AGFIRST FARM CREDIT BANK & DISTRICT ASSOCIATIONS

2020 THIRD QUARTER FINANCIAL INFORMATION

AgFirst Farm Credit Bank and District Associations September 30, 2020 Financial Information

(unaudited)

INTRODUCTION AND DISTRICT OVERVIEW

The following commentary reviews the Combined Financial Statements of condition and results of operations of AgFirst Farm Credit Bank (AgFirst or the Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the AgFirst District (District), for the three and nine month periods ended September 30, 2020. AgFirst and the District Associations are part of the Farm Credit System (the System), a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. Cooperatives are organizations that are owned and controlled by their members who use the cooperatives' products or services. The U.S. Congress authorized the creation of the first System institutions in 1916. The System was created to provide support for the agricultural sector because of its significance to the well-being of the U.S. economy and the U.S. consumer. The mission of the System is to provide sound and dependable credit to American farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, and certain farm-related businesses. The System does this by making appropriately structured loans to qualified individuals and businesses at competitive rates and providing financial services and advice to those persons and businesses. AgFirst and each District Association are individually regulated by the Farm Credit Administration (FCA).

The Associations are structured as cooperatives, and each Association is owned by its borrowers. AgFirst also operates as a cooperative. The District Associations, certain Other Financing Institutions (OFIs), other System institutions, and preferred stockholders jointly own AgFirst. As such, the benefits of ownership flow to the same farmer/rancher borrowers that the System was created to serve.

As of September 30, 2020, the District consisted of the Bank and nineteen District Associations. All nineteen were structured as Agricultural Credit Association (ACA) holding companies, with Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries. PCAs originate and service short- and intermediate-term loans; FLCAs originate and service long-term real estate mortgage loans; and ACAs originate and service both long-term real estate mortgage loans and short- and intermediate-term loans.

Farm Credit's funds are raised by the Federal Farm Credit Banks Funding Corporation (the Funding Corporation) and insured by the Farm Credit System Insurance Corporation (FCSIC). The Funding Corporation issues a variety of Federal Farm Credit Banks Combined Systemwide Debt Securities with broad ranges of maturities and structures on behalf of the System banks. Each System bank has exposure to Systemwide credit risk because each bank is jointly and severally liable for all Systemwide debt issued.

AgFirst provides funding and related services to the District Associations, which, in turn, provide loans and related services to agricultural and rural borrowers. AgFirst has in place with each of the District Associations, a revolving line of credit, referred to as a "Direct Note." Each Association primarily funds its lending and general corporate activities by borrowing through its Direct Note. Virtually all assets of the Associations secure the Direct Notes. Lending terms are specified in a separate General Financing Agreement (GFA) between AgFirst and each Association, including the subsidiaries of the Associations.

AgFirst and the Associations are chartered to serve eligible borrowers in Alabama, Delaware, Florida, Georgia, Maryland, Mississippi, North Carolina, Pennsylvania, South Carolina, Virginia, West Virginia, Puerto Rico, and portions of Kentucky, Louisiana, Ohio, and Tennessee. As of September 30, 2020, two other Farm Credit Banks (FCBs) and an Agricultural Credit Bank (ACB), through a number of associations, provided loans and related services to eligible borrowers in the remaining portion of the United States. While owned by its related associations, each FCB manages and controls its own business activities and operations. The ACB is owned primarily by its related associations as well as other agricultural and rural institutions, including agricultural cooperatives. Associations are not commonly owned or controlled and each manages and controls its own business activities and operations.

While combined District statements reflect the financial and operational interdependence of AgFirst and its Associations, AgFirst does not own or control the Associations. AgFirst publishes Bank-only audited financial statements (an electronic version of which is available on AgFirst's website at **www.agfirst.com**) that may be referred to for a more complete analysis of AgFirst's financial condition and results of operations.

Financial Highlights

(dollars in thousands)	**September 30, 2020**	December 31, 2019
Total loans	**$ 31,672,187**	$ 30,718,991
Allowance for loan losses	**(224,980)**	(211,077)
Net loans	**31,447,207**	30,507,914
Total assets	**41,835,644**	40,331,696
Total shareholders' equity	**7,286,573**	6,672,951

	For the Nine Months Ended September 30,	
	2020	**2019**
Net interest income	**$ 907,776**	$ 780,996
Provision for (reversal of allowance for) loan losses	**16,557**	8,600
Noninterest income (expense), net	**(386,479)**	(358,763)
Net income	**504,740**	413,633
Net interest income as a percentage of average earning assets	**2.99 %**	2.72%
Net (chargeoffs) recoveries to average loans	**(0.01)%**	(0.02)%
Return on average assets	**1.62 %**	1.41%
Return on average shareholders' equity	**9.57 %**	8.19%
Operating expense as a percentage of net interest income and noninterest income	**43.76 %**	48.08%
Average loans	**$ 31,372,542**	$ 29,870,058
Average earning assets	**40,601,540**	38,449,585
Average assets	**41,544,823**	39,096,491

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

RESULTS OF OPERATIONS

Net income for the nine months ended September 30, 2020 was $504.7 million compared to $413.6 million for the corresponding period in 2019, an increase of $91.1 million or 22.03 percent. Net income for the three months ended September 30, 2020 was $200.3 million compared to $134.4 million for the three months ended September 30, 2019, an increase of $65.9 million, or 49.00 percent. See below for further discussion of the change in net income by major components.

Key Results of Operations Comparisons

	Annualized for the Nine Months Ended September 30, 2020	For the Year Ended December 31, 2019	Annualized for the Nine Months Ended September 30, 2019
Return on average assets	1.62%	1.40%	1.41%
Return on average shareholders' equity	9.57%	8.10%	8.19%
Net interest margin	2.99%	2.73%	2.72%
Operating expense as a percentage of net interest income and noninterest income	43.76%	48.52%	48.08%
Net (charge-offs) recoveries to average loans	(0.01)%	(0.04)%	(0.02)%

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

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

The net (charge-offs) recoveries to average loans ratio reflected lower annualized charge-offs in the nine months ended September 30, 2020 compared to both prior periods.

