset in the Balance Sheets	(180,000)	(520,000)
Net Amount	$ —	$ —

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

The reverse repurchase agreements are accounted for as collateralized lending.

Combined Districtwide Financial Statements

The accompanying financial statements exclude financial information of the Bank's affiliated Associations. The Bank and its affiliated Associations are collectively referred to as the AgFirst District. The Bank separately publishes certain unaudited combined financial information of the AgFirst District, including a statement of condition and statement of comprehensive income, which can be found on the Bank's website at **www.agfirst.com**.

Note 10 — Subsequent Events

The Bank evaluated subsequent events and determined that there were none requiring disclosure through August 6, 2021, which was the date the financial statements were issued.