Northwest
FARM CREDIT SERVICES

2020 Quarterly Report

March 31, 2020

Here to Help You Grow®

Quarterly Report
March 31, 2020
Northwest Farm Credit Services, ACA

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

The following commentary is a review of the consolidated financial condition and results of operations of Northwest Farm Credit Services, an Agricultural Credit Association (ACA) and subsidiaries (Northwest FCS) for the three months ended March 31, 2020. These comments should be read in conjunction with the unaudited consolidated financial statements and related notes included in this report, as well as the 2019 Annual Report to Stockholders. Dollar amounts are in thousands unless otherwise noted.

Northwest FCS quarterly and annual reports to stockholders may be obtained free of charge on Northwest FCS' website, www.northwestfcs.com, or upon request at Northwest Farm Credit Services, ACA, P.O. Box 2515, Spokane, Washington 99220-2515, by telephone at (509) 340-5300, or toll free at (800) 743-2125. Additionally, the financial condition and results of operations of CoBank, ACB (CoBank), may materially affect the risk associated with stockholder investments in Northwest FCS. Stockholders of Northwest FCS may obtain copies of CoBank's financial statements free of charge by accessing CoBank's website, www.cobank.com, or upon request at Northwest FCS.

The Consolidated Financial Statements were prepared under the oversight of the Audit Committee.

Forward-Looking Statements

Certain statements contained in this report that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Actual results may differ materially from those included in the forward-looking statements that relate to plans, projections, expectations and intentions. Forward-looking statements are typically identified by words such as "believe," "expect," "anticipate," "intend," "estimate," "plan," "project," "may," "will," "should," "would," "could" or similar expressions. Although it is believed that information expressed or implied in such forward-looking statements is reasonable, no assurance can be given that such projections and expectations will be realized or the extent to which a particular plan, projection, or expectation may be realized. These forward-looking statements are based on current knowledge and are subject to various risks and uncertainties, including, but not limited to:

- Political (including trade policies), legal, regulatory, financial markets and economic conditions and developments in the United States and abroad;
- Global health pandemics;
- Economic fluctuations in the agricultural, rural infrastructure and farm-related business sectors;
- Weather-related, disease and other adverse climatic or biological conditions that impact agricultural productivity and income;
- Changes in U.S. government support of the agricultural industry and the Farm Credit System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government, other government-sponsored enterprises and other financial institutions;
- Actions taken by the Federal Reserve System in implementing monetary policy;
- Actions taken by the U.S. government to manage U.S. fiscal policy, including tax reform;
- Credit, interest rate and liquidity risk inherent in lending activities;
- Transition from LIBOR to an alternative index or indexes;
- Changes in assumptions for determining the allowance for credit losses and fair value measurements;
- Cybersecurity risks, including a failure or breach of operational or security systems or infrastructure, that could adversely affect business, financial performance and reputation;
- Nonperformance by counterparties to derivative positions;
- The resolution of legal proceedings and related matters; and
- Industry outlooks for agricultural conditions and land values.

Results of Operations

Net income for the three months ended March 31, 2020, was $75,119 compared to $66,078 for the same period of the prior year, primarily due to a decrease in interest expense and an increase in noninterest income, partially offset by an increase in the provision for credit losses.

Net interest income was $92,155 for the three months ended March 31, 2020, compared to $81,653 for the same period of the prior year. Influences on net interest income from changes in effective rates on, and volume of, interest earning assets and interest bearing liabilities are presented in the following table:

Change between the three months ended March 31, 2020 and 2019	*Change in income/expense*	*Change in rate*	*Change in volume*
Interest income on total loans	$ 1,720	$ (7,447)	$ 9,167
Interest income on investment securities	145	-	145
Total interest income	**$ 1,865**	**$ (7,447)**	**$ 9,312**
Total interest expense	8,637	13,445	(4,808)
Net interest income	**$ 10,502**	**$ 5,998**	**$ 4,504**

Information regarding the average daily balances and average rates earned and paid are presented in the following table:

For the three months ended March 31,	*2020*	*2019*
Net interest income	$ 92,155	$ 81,653
Average balances:		
Total loans	$ 12,032,877	$ 11,318,382
Investment securities	84,793	-
Average interest earning assets	**$ 12,117,670**	**$ 11,318,382**
Average interest bearing liabilities	**$ 9,835,040**	**$ 9,136,869**
Net interest margin	3.06%	2.93%

During the three months ended March 31, 2020 and 2019, there was a provision for credit losses of $7,936 and $3,455, respectively. Refer to the Consolidated Balance Sheets section for an additional discussion on credit quality.