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

Net Interest Income

Net interest income increased $58.9 million to $327.1 million, an increase of 21.98 percent, for the three months ended September 30, 2020 compared to the three months ended September 30, 2019. For the nine months ended September 30, 2020, net interest income was $907.8 million compared to $781.0 million for the same period of 2019, an increase of $126.8 million, or 16.23 percent. The net interest margin, which is net interest income as a percentage of average earning assets, was 3.16 percent and 2.99 percent, an increase of 44 basis points and 27 basis points for the three and nine months ended September 30, 2020, respectively, compared to the same periods in the prior year. The increase 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.

The Bank called debt totaling $38.081 billion for the nine months ended September 30, 2020 and was able to lower the cost of funds. The average rate reduction (i.e., the difference between the rates on the called bonds and the rates on the replacement bonds) was 66 basis points, resulting in interest expense savings of $893.2 million, net of debt extinguishment expense of $58.3 million, over the remaining life of the bonds. The average life of the called debt was 4.35 years. Replacement bonds generally have terms similar to those of the bonds being replaced.

The effects of changes in volume and interest rates on net interest income for the three and nine months ended September 30, 2020, as compared with the corresponding periods in 2019, are presented in the following table. The table distinguishes between the changes in interest income and interest expense related to average outstanding balances and to the levels of average interest rates. Accordingly, the benefit derived from funding earning assets with interest-free funds (principally capital) is reflected solely as a volume increase.

	For the Three Months Ended September 30, 2020 vs. September 30, 2019			For the Nine Months Ended September 30, 2020 vs. September 30, 2019		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
(dollars in thousands)	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Loans	$ 16,105	$ (65,189)	$ (49,084)	$ 51,814	$ (138,896)	$ (87,082)
Investments & Cash Equivalents	2,651	(21,347)	(18,696)	8,661	(50,707)	(42,046)
Other	96	(797)	(701)	201	(2,234)	(2,033)
Total Interest Income	18,852	(87,333)	(68,481)	60,676	(191,837)	(131,161)
Interest Expense:						
Interest-Bearing Liabilities	3,726	(131,154)	(127,428)	18,773	(276,714)	(257,941)
Changes in Net Interest Income	$ 15,126	$ 43,821	$ 58,947	$ 41,903	$ 84,877	$ 126,780

Provision for Loan Losses

AgFirst and the District Associations measure risks inherent in their individual loan portfolios on an ongoing basis and, as necessary, recognize provision for loan loss expense so that appropriate allowances for loan losses are maintained. Provision for loan losses was a net provision expense of $1.3 million and $16.6 million for the three and nine month periods ended September 30, 2020, respectively, compared to net provision expense of $5.5 million and $8.6 million for the corresponding periods in 2019.

For the three and nine month periods ended September 30, 2020, the provision for loan losses included net provision expense for specific reserves of $1.2 million and $4.0 million, respectively, and net provision expense for general reserves of $53 thousand and $12.6 million, respectively. For the three and nine month periods ended September 30, 2020, provision expense for general reserves anticipated stress in certain sectors adversely impacted by the COVID-19 pandemic. Total net provision expense for the three months ended September 30, 2020 primarily related to borrowers in the poultry ($4.0 million expense), swine ($2.1 million expense), rural home loan ($1.6 million expense), nursery/greenhouse ($1.8 million reversal), corn ($1.5 million reversal), utilities ($1.1 million reversal), and dairy ($924 thousand reversal) segments. For the nine month period ended September 30, 2020, the provision for loan losses primarily related to borrowers in the poultry ($9.0 million expense), forestry ($3.2 million expense), swine ($2.3 million expense), field crops ($2.2 million expense), rural home loan ($2.0 million expense), processing ($1.9 million expense), grains ($1.4 million expense), other real estate ($3.4 million reversal), nursery/greenhouse ($2.9 million reversal), and dairy ($2.2 million reversal) segments.

For the three and nine month periods ended September 30, 2019, the provision for loan losses included net provision expense for specific reserves of $4.5 million and $2.4 million, respectively, and net provision expense for general reserves of $989 thousand and $6.2 million, respectively. Total net provision expense for the three months ended September 30, 2019 primarily related to borrowers in the other real estate ($2.2 million expense), field crops ($1.5 million expense), forestry ($1.3 million expense), processing ($1.2 million expense), cotton ($908 thousand expense), poultry ($1.4 million reversal), and nursery/greenhouse ($1.3 million reversal) segments. For the nine month period in 2019, the provision for loan losses primarily related to borrowers in the other real estate ($2.2 million expense), processing ($2.0 million expense), cotton ($1.8 million expense), dairy ($972 thousand expense), forestry ($824 thousand expense), and nursery/greenhouse ($1.1 million reversal) segments.

See the *Loan Portfolio* section below for further information.

Noninterest Income

The following table illustrates the changes in noninterest income:

Change in Noninterest Income	**For the Three Months Ended September 30,**			**For the Nine Months Ended September 30,**		
			Increase/			**Increase/**
(dollars in thousands)	**2020**	**2019**	**(Decrease)**	**2020**	**2019**	**(Decrease)**
Loan fees	$ 9,411	$ 8,149	$ 1,262	$ 31,212	$ 24,788	$ 6,424
Fees for financially related services	3,653	3,233	420	7,996	6,822	1,174
Lease income	966	1,281	(315)	2,832	3,598	(766)
Gains (losses) on investments, net	—	—	—	7,215	—	7,215
Gains (losses) on debt extinguishment	(14,353)	(11,733)	(2,620)	(58,300)	(20,109)	(38,191)
Gains (losses) on other transactions	12,629	2,124	10,505	17,963	6,757	11,206
Insurance premium refund	—	—	—	6,813	7,051	(238)
Other noninterest income	1,669	1,384	285	7,650	5,654	1,996
Total noninterest income	$ 13,975	$ 4,438	$ 9,537	$ 23,381	$ 34,561	$ (11,180)

Noninterest income increased $9.5 million and decreased $11.2 million for the three and nine month periods ended September 30, 2020, respectively, compared to the corresponding periods in 2019. Significant line item dollar variances are discussed below.

Loan fees increased $1.3 million and $6.4 million for the three and nine month periods ended September 30, 2020, respectively, compared to the same periods of the prior year. The increase for the nine month period was primarily due to fee income of $5.0 million on loans made under the SBA Paycheck Protection Program (PPP). Increases in servicing and modification fees also contributed to the higher loan fee income for both the three and nine month periods.

For the nine months ended September 30, 2020, fees for financially related services increased $1.2 million primarily due to a $966 thousand increase in crop/hail and multi-peril insurance income.

During the nine months ended September 30, 2020, the Bank sold securities with a par value of approximately $55.9 million as part of investment portfolio maintenance, resulting in gains of $7.2 million. No securities were sold during 2019.

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

For the three and nine months ended September 30, 2020, net gains on other transactions increased $10.5 million and $11.2 million, respectively, compared to the same periods in the prior year. The increase was primarily due to $7.3 million and $12.3 million increases in gains on the sale of rural residential loans for the three and nine month periods, respectively. During the three and nine months ended September 30, 2020, $179.9 million and $287.8 million, respectively, of the rural residential loan portfolio was sold in order to capitalize on market premiums in the portfolio and gains of $8.1 million and $14.2 million, respectively, were recognized. In addition, for the three and nine months periods, increases of $1.3 million and $2.1 million, respectively, in the fair value of mortgage servicing rights resulted primarily from these loan sales as the servicing was retained. For the three month period, an increase of $1.4 million in market value gains on certain retirement plan trust assets also contributed to the increase. The increases for the nine month period were partially offset by a decrease of $1.5 million in gains on sales of assets which resulted primarily from the sale of one Association building in 2019 and a decrease of $594 thousand in market value gains on certain retirement plan trust assets.

For the nine months ended September 30, 2020, other noninterest income increased $2.0 million due to an increase of $1.8 million in patronage income received from other Farm Credit institutions.

Noninterest Expenses

The following table illustrates the changes in noninterest expenses:

Change in Noninterest Expenses	**For the Three Months Ended September 30,**			**For the Nine Months Ended September 30,**		
(dollars in thousands)	**2020**	**2019**	**Increase/ (Decrease)**	**2020**	**2019**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 81,908	$ 76,407	$ 5,501	$ 245,223	$ 230,612	$ 14,611
Occupancy and equipment	7,028	11,940	(4,912)	20,390	34,607	(14,217)
Insurance Fund premiums	7,914	6,080	1,834	19,118	17,754	1,364
Other operating expenses	42,301	37,595	4,706	122,766	109,163	13,603
Losses (gains) from other property owned	230	583	(353)	1,663	757	906
Total noninterest expenses	$ 139,381	$ 132,605	$ 6,776	$ 409,160	$ 392,893	$ 16,267

Noninterest expenses for the three and nine month periods ended September 30, 2020 increased $6.8 million and $16.3 million, respectively, compared to the corresponding periods in 2019. Significant line item dollar variances are discussed below.

Salaries and employee benefits increased $5.5 million and $14.6 million for the three and nine month periods ended September 30, 2020, respectively, compared to the corresponding periods in 2019. The increases resulted primarily from $5.4 million and $15.3 million for the three and nine month periods ended September 30, 2020, respectively, in higher salaries and incentives due to normal salary administration and an increase in headcount.

Occupancy and equipment expenses decreased $4.9 million and $14.2 million, respectively, and other operating expenses increased $4.7 million and $13.6 million, respectively, for the three and nine month periods ended September 30, 2020 compared to the same periods in the prior years. In conjunction with the prospective application of new accounting guidance for internal-use software which was effective in the first quarter of 2020, certain hardware and software depreciation and maintenance expenses totaling $6.1 million and $17.8 million for the three and nine month periods, respectively, were included in other operating expenses rather than in occupancy expense as previously reported. Increases of $4.6 million and $6.6 million for the three and nine month periods, respectively, in consultant and professional fees predominantly related to Bank technology initiatives also contributed to the increase in other operating expenses. For the three and nine month periods, these increases were partially offset by decreases of $2.4 million and $4.3 million in travel costs and $1.0 million and $1.9 million in training expenses, respectively, due to the COVID-19 pandemic, and by decreases of $564 thousand and $1.6 million in public and member relations, respectively.

Insurance Fund premiums increased $1.8 million and $1.4 million for the three and nine months, respectively, compared to the same periods in 2019 primarily due to a mid-year 2020 increase in the base annual premium rate to 11 basis points. The base annual premium rate was 9 basis points in 2019 and 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.

LOAN PORTFOLIO

The District's aggregate loan portfolio consists primarily of loans made by the Associations to eligible borrowers located within their chartered territories. Diversification of the loan volume by FCA loan type is illustrated in the table below:

Loan Portfolio *(dollars in thousands)*	**September 30, 2020**		**December 31, 2019**		**September 30, 2019**	
Real Estate Mortgage	$ 16,275,611	51.39 %	$ 15,524,140	50.54 %	$ 15,247,987	50.08 %
Production and Intermediate-Term	6,939,894	21.91	6,919,544	22.53	6,916,883	22.71
Rural Residential Real Estate	3,533,342	11.15	3,815,624	12.42	3,763,365	12.36
Processing and Marketing	2,120,920	6.70	1,906,654	6.21	1,842,259	6.05
Loans to Cooperatives	752,776	2.38	614,977	2.00	662,927	2.18
Communication	688,408	2.17	609,970	1.99	648,410	2.13
Power and Water/Waste Disposal	628,767	1.98	589,989	1.92	621,743	2.04
Farm-Related Business	353,517	1.12	363,273	1.18	369,404	1.21
International	157,607	0.50	157,553	0.51	157,536	0.52
Loans to Other Financing Institutions (OFIs)	138,878	0.44	142,384	0.46	136,079	0.45
Other (including Mission Related)	71,023	0.22	62,851	0.20	69,670	0.23
Lease Receivables	11,444	0.04	12,032	0.04	12,766	0.04
Total	$ 31,672,187	100.00 %	$ 30,718,991	100.00 %	$ 30,449,029	100.00 %

Total loans outstanding were $31.672 billion at September 30, 2020, an increase of $953.2 million, or 3.10 percent, compared to total loans outstanding at December 31, 2019 and an increase of $1.223 billion, or 4.02 percent, since September 30, 2019.