Noninterest income for the three months ended March 31, 2020, was $31,597 compared to $27,835 for the same period for the prior year, an increase of $3,762 or 13.5 percent, primarily due to an increase in patronage income and loan and other fees. Tax rate estimates are based on the income from the taxable lending portfolio and include the effect of anticipated patronage distributions.

Outlook

Due to the rapidly changing business environment, unprecedented market volatility and other circumstances resulting from the COVID-19 pandemic, Northwest FCS is currently unable to fully determine the extent of COVID-19's impact on its business and borrowers in future periods; however, continues to monitor the rapidly evolving situation and the potential impacts.

For additional information on the industries served by Northwest FCS, visit Industry Insights in the Resources section of www.northwestfcs.com.

Financial Condition

Investment Securities

Northwest FCS holds investment securities primarily to maintain a liquidity reserve and to manage short-term surplus funds. In accordance with Board-approved policies, Northwest FCS purchases high credit quality investment securities with the goal of ensuring that the investment portfolio is readily marketable and available to serve as a source of liquidity in the event of disruption to Northwest FCS' normal funding sources. See Note 2 for additional information.

Loan Portfolio

Loans and accrued interest by type are presented in the following table:

	March 31, 2020	December 31, 2019	Change
Production agriculture:			
Real estate mortgage	$ 5,807,281	$ 5,737,000	$ 70,281
Production and intermediate-term	3,191,071	3,266,103	(75,032)
Agribusiness:			
Processing and marketing	1,532,063	1,492,281	39,782
Loans to cooperatives	494,899	465,278	29,621
Farm related business	254,469	246,477	7,992
Rural residential real estate	505,278	527,413	(22,135)
Rural infrastructure:			
Energy	271,782	229,238	42,544
Communications	108,685	58,409	50,276
Water and waste disposal	73,904	64,705	9,199
Other:			
Leases	68,186	70,186	(2,000)
Other	11,108	11,491	(383)
Total	**$ 12,318,726**	**$ 12,168,581**	**$ 150,145**

The loan portfolio is comprised of a wide array of commodities, which are summarized by concentration in the following table:

	March 31, 2020	December 31, 2019
Fruit and tree nuts	10.9%	11.1%
Forest products	10.9%	10.4%
Dairy	10.8%	11.4%
Cattle and livestock	9.1%	9.3%
Potatoes	6.9%	6.8%
Agricultural services	6.5%	6.1%
Ag processing	6.4%	6.3%
Grains	5.8%	6.3%
Other concentrations in aggregate	32.7%	32.3%
Total	**100.0%**	**100.0%**

Impaired loan volume is comprised of nonaccrual loans, restructured loans, and accrual loans 90 days or more past due. Nonperforming assets consist of impaired loans and other property owned. Comparative information regarding nonperforming assets in the portfolio, including accrued interest where appropriate, are presented in the following table:

	March 31, 2020	December 31, 2019
Nonperforming assets:		
Nonaccrual loans	$ 62,098	$ 65,124
Restructured accrual loans	10,971	11,012
Accrual loans 90 days or more past due	5,472	3,036
Total impaired loans and interest	**$ 78,541**	**$ 79,172**
Other property owned, net	-	-
Total nonperforming assets	**$ 78,541**	**$ 79,172**
Nonaccrual loans to total loans and accrued interest	0.5%	0.5%
Impaired loans to total loans and accrued interest	0.6%	0.7%
Nonperforming assets to total loans and accrued interest	0.6%	0.7%

Nonperforming assets at March 31, 2020, decreased by $631 compared to December 31, 2019. Nonaccrual loans decreased by $3,026 from December 31, 2019, and consists primarily of Dairy, Ag Processing, and Potato categories. Accrual loans 90 days or more past due increased by $2,436 from December 31, 2019, and were adequately secured and in the process of collection. Accruing restructured loan volume decreased by $41 compared to December 31, 2019.

The allowance for credit losses at March 31, 2020, was $100,000 compared to $92,000 at December 31, 2019, primarily due to a qualitative adjustment related to the coronavirus pandemic (COVID-19). For the three months ended March 31, 2020, there were net recoveries of $64 compared to $45 for the same period of the prior year.

At March 31, 2020, patronage receivable decreased by $47,075 compared to December 31, 2019, from the receipt of patronage, partially offset by amounts recorded related to the estimate of patronage receivable for 2020.

At March 31, 2020, patronage payable decreased by $107,434 compared to December 31, 2019, from the disbursement of patronage, partially offset by accruals recorded related to the estimate of patronage payable for 2020.

Liquidity and Funding Source

Northwest FCS' primary source of liquidity and funding is CoBank. The funding arrangement is governed by a general financing agreement. Northwest FCS is currently in compliance with this agreement, including repayment pursuant to the individual terms and conditions of each debt obligation to CoBank. In response to the current environment surrounding COVID-19, for additional liquidity capacity Northwest FCS purchased $300,000 in investments in March of 2020 and subsequent to the first quarter, purchased an additional $200,000 in investments. Management does not foresee significant concerns with obtaining funding or maintaining liquidity.

Capital Regulations

Farm Credit Administration (FCA) regulations require Northwest FCS to maintain minimums for common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires Northwest FCS to maintain minimums for non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents (UREE) leverage. At March 31, 2020, and December 31, 2019, the capital and leverage ratios exceeded regulatory minimums, as shown in the following table. See Note 9 of the 2019 Annual Report to Stockholders for a more complete description of these ratios.

	March 31, 2020	*December 31, 2019*	*Regulatory minimums*	*Capital conservation buffer*	*Total regulatory minimums with buffer*
Risk-adjusted:					
Common equity tier 1 ratio	17.4%	17.9%	4.5%	2.5%	7.0%
Tier 1 capital ratio	17.4%	17.9%	6.0%	2.5%	8.5%
Total capital ratio	18.1%	18.6%	8.0%	2.5%	10.5%
Permanent capital ratio	17.5%	18.0%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	18.7%	19.4%	4.0%	1.0%	5.0%
UREE leverage ratio	20.0%	20.5%	1.5%	N/A	1.5%

Certification

The undersigned certify that they have reviewed this report and it has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate and complete to the best of their knowledge and belief. There were no material changes in the internal control over financial reporting during the three months ended March 31, 2020.

Phil DiPofi
President and CEO
May 8, 2020

Tom Nakano
EVP-Chief Administrative and Financial Officer
May 8, 2020

Greg Hirai
Chair of the Board
May 8, 2020

NORTHWEST FARM CREDIT SERVICES, ACA

Consolidated Balance Sheets

(dollars in thousands) (unaudited)

	March 31, 2020	December 31, 2019
ASSETS		
Cash	$ 3,318	$ 57,432
Investment securities	330,637	15,322
Loans	12,222,649	12,057,655
Less: allowance for loan losses	78,500	72,500
Net loans	12,144,149	11,985,155
Accrued interest receivable	98,117	111,332
Investment in CoBank, ACB	406,071	403,572
Patronage receivable	20,685	67,760
Investment in other Farm Credit Institutions	50,862	49,997
Premises and equipment, net	39,633	38,068
Other assets	46,224	45,209
Total assets	$ 13,139,696	$ 12,773,847
LIABILITIES		
Note payable to CoBank, ACB	$ 10,019,717	$ 9,639,982
Advance conditional payments and other interest bearing liabilities	270,759	194,678
Accrued interest payable	34,691	36,654
Patronage payable	37,596	145,030
Other liabilities	75,267	83,152
Total liabilities	10,438,030	10,099,496
MEMBERS' EQUITY		
Capital stock and participation certificates	12,910	12,830
Less: capital stock and participation certificates receivable (Note 4)	(12,910)	-
Accumulated other comprehensive loss, net of tax	(30,172)	(32,786)
Unallocated retained earnings	2,731,838	2,694,307
Total members' equity	2,701,666	2,674,351
Total liabilities and members' equity	$ 13,139,696	$ 12,773,847

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

NORTHWEST FARM CREDIT SERVICES, ACA

Consolidated Statements of Income

(dollars in thousands) (unaudited)