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

Credit Quality

Credit quality of the District's loans is shown below:

	Total Loan Portfolio Credit Quality as of:		
Classification	**September 30, 2020**	**December 31, 2019**	**September 30, 2019**
Acceptable	94.64 %	94.79 %	94.51 %
OAEM *	2.93 %	3.11 %	3.42 %
Substandard/doubtful/loss	2.43 %	2.10 %	2.07 %

** Other Assets Especially Mentioned*

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

The District's high-risk assets continue to be a small percentage of the total loan volume and total assets. Nonperforming assets (including related accrued interest as applicable) and related credit quality statistics are summarized as follows:

(dollars in thousands)	**September 30, 2020**	**December 31, 2019**
Nonaccrual loans:		
Real estate mortgage	$ 125,736	$ 124,033
Production and intermediate-term	116,615	108,890
Loans to cooperatives	5,190	6,352
Processing and marketing	3,385	3,035
Farm-related business	3,407	1,058
Power and water/waste disposal	389	–
Rural residential real estate	20,666	20,150
Lease receivables	226	263
Total	$ 275,614	$ 263,781
Accruing restructured loans:		
Real estate mortgage	$ 81,493	$ 72,970
Production and intermediate-term	49,480	50,604
Processing and marketing	9,612	468
Farm-related business	363	345
Rural residential real estate	4,006	4,028
Lease receivables	29	47
Other (including Mission Related)	3,891	3,956
Total	$ 148,874	$ 132,418
Accruing loans 90 days or more past due:		
Real estate mortgage	$ 415	$ 251
Production and intermediate-term	636	257
Farm-related business	–	70
Rural residential real estate	1,108	–
Total	$ 2,159	$ 578
Total nonperforming loans	$ 426,647	$ 396,777
Other property owned	14,989	19,749
Total nonperforming assets	$ 441,636	$ 416,526
Nonaccrual loans as a percentage of total loans	0.87%	0.86%
Nonperforming assets as a percentage of total loans and other property owned	1.39%	1.36%
Nonperforming assets as a percentage of capital	6.06%	6.24%

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

	September 30, 2020				
(dollars in thousands)	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 46,875	$ 59,072	$ 105,947	$ 16,326,866	$ 16,432,813
Production and intermediate-term	22,714	57,580	80,294	6,937,234	7,017,528
Loans to cooperatives	—	—	—	753,382	753,382
Processing and marketing	—	2,981	2,981	2,124,016	2,126,997
Farm-related business	2,597	2,098	4,695	351,036	355,731
Communication	—	—	—	688,524	688,524
Power and water/waste disposal	—	—	—	630,723	630,723
Rural residential real estate	10,411	10,755	21,166	3,523,058	3,544,224
International	—	—	—	157,947	157,947
Lease receivables	114	—	114	11,374	11,488
Loans to OFIs	—	—	—	139,165	139,165
Other (including Mission Related)	—	—	—	71,651	71,651
Total	$ 82,711	$ 132,486	$ 215,197	$ 31,714,976	$ 31,930,173

	December 31, 2019				
(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
Real estate mortgage	$ 73,100	$ 52,907	$ 126,007	$ 15,536,667	$ 15,662,674
Production and intermediate-term	41,973	60,918	102,891	6,894,527	6,997,418
Loans to cooperatives	—	—	—	616,106	616,106
Processing and marketing	457	2,984	3,441	1,910,278	1,913,719
Farm-related business	4,158	547	4,705	360,825	365,530
Communication	—	—	—	610,278	610,278
Power and water/waste disposal	—	—	—	592,303	592,303
Rural residential real estate	48,571	8,246	56,817	3,768,441	3,825,258
International	—	—	—	158,384	158,384
Lease receivables	—	—	—	12,075	12,075
Loans to OFIs	—	—	—	142,754	142,754
Other (including Mission Related)	293	—	293	63,055	63,348
Total	$ 168,552	$ 125,602	$ 294,154	$ 30,665,693	$ 30,959,847

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 combined District at September 30, 2020 were $275.6 million compared to $263.8 million at December 31, 2019. The increase of $11.8 million resulted primarily from loan balances transferred to nonaccrual status of $97.1 million and advances on nonaccrual loans of $10.0 million. Offsetting these increases were repayments of $73.6 million and loan balances reinstated to accrual status of $12.2 million. At September 30, 2020, total nonaccrual loans were primarily classified in the field crops (22.65 percent of the total), poultry (9.33 percent), swine (7.60 percent), rural home loan (7.57 percent), tree fruits and nuts (6.96 percent), grains (6.82 percent), cattle (6.57 percent), corn (5.93 percent), and forestry (5.07 percent) segments. Nonaccrual loans were 0.87 percent of total loans outstanding at September 30, 2020 compared to 0.86 percent at December 31, 2019.

Troubled Debt Restructurings

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank and District Associations 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 and District Associations. TDRs increased $24.1 million since December 31, 2019 and totaled $226.1 million at September 30, 2020. TDRs at September 30, 2020 were comprised of $148.9 million of accruing restructured loans and $77.2 million of nonaccrual restructured loans. Restructured loans were primarily in the field crops (18.02 percent of the total), poultry (12.88 percent), nursery/greenhouse (9.49 percent), forestry (8.78 percent), dairy (8.45 percent), tree fruits and nuts (8.11 percent), and cattle (6.86 percent) segments.