	For the three months ended March 31,	
	2020	2019
NET INTEREST INCOME		
Interest income	$ 145,922	$ 144,057
Interest expense	53,767	62,404
Net interest income	92,155	81,653
Provision for credit losses	7,936	3,455
Net interest income after provision for credit losses	84,219	78,198
NONINTEREST INCOME		
Patronage income	17,675	16,147
Financially related services	5,124	4,484
Loan and other fees	3,323	2,366
Other noninterest income	5,475	4,838
Total noninterest income	31,597	27,835
NONINTEREST EXPENSE		
Salaries and employee benefits	22,726	22,761
Purchased services	6,878	6,336
Occupancy and equipment expense	2,482	2,732
Insurance fund premium	1,817	1,897
Other noninterest expenses	6,743	5,957
Total noninterest expense	40,646	39,683
Income before income taxes	75,170	66,350
Provision for income taxes	51	272
Net income	$ 75,119	$ 66,078

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

NORTHWEST FARM CREDIT SERVICES, ACA

Consolidated Statements of Comprehensive Income

(dollars in thousands) (unaudited)

For the three months ended March 31,		***2020***		***2019***
Net income	$	75,119	$	66,078
Amortization of costs included in net periodic pension cost, net of deferred income tax		488		473
Net change in unrealized gain on investment securities		2,126		-
Other comprehensive income, net of tax		2,614		473
Comprehensive income	$	77,733	$	66,551

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

NORTHWEST FARM CREDIT SERVICES, ACA

Consolidated Statements of Changes in Members' Equity

(dollars in thousands) (unaudited)

For the three months ended March 31,		***2020***		***2019***
Balance at beginning of period	$	2,674,351	$	2,529,313
Comprehensive income		77,733		66,551
Issuance of stock in exchange for customer stock receivable		406		343
Release of customer stock receivable associated with retired stock		(326)		(383)
Less: capital stock and participation certificates receivable (Note 4)		(12,910)		-
Patronage		(37,588)		(34,030)
Balance at end of period	$	2,701,666	$	2,561,794

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

NOTE 1 – Organization and Significant Accounting Policies

Organization

A description of the organization and operations of Northwest FCS, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2019, are contained in the 2019 Annual Report to Stockholders. These unaudited results for the three months ended March 31, 2020, should be read in conjunction with the 2019 Annual Report to Stockholders.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2019, as contained in the 2019 Annual Report to Stockholders.

In the opinion of management, the unaudited financial information is complete and reflects all adjustments, consisting of normal recurring adjustments, necessary for the fair statement of results for the interim period. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The Consolidated Income Statements for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2020. Descriptions of the significant accounting policies are included in the 2019 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

Recently Issued or Adopted Accounting Pronouncements

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, signed into law on March 27, 2020, includes optional temporary accounting relief for troubled debt restructurings (TDRs). CARES states that a financial institution does not need to treat certain COVID-19 related loan modifications as TDRs under GAAP. To qualify, the loan must not have been more than 30 days past due as of December 31, 2019. The temporary accounting relief applies from March 1, 2020 to the earlier of 60 days after the national emergency terminates or December 31, 2020. Northwest FCS has elected to apply this optional temporary accounting relief.

In March 2020, the Financial Accounting Standards Board (FASB) issued guidance, Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The guidance provides optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contract terms related to the replacement of the reference rate. With respect to hedge accounting, the update allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective for all entities as of March 12, 2020, through December 31, 2022. Northwest FCS is currently reviewing the guidance to determine the impact on its consolidated financial condition and results of operations.

In August 2018, the FASB issued guidance, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost. The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. Northwest FCS adopted this guidance on a prospective basis on January 1, 2020. The adoption of this guidance did not have a material impact on Northwest FCS' financial condition, results of operations, or financial statement disclosures.

In August 2018, the FASB issued guidance, Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans. The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact Northwest FCS' financial condition or its results of operations but will impact the annual employee benefit plan disclosures.

In June 2016, the FASB issued guidance, Measurement of Credit Losses on Financial Instruments. The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. As a result of the change, the new credit loss standard becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. Northwest FCS continues to evaluate the impact this guidance will have on its financial statements upon adoption, which will be partially dependent on the composition of its portfolio and asset quality at the adoption date, as well as economic conditions and forecasts at the time of adoption. Implementation efforts are underway and include the development and testing of Northwest FCS' system, data requirements, guidance interpretation and related accounting policy decisions and consideration of relevant internal processes and controls.