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

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

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

Other Property Owned

Other property owned (OPO) consists primarily of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank and District Associations (or a lender group) in satisfaction of secured loans. OPO may be comprised of real estate, equipment, and equity interests in companies or partnerships. OPO decreased $4.8 million since December 31, 2019 and totaled $15.0 million at September 30, 2020. The decrease was due primarily to sales of $10.1 million and writedowns of OPO of $1.4 million, partially offset by property received in settlement of loans of $6.7 million. The largest OPO holding at September 30, 2020 was in the forestry segment and totaled $3.7 million (24.80 percent of the total OPO balance).

Allowance for Loan Losses

Each District institution maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within its respective loan and finance lease portfolios as of each reported balance sheet date. The District increases the allowance by recording a provision for loan losses in the income statement. Loan losses are recorded against and serve to decrease the allowance when management determines that any portion of a loan or lease receivable is uncollectible. Any subsequent recoveries are added to the allowance. Management's evaluations consider factors which include, among other things, loan loss experience, portfolio quality, loan portfolio composition, current agricultural production conditions, and general economic conditions. Although aggregated in the District's combined financial statements, the allowance for loan losses of each District entity is particular to that institution and is not available to absorb losses realized by other District entities.

The allowance for loan losses was $225.0 million at September 30, 2020, as compared with $211.1 million at December 31, 2019, an increase of $13.9 million. Provision expense of $16.6 million and loan recoveries of $3.3 million increased the allowance during the first nine months of 2020, and were partially offset by charge-offs of $6.0 million. Recoveries during the nine months ended September 30, 2020 were related primarily to borrowers in the nursery/greenhouse (46.09 percent of the total), field crops (10.09 percent), forestry (8.47 percent), and poultry (5.24 percent) segments. Charge-offs during the nine month period were related primarily to borrowers in the field crops (29.09 percent of the total), cattle (17.90 percent), forestry (13.43 percent), grains (12.38 percent), cotton (9.04 percent), and poultry (8.96 percent) segments. See *Provision for Loan Losses* section above for additional details regarding loan loss provision expense and reversals. The allowance at September 30, 2020 included specific reserves of $25.1 million (11.15 percent of the total) and $199.9 million (88.85 percent) of general reserves. The largest commodity segments included in the allowance at September 30, 2020 were the poultry (16.88 percent of the total), field crops (12.75 percent), forestry (10.44 percent), cattle (7.71 percent), and grains (7.22 percent) segments. The allowance for loan losses was 0.71 percent and 0.69 percent of total loans outstanding at September 30, 2020 and December 31, 2019, respectively.

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

(dollars in thousands)	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivables	Other Loans**	Total
Activity related to allowance for credit losses:										
Balance at June 30, 2020	$ 93,791	$ 95,611	$ 17,647	$ 2,882	$ 4,686	$ 8,702	$ 456	$ 338	$ 414	$ 224,527
Charge-offs	(56)	(2,571)	(107)	—	—	(10)	—	—	—	(2,744)
Recoveries	250	1,537	30	—	—	83	—	—	—	1,900
Provision for loan losses	3,519	(3,356)	1,017	(486)	(982)	1,592	4	1	(12)	1,297
Balance at September 30, 2020	$ 97,504	$ 91,221	$ 18,587	$ 2,396	$ 3,704	$ 10,367	$ 460	$ 339	$ 402	$ 224,980
Balance at December 31, 2019	$ 88,474	$ 91,557	$ 16,465	$ 2,348	$ 2,663	$ 8,316	$ 461	$ 388	$ 405	$ 211,077
Charge-offs	(693)	(5,026)	(212)	—	—	(46)	—	—	—	(5,977)
Recoveries	700	2,470	48	—	—	105	—	—	—	3,323
Provision for loan losses	9,039	2,204	2,286	48	1,041	1,992	(1)	(49)	(3)	16,557
Loan type reclassification	(16)	16	—	—	—	—	—	—	—	—
Balance at September 30, 2020	$ 97,504	$ 91,221	$ 18,587	$ 2,396	$ 3,704	$ 10,367	$ 460	$ 339	$ 402	$ 224,980
Balance at June 30, 2019	$ 86,980	$ 89,378	$ 17,733	$ 2,179	$ 2,417	$ 8,047	$ 406	$ 389	$ 629	$ 208,158
Charge-offs	(235)	(1,072)	(152)	—	—	(93)	—	—	—	(1,552)
Recoveries	305	1,122	114	—	—	36	—	—	—	1,577
Provision for loan losses	(1,972)	4,369	2,147	202	578	105	47	7	7	5,490
Balance at September 30, 2019	$ 85,078	$ 93,797	$ 19,842	$ 2,381	$ 2,995	$ 8,095	$ 453	$ 396	$ 636	213,673
Balance at December 31, 2018	$ 86,078	$ 90,661	$ 19,387	$ 2,647	$ 1,209	$ 8,055	$ 504	$ 433	$ 683	$ 209,657
Charge-offs	(1,263)	(8,192)	(239)	—	(1)	(165)	—	—	—	(9,860)
Recoveries	1,126	3,438	186	—	—	526	—	—	—	5,276
Provision for loan losses	(863)	7,890	508	(266)	1,787	(321)	(51)	(37)	(47)	8,600
Balance at September 30, 2019	$ 85,078	$ 93,797	$ 19,842	$ 2,381	$ 2,995	$ 8,095	$ 453	$ 396	$ 636	$ 213,673
Allowance on loans evaluated for impairment:										
Individually	$ 5,340	$ 17,503	$ 1,405	$ —	$ 150	$ 534	$ —	$ 57	$ 92	$ 25,081
Collectively	92,164	73,718	17,182	2,396	3,554	9,833	460	282	310	199,899
PCI***	—	—	—	—	—	—	—	—	—	—
Balance at September 30, 2020	$ 97,504	$ 91,221	$ 18,587	$ 2,396	$ 3,704	$ 10,367	$ 460	$ 339	$ 402	$ 224,980
Individually	$ 4,846	$ 17,087	$ 1,069	$ —	$ —	$ 574	$ —	$ 83	$ 92	$ 23,751
Collectively	83,628	74,470	15,396	2,348	2,663	7,742	461	305	313	187,326
PCI***	—	—	—	—	—	—	—	—	—	—
Balance at December 31, 2019	$ 88,474	$ 91,557	$ 16,465	$ 2,348	$ 2,663	$ 8,316	$ 461	$ 388	$ 405	$ 211,077
Recorded investment in loans evaluated for impairment:										
Individually	$ 328,175	$ 166,737	$ 21,641	$ —	$ 389	$ 890,097	$ —	$ 255	$ 3,891	$ 1,411,185
Collectively	16,104,024	6,850,791	3,214,469	688,524	630,334	2,654,127	157,947	11,233	206,925	30,518,374
PCI***	614	—	—	—	—	—	—	—	—	614
Balance at September 30, 2020	$ 16,432,813	$ 7,017,528	$ 3,236,110	$ 688,524	$ 630,723	$ 3,544,224	$ 157,947	$ 11,488	$ 210,816	$ 31,930,173
Individually	$ 338,417	$ 157,023	$ 10,903	$ —	$ —	$ 1,034,596	$ —	$ 310	$ 3,956	$ 1,545,205
Collectively	15,323,616	6,840,395	2,884,452	610,278	592,303	2,790,627	158,384	11,765	202,146	29,413,966
PCI***	641	—	—	—	—	35	—	—	—	676
Balance at December 31, 2019	$ 15,662,674	$ 6,997,418	$ 2,895,355	$ 610,278	$ 592,303	$ 3,825,258	$ 158,384	$ 12,075	$ 206,102	$ 30,959,847