NOTE 2 – Investment Securities

A summary of the amortized cost and fair value of investment securities available-for sale is as follows:

March 31, 2020	*Amortized cost*	*Gross unrealized gains*	*Gross unrealized losses*	*Fair value*
U.S. Treasury debt securities	$ 328,471	$ 2,166	$ -	$ 330,637
Total	**$ 328,471**	**$ 2,166**	**$ -**	**$ 330,637**

December 31, 2019	*Amortized cost*	*Gross unrealized gains*	*Gross unrealized losses*	*Fair value*
U.S. Treasury debt securities	$ 15,282	$ 40	$ -	$ 15,322
Total	**$ 15,282**	**$ 40**	**$ -**	**$ 15,322**

The following table is a summary of the contractual maturity, fair value, amortized cost and weighted average yield of investments available-for-sale at March 31, 2020:

	Contractual Maturity		
March 31, 2020	*In one year or less*	*One to five years*	*Total*
U.S. Treasury debt securities			
Amortized cost	$ 303,181	$ 25,290	**$ 328,471**
Fair value	$ 304,118	$ 26,519	**$ 330,637**
Weighted average yield	0.45%	1.58%	**0.53%**

NOTE 3 – Loans and Allowance for Credit Losses

A summary of loans follows:

	March 31, 2020	*December 31, 2019*
Real estate mortgage	$ 5,746,206	$ 5,659,839
Production and intermediate-term	3,167,728	3,243,531
Agribusiness	2,272,339	2,195,455
Rural residential real estate	503,731	525,790
Rural infrastructure	453,716	351,661
Other	78,929	81,379
Total loans	**$ 12,222,649**	**$ 12,057,655**

Northwest FCS may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. The following tables present information regarding participations purchased and sold. Participations purchased volume in the tables exclude syndications and purchases of other interests in loans:

	Farm Credit institutions		*Non- Farm Credit institutions*		*Total*	
March 31, 2020	*Participations purchased*	*Participations sold*	*Participations purchased*	*Participations sold*	*Participations purchased*	*Participations sold*
Real estate mortgage	$ 531,799	$ 633,735	$ 12	$ -	$ 531,811	$ 633,735
Production and intermediate-term	593,164	3,582,553	401	-	593,565	3,582,553
Agribusiness	1,044,069	808,545	3,000	12,076	1,047,069	820,621
Rural infrastructure	453,716	-	-	-	453,716	-
Other	67,859	-	-	-	67,859	-
Total	**$ 2,690,607**	**$ 5,024,833**	**$ 3,413**	**$ 12,076**	**$ 2,694,020**	**$ 5,036,909**

	Farm Credit institutions		*Non- Farm Credit institutions*		*Total*	
December 31, 2019	*Participations purchased*	*Participations sold*	*Participations purchased*	*Participations sold*	*Participations purchased*	*Participations sold*
Real estate mortgage	$ 498,613	$ 608,998	$ 29	$ 3	$ 498,642	$ 609,001
Production and intermediate-term	607,058	3,144,724	506	-	607,564	3,144,724
Agribusiness	989,627	777,729	3,000	10,481	992,627	788,210
Rural infrastructure	351,661	-	-	-	351,661	-
Other	69,935	-	-	-	69,935	-
Total	**$ 2,516,894**	**$ 4,531,451**	**$ 3,535**	**$ 10,484**	**$ 2,520,429**	**$ 4,541,935**

Nonperforming assets consist of impaired loans and other property owned. The nonperforming assets, including related accrued interest where applicable, are as follows:

		March 31, 2020		*December 31, 2019*
Nonaccrual loans:				
Real estate mortgage	$	25,361	$	25,303
Production and intermediate-term		21,794		23,124
Agribusiness		8,845		11,030
Rural residential real estate		2,562		2,094
Other		3,536		3,573
Total nonaccrual loans	**$**	**62,098**	**$**	**65,124**
Accruing restructured loans:				
Real estate mortgage	$	1,466	$	1,575
Production and intermediate-term		8,330		8,247
Rural residential real estate		1,175		1,190
Total accruing restructured loans	**$**	**10,971**	**$**	**11,012**
Accruing loans 90 days or more past due:				
Real estate mortgage	$	1,402	$	-
Production and intermediate-term		3,944		3,036
Rural residential real estate		126		-
Total accruing loans 90 days or more past due	**$**	**5,472**	**$**	**3,036**
Total impaired loans	**$**	**78,541**	**$**	**79,172**
Other property owned, net		-		-
Total nonperforming assets	**$**	**78,541**	**$**	**79,172**

One credit quality indicator utilized by Northwest FCS is the FCA Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality.
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness.
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan.
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable.
- Loss – assets are considered uncollectible.

The following tables show loans and related accrued interest classified under the FCA Uniform Loan Classification System as a percentage of total loans and related accrued interest by loan type:

March 31, 2020	*Acceptable*	*OAEM*	*Substandard/ doubtful*	*Total*
Real estate mortgage	94.3%	2.8%	2.9%	100.0%
Production and intermediate-term	92.1%	2.9%	5.0%	100.0%
Agribusiness	96.1%	2.4%	1.5%	100.0%
Rural residential real estate	96.3%	1.1%	2.6%	100.0%
Rural infrastructure	96.6%	0.0%	3.4%	100.0%
Other	92.4%	1.9%	5.7%	100.0%
Total	**94.2%**	**2.6%**	**3.2%**	**100.0%**

December 31, 2019	Acceptable	OAEM	Substandard/ doubtful	Total
Real estate mortgage	93.9%	3.1%	3.0%	100.0%
Production and intermediate-term	91.4%	3.1%	5.5%	100.0%
Agribusiness	96.2%	2.3%	1.5%	100.0%
Rural residential real estate	96.4%	1.1%	2.5%	100.0%
Rural infrastructure	95.4%	0.0%	4.6%	100.0%
Other	92.3%	1.9%	5.8%	100.0%
Total	**93.8%**	**2.8%**	**3.4%**	**100.0%**

The following tables provide an aging analysis of past due loans and accrued interest:

March 31, 2020	Current loans	30-89 days past due	90+days past due	Total past due	Total	Recorded investment 90+days and accruing interest
Real estate mortgage	$ 5,787,881	$ 14,118	$ 5,282	$ 19,400	$ 5,807,281	$ 1,402
Production and intermediate-term	3,158,856	23,634	8,581	32,215	3,191,071	3,944
Agribusiness	2,278,393	1,750	1,288	3,038	2,281,431	-
Rural residential real estate	500,878	3,882	518	4,400	505,278	126
Rural infrastructure	454,371	-	-	-	454,371	-
Other	76,557	2,737	-	2,737	79,294	-
Total	**$ 12,256,936**	**$ 46,121**	**$ 15,669**	**$ 61,790**	**$ 12,318,726**	**$ 5,472**

Note: The recorded investment in the 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.

December 31, 2019	Current loans	30-89 days past due	90+days past due	Total past due	Total	Recorded investment 90+days and accruing interest
Real estate mortgage	$ 5,722,312	$ 11,368	$ 3,320	$ 14,688	$ 5,737,000	$ -
Production and intermediate-term	3,226,051	32,211	7,841	40,052	3,266,103	3,036
Agribusiness	2,203,173	55	808	863	2,204,036	-
Rural residential real estate	524,095	3,004	314	3,318	527,413	-
Rural infrastructure	352,352	-	-	-	352,352	-
Other	78,723	2,954	-	2,954	81,677	-
Total	**$ 12,106,706**	**$ 49,592**	**$ 12,283**	**$ 61,875**	**$ 12,168,581**	**$ 3,036**

Note: The recorded investment in the 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.