* *Includes the loan types: Loans to cooperatives, Processing and marketing, and Farm-related business.*
** *Includes the loan types: Mission Related Loans and Loans to OFIs.*
*** *Purchased credit impaired loans.*

INVESTMENTS

The Bank is responsible for meeting the District's funding, liquidity and asset/liability management needs. Along with normal cash flows associated with lending operations, the District has two primary sources of liquidity: the capacity to issue Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation, and cash and investments. The Bank also maintains several repurchase agreement facilities. In addition, the System has established lines of credit in the event contingency funding is needed to meet obligations of System banks. The Bank's investments are primarily classified as available-for-sale investments. At September 30, 2020, the Bank had not recorded any impairments or experienced any changes in fair value leveling disclosures as a result of the COVID-19 market disruptions. Refer to the Bank's Third Quarter

2020 Report for additional information related to investments. District Associations have regulatory authority to enter into certain government guaranteed investments, generally mortgage-backed or asset-backed securities. The following tables summarize the District's investments:

	September 30, 2020			
(dollars in thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
District Bank investments	$ 8,409,032	$ 214,100	$ (3,785)	$ 8,619,347
District Association investments	37,270	5,713	(123)	42,860
Total District investments	$ 8,446,302	$ 219,813	$ (3,908)	$ 8,662,207

	December 31, 2019			
(dollars in thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
District Bank investments	$ 7,880,510	$ 83,235	$ (27,334)	$ 7,936,411
District Association investments	43,292	3,221	(201)	46,312
Total District investments	$ 7,923,802	$ 86,456	$ (27,535)	$ 7,982,723

CAPITAL

Capital serves to support future asset growth and investment in new products and services. Capital also provides protection against credit, interest rate, and other risks, as well as operating losses. A sound capital position is critical to provide protection to investors in Systemwide Debt Securities and to ensure long-term financial success.

Total shareholders' equity increased $613.6 million, or 9.20 percent, from December 31, 2019 to $7.287 billion at September 30, 2020. This increase is primarily attributed to 2020 unallocated retained earnings from net income of $504.7 million, an increase in unrealized gains on investments of $152.3 million primarily due to a decrease in interest rates which increased the fair value of the Bank's existing available-for-sale fixed-rate investment securities, an increase of $27.1 million in employee benefit plans adjustments, and net issuance of $12.2 million in capital stock and participation certificates. These increases were partially offset by a decrease of $66.6 million from retained earnings retired and $20.0 million in cash patronage distributions.

The following table summarizes accumulated other comprehensive income (AOCI) balances at period end:

(dollars in thousands)	**September 30, 2020**	**December 31, 2019**
Accumulated Other Comprehensive Income (Loss)		
Unrealized gain (loss) on investment securities	$ 204,951	$ 52,606
Derivatives and hedging activity	318	533
Employee benefit plans activity	(340,343)	(367,486)
Total accumulated other comprehensive income (loss)	$ (135,074)	$ (314,347)

The Farm Credit Administration sets minimum regulatory capital requirements for Banks and Associations. The Bank and all Associations exceeded regulatory capital requirements, as demonstrated in the following table.

Regulatory Capital Requirements and Ratios

As of September 30, 2020	Primary Components of Numerator	Regulatory Minimums	Minimum with Buffer	Bank	District Associations
Risk adjusted:					
Common equity tier 1 capital ratio	Unallocated retained earnings (URE), common cooperative equities (qualifying capital stock and allocated equity)[1]	4.50%	7.00%	18.02%	14.61% - 36.19%
Tier 1 capital ratio	CET1 capital, non-cumulative perpetual preferred stock	6.00%	8.50%	18.39%	14.61% - 36.19%
Total capital ratio	Tier 1 capital, allowance for loan losses[2], common cooperative equities[3] and term preferred stock and subordinated debt[4]	8.00%	10.50%	18.54%	15.86% - 37.37%
Permanent capital ratio	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	7.00%	7.00%	18.42%	15.15% - 36.60%
Non-risk adjusted:					
Tier 1 leverage ratio	Tier 1 capital	4.00%	5.00%	6.75%	13.91% - 34.62%
UREE leverage ratio	URE and URE equivalents	1.50%	1.50%	5.84%	8.67% - 35.20%

[1] Equities outstanding 7 or more years
[2] Capped at 1.25% of risk-adjusted assets
[3] Outstanding 5 or more years, but less than 7 years
[4] Outstanding 5 or more years

REGULATORY MATTERS

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

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

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

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

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

OTHER MATTERS

Subsequent Events

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

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

Direct Notes

See the *Direct Notes* section of *Management's Discussion & Analysis of Financial Condition & Results of Operations* in the AgFirst Farm Credit Bank Third Quarter 2020 Report for a discussion of the Bank's funding to District Associations.

Impacts of the COVID-19 Global Pandemic

The spread of COVID-19 has created a global public health crisis that has negatively affected the global economy, decreased liquidity in fixed income and equity markets, significantly increased unemployment levels and disrupted global supply and demand chains, potentially leading to future credit deterioration. Unprecedented actions are being taken by governments, businesses and individuals to slow or contain the spread of COVID-19, including quarantines, "stay at home" orders, school closings and travel bans that have substantially restricted daily activities and forced many businesses to curtail or cease operations.

The extent to which the COVID-19 pandemic impacts the AgFirst District, results of operations and financial condition including regulatory capital and liquidity ratios and other regulatory requirements, will depend on future developments that are highly uncertain and cannot be predicted. The scope, duration, extent and severity of the pandemic, the continued response by the U.S. government and how quickly "normal" daily activities resume are evolving and still unknown. The COVID-19 pandemic could result in deterioration in the credit quality of the loan portfolio, which could result in increases in nonaccrual loans and the allowance for loan losses. The severity of the impact may be worsened if businesses and schools remain closed and "stay at home" orders continue for prolonged or intermittent periods causing continued disruption in supply and demand chains for agricultural products. In addition, the District's business and its borrowers' businesses may also be disrupted by labor shortages if employees are unable to work because of illness, quarantine, social distancing or immigration restrictions.

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

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

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

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

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

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

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

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

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

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

Future of LIBOR

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

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

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

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

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

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

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

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

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

Combined Balance Sheets

(unaudited)

(dollars in thousands)	September 30, 2020	December 31, 2019
Assets		
Cash	**$ 388,227**	$ 488,366
Cash equivalents	**495,000**	650,000
Investments in debt securities:		
Available-for-sale (amortized cost of $8,377,370 and $7,843,244, respectively)	**8,582,054**	7,895,569
Held-to-maturity (fair value of $80,153 and $87,154, respectively)	**68,932**	80,558
Total investments in debt securities	**8,650,986**	7,976,127
Loans	**31,672,187**	30,718,991
Allowance for loan losses	**(224,980)**	(211,077)
Net loans	**31,447,207**	30,507,914
Loans held for sale	**25,111**	8,291
Accrued interest receivable	**278,206**	261,595
Accounts receivable	**197,465**	100,307
Equity investments in other Farm Credit institutions	**49,478**	47,763
Other investments	**1,281**	1,039
Premises and equipment, net	**222,701**	213,206
Other property owned	**14,989**	19,749
Other assets	**64,993**	57,339
Total assets	**$ 41,835,644**	$ 40,331,696
Liabilities		
Systemwide bonds payable	**$ 25,027,301**	$ 27,291,279
Systemwide and other notes payable	**9,052,611**	5,525,414
Accrued interest payable	**34,596**	106,793
Accounts payable	**66,675**	365,529
Advanced conditional payments	**15,345**	5,981
Other liabilities	**352,543**	363,749
Total liabilities	**34,549,071**	33,658,745
Shareholders' Equity		
Perpetual preferred stock	**49,250**	49,250
Protected borrower equity	**446**	501
Capital stock and participation certificates	**178,414**	165,997
Additional paid-in-capital	**82,573**	82,573
Retained earnings		
Allocated	**2,134,681**	2,195,441
Unallocated	**4,976,283**	4,493,536
Accumulated other comprehensive income (loss)	**(135,074)**	(314,347)
Total shareholders' equity	**7,286,573**	6,672,951
Total liabilities and equity	**$ 41,835,644**	$ 40,331,696

Combined Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended September 30, 2020	2019	For the Nine Months Ended September 30, 2020	2019
Interest Income				
Investments	**$ 36,854**	$ 55,550	**$ 127,183**	$ 169,229
Loans	**350,882**	399,966	**1,090,695**	1,177,777
Other	**623**	1,324	**1,965**	3,998
Total interest income	**388,359**	456,840	**1,219,843**	1,351,004
Interest Expense	**61,245**	188,673	**312,067**	570,008
Net interest income	**327,114**	268,167	**907,776**	780,996
Provision for loan losses	**1,297**	5,490	**16,557**	8,600
Net interest income after provision for loan losses	**325,817**	262,677	**891,219**	772,396
Noninterest Income				
Loan fees	**9,411**	8,149	**31,212**	24,788
Fees for financially related services	**3,653**	3,233	**7,996**	6,822
Lease income	**966**	1,281	**2,832**	3,598
Gains (losses) on investments, net	**—**	—	**7,215**	—
Gains (losses) on debt extinguishment	**(14,353)**	(11,733)	**(58,300)**	(20,109)
Gains (losses) on other transactions	**12,629**	2,124	**17,963**	6,757
Insurance premium refund	**—**	—	**6,813**	7,051
Other noninterest income	**1,669**	1,384	**7,650**	5,654
Total noninterest income	**13,975**	4,438	**23,381**	34,561
Noninterest Expenses				
Salaries and employee benefits	**81,908**	76,407	**245,223**	230,612
Occupancy and equipment	**7,028**	11,940	**20,390**	34,607
Insurance Fund premiums	**7,914**	6,080	**19,118**	17,754
Other operating expenses	**42,301**	37,595	**122,766**	109,163
Losses (gains) from other property owned	**230**	583	**1,663**	757
Total noninterest expenses	**139,381**	132,605	**409,160**	392,893
Income before income taxes	**200,411**	134,510	**505,440**	414,064
Provision for income taxes	**127**	95	**700**	431
Net income	**$ 200,284**	$ 134,415	**$ 504,740**	$ 413,633
Other comprehensive income net of tax:				
Unrealized gains (losses) on investments	**2,358**	19,980	**152,345**	135,243
Change in value of cash flow hedges	**(79)**	(116)	**(215)**	(267)
Employee benefit plans adjustments	**9,048**	7,410	**27,143**	22,232
Other comprehensive income	**11,327**	27,274	**179,273**	157,208
Comprehensive income	**$ 211,611**	$ 161,689	**$ 684,013**	$ 570,841