Additional impaired loan information, including related accrued interest where applicable, is as follows:

March 31, 2020	*Recorded investment*	*Unpaid principal balance **	*Related allowance*	*Average impaired loans*	*Interest income recognized on impaired loans*
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ -	$ -	$ -	$ -	$ -
Production and intermediate-term	787	786	782	884	-
Agribusiness	5,721	6,579	1,521	5,933	-
Rural residential real estate	-	-	-	-	-
Other	-	-	-	-	-
Total impaired loans with a related allowance	**$ 6,508**	**$ 7,365**	**$ 2,303**	**$ 6,817**	**$ -**
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 28,229	$ 29,024	$ -	$ 28,748	$ 514
Production and intermediate-term	33,281	37,178	-	32,983	2,360
Agribusiness	3,124	3,145	-	3,502	6
Rural residential real estate	3,863	4,029	-	3,549	66
Other	3,536	3,542	-	3,495	6
Total impaired loans with no related allowance	**$ 72,033**	**$ 76,918**	**$ -**	**$ 72,277**	**$ 2,952**
Total impaired loans:					
Real estate mortgage	$ 28,229	$ 29,024	$ -	$ 28,748	$ 514
Production and intermediate-term	34,068	37,964	782	33,867	2,360
Agribusiness	8,845	9,724	1,521	9,435	6
Rural residential real estate	3,863	4,029	-	3,549	66
Other	3,536	3,542	-	3,495	6
Total impaired loans	**$ 78,541**	**$ 84,283**	**$ 2,303**	**$ 79,094**	**$ 2,952**

**Unpaid principal balance represents the recorded principal balance of the loan.*

December 31, 2019	*Recorded investment*	*Unpaid principal balance **	*Related allowance*	*Average impaired loans*	*Interest income recognized on impaired loans*
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ -	$ -	$ -	$ -	$ -
Production and intermediate-term	889	853	782	4,042	-
Agribusiness	6,843	7,440	1,460	7,246	-
Rural residential real estate	-	-	-	262	-
Other	-	-	-	-	-
Total impaired loans with a related allowance	**$ 7,732**	**$ 8,293**	**$ 2,242**	**$ 11,550**	**$ -**
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 26,878	$ 27,939	$ -	$ 30,533	$ 1,340
Production and intermediate-term	33,518	37,531	-	27,911	1,164
Agribusiness	4,187	6,078	-	13,258	26
Rural residential real estate	3,284	3,437	-	4,401	328
Other	3,573	3,584	-	3,679	241
Total impaired loans with no related allowance	**$ 71,440**	**$ 78,569**	**$ -**	**$ 79,782**	**$ 3,099**
Total impaired loans:					
Real estate mortgage	$ 26,878	$ 27,939	$ -	$ 30,533	$ 1,340
Production and intermediate-term	34,407	38,384	782	31,953	1,164
Agribusiness	11,030	13,518	1,460	20,504	26
Rural residential real estate	3,284	3,437	-	4,663	328
Other	3,573	3,584	-	3,679	241
Total impaired loans	**$ 79,172**	**$ 86,862**	**$ 2,242**	**$ 91,332**	**$ 3,099**

**Unpaid principal balance represents the recorded principal balance of the loan.*

A summary of changes in the allowance for loan losses is as follows:

	Real estate mortgage	*Production and intermediate-term*	*Agribusiness*	*Rural residential real estate*	*Rural infrastructure*	*Other*	*Total*
Allowance for loan losses:							
Balance at December 31, 2019	$ 18,832	$ 29,024	$ 18,402	$ 2,097	$ 2,587	$ 1,558	$ 72,500
Charge-offs	(5)	(23)	-	(1)	-	-	(29)
Recoveries	13	78	-	2	-	-	93
Provision for loan losses (loan loss reversal)	2,792	1,116	1,384	49	640	(45)	5,936
Balance at March 31, 2020	**$ 21,632**	**$ 30,195**	**$ 19,786**	**$ 2,147**	**$ 3,227**	**$ 1,513**	**$ 78,500**
Ending balance: Allowance individually evaluated for impairment	$ -	$ 782	$ 1,521	$ -	$ -	$ -	$ 2,303
Ending balance: Allowance collectively evaluated for impairment	21,632	29,413	18,265	2,147	3,227	1,513	76,197
Balance at March 31, 2020	**$ 21,632**	**$ 30,195**	**$ 19,786**	**$ 2,147**	**$ 3,227**	**$ 1,513**	**$ 78,500**