DISTRICT ASSOCIATIONS

As of September 30, 2020

Associations		Direct Notes	% of Direct Note Total			Total Assets		Total Allowance and Capital	Total Regulatory Capital Ratio		Nonperforming Loans as a % of Total Loans		ROA	
(dollars in thousands)														
AgCarolina	$	930,549	4.95	%	$	1,238,982	$	313,230	21.12	%	2.77	%	1.75	%
AgChoice		1,842,937	9.79			2,313,113		470,443	17.85		0.43		2.09	
AgCredit		1,774,933	9.43			2,176,599		394,715	20.51		0.90		2.33	
AgGeorgia		732,279	3.89			997,891		254,834	24.19		3.87		2.17	
AgSouth		1,536,825	8.17			1,974,492		433,644	21.63		1.12		2.43	
ArborOne		454,179	2.41			556,505		108,391	18.27		4.16		1.69	
Cape Fear		809,459	4.30			1,046,049		241,453	21.20		1.78		2.11	
Carolina		1,336,163	7.10			1,716,129		354,451	20.87		1.02		2.08	
Central Florida		503,465	2.68			636,027		123,644	18.96		1.87		1.74	
Central Kentucky		500,250	2.66			607,316		107,477	18.32		1.01		1.71	
Colonial		519,611	2.76			725,510		201,750	25.54		0.26		2.03	
First South		2,014,557	10.71			2,533,358		491,287	17.63		0.20		1.59	
Florida		1,012,632	5.38			1,327,158		305,992	19.44		0.76		1.73	
MidAtlantic		2,214,017	11.77			2,934,622		707,264	21.85		3.11		1.68	
Northwest Florida		206,018	1.09			297,077		91,515	29.19		0.99		1.68	
Puerto Rico		101,066	0.54			158,751		57,745	37.37		6.51		1.11	
River Valley		459,292	2.44			572,600		107,352	18.94		1.97		1.39	
Southwest Georgia		486,200	2.58			588,675		102,098	15.86		0.90		1.90	
Virginias		1,381,847	7.34			1,862,759		482,426	24.03		2.31		1.76	

AgFirst Farm Credit Bank

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1901 Main Street
Columbia, SC 29201
800-845-1745
www.agfirst.com

AgFirst District Associations

AgCarolina Farm Credit, ACA
4000 Poole Road
Raleigh, NC 27610
919-250-9500
http://www.agcarolina.com

AgChoice Farm Credit, ACA
300 Winding Creek Blvd.
Mechanicsburg, PA 17050
717-796-9372
http://www.agchoice.com

AgCredit Agricultural Credit Association
610 W. Lytle Street
Fostoria, OH 44830-3422
419-435-7758
http://www.agcredit.net

AgGeorgia Farm Credit, ACA
468 Perry Parkway
Perry, GA 31069
478-987-8300
http://www.aggeorgia.com

AgSouth Farm Credit, ACA
26 South Main Street
Statesboro, GA 30458
912-764-9091
http://www.agsouthfc.com

ArborOne, ACA
800 Woody Jones Blvd.
Florence, SC 29501
843-662-1527
http://www.arborone.com

Cape Fear Farm Credit, ACA
333 East Russell Street
Fayetteville, NC 28302
910-323-9188
http://www.capefearfarmcredit.com

Carolina Farm Credit, ACA
146 Victory Lane
Statesville, NC 28625
704-873-0276
http://www.carolinafarmcredit.com

Central Kentucky Agricultural Credit Association
640 S. Broadway
Lexington, KY 40508
859-253-3249
http://www.agcreditonline.com

Colonial Farm Credit, ACA
7104 Mechanicsville Turnpike
Mechanicsville, VA 23111
804-746-1252
http://www.colonialfarmcredit.com

Farm Credit of Central Florida, ACA
115 S. Missouri Ste. 400
Lakeland, FL 33815
863-682-4117
http://www.farmcreditcfl.com

Farm Credit of Florida, ACA
11903 Southern Boulevard Ste. 200
Royal Palm Beach, FL 33411
561-965-9001
http://farmcreditfl.com

Farm Credit of Northwest Florida, ACA
5052 Highway 90 East
Marianna, FL 32446
850-526-4910
http://farmcredit-fl.com

Farm Credit of the Virginias, ACA
106 Sangers Lane
Staunton, VA 24401
540-886-3435
http://www.farmcreditofvirginias.com

First South Farm Credit, ACA
574 Highland Colony Parkway, Ste. 100
Ridgeland, MS 39157
601-977-8396
http://www.firstsouthfarmcredit.com

MidAtlantic Farm Credit, ACA
45 Aileron Court
Westminster, MD 21157
410-848-1033
http://www.mafc.com

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213 Domenech Ave.
Hato Rey, PR 00918
787-753-0579
http://www.prfarmcredit.com

River Valley AgCredit, ACA
408 East Broadway
Mayfield, KY 42066
270-247-5613
http://www.rivervalleyagcredit.com

Southwest Georgia Farm Credit, ACA
305 Colquitt Highway
Bainbridge, GA 39817
229-246-0384
http://www.swgafarmcredit.com