	Real estate mortgage	*Production and intermediate-term*	*Agribusiness*	*Rural residential real estate*	*Rural infrastructure*	*Other*	*Total*
Allowance for loan losses:							
Balance at December 31, 2018	$ 20,955	$ 30,871	$ 20,715	$ 2,693	$ 1,751	$ 1,015	$ 78,000
Charge-offs	-	(2)	(9)	-	-	-	(11)
Recoveries	9	31	-	16	-	-	56
Provision for loan losses (loan loss reversal)	(900)	(1,232)	1,446	(2)	1,146	(3)	455
Balance at March 31, 2019	**$ 20,064**	**$ 29,668**	**$ 22,152**	**$ 2,707**	**$ 2,897**	**$ 1,012**	**$ 78,500**
Ending balance: Allowance individually evaluated for impairment	$ -	$ 230	$ 3,222	$ 12	$ -	$ -	$ 3,464
Ending balance: Allowance collectively evaluated for impairment	20,064	29,438	18,930	2,695	2,897	1,012	75,036
Balance at March 31, 2019	**$ 20,064**	**$ 29,668**	**$ 22,152**	**$ 2,707**	**$ 2,897**	**$ 1,012**	**$ 78,500**

The recorded investment in loans, including accrued interest, is as follows:

	Real estate mortgage	*Production and intermediate-term*	*Agribusiness*	*Rural residential real estate*	*Rural infrastructure*	*Other*	*Total*
Recorded investment in loans outstanding:							
Ending balance: Loans individually evaluated for impairment	$ 26,827	$ 30,124	$ 8,845	$ 3,737	$ -	$ 3,536	$ 73,069
Ending balance: Loans collectively evaluated for impairment	5,780,454	3,160,947	2,272,586	501,541	454,371	75,758	12,245,657
Balance at March 31, 2020	**$ 5,807,281**	**$ 3,191,071**	**$2,281,431**	**$ 505,278**	**$ 454,371**	**$ 79,294**	**$ 12,318,726**
Recorded investment in loans outstanding:							
Ending balance: Loans individually evaluated for impairment	$ 26,878	$ 31,371	$ 11,030	$ 3,284	$ -	$ 3,573	$ 76,136
Ending balance: Loans collectively evaluated for impairment	5,710,122	3,234,732	2,193,006	524,129	352,352	78,104	12,092,445
Balance at December 31, 2019	**$ 5,737,000**	**$ 3,266,103**	**$2,204,036**	**$ 527,413**	**$ 352,352**	**$ 81,677**	**$ 12,168,581**

Northwest FCS maintains a contingency reserve for unfunded lending commitments, which reflects its best estimate of losses inherent in lending commitments made to customers but not yet disbursed. The reserve for unfunded lending commitments is a component of the allowance for credit losses and is included in other liabilities on the Consolidated Balance Sheets. The provision or reversal for unfunded lending commitments is included within the provision for credit losses or credit loss reversal on the Consolidated Statements of Income. A summary of changes in the reserve for unfunded lending commitments is as follows:

Three months ended March 31,		*2020*		*2019*
Balance at December 31,	$	19,500	$	17,000
Provision for unfunded lending commitments		2,000		3,000
Balance at March 31,	**$**	**21,500**	**$**	**20,000**

The following table presents information regarding TDRs, including accrued interest:

Three months ended March 31,	*2020*		*2019*	
	Pre-modification outstanding recorded investment	*Post-modification outstanding recorded investment*	*Pre-modification outstanding recorded investment*	*Post-modification outstanding recorded investment*
Troubled debt restructurings:				
Production and intermediate-term	$ 218	$ 218	$ -	$ -
Total	**$ 218**	**$ 218**	**$ -**	**$ -**

Note: Pre-modification represents the recorded investment prior to restructuring and post-modification represents the recorded investment immediately following the restructuring. The recorded investment is the face amount of the receivable 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 presents information regarding TDRs that occurred within the previous 12 months and for which there was a subsequent payment default during the period:

	March 31, 2020	*March 31, 2019*
Troubled debt restructurings that subsequently defaulted:		
Production and intermediate-term	$ 335	$ -
Total	**$ 335**	**$ -**

The following tables provide information on outstanding TDRs, including accrued interest. These loans are included as impaired loans in the impaired loans tables.

March 31, 2020	*Loans modified as TDRs*	*TDRs in nonaccrual status*
Real estate mortgage	$ 14,389	$ 12,923
Production and intermediate-term	25,488	17,158
Agribusiness	5,890	5,890
Rural residential real estate	1,175	-
Total	**$ 46,942**	**$ 35,971**

December 31, 2019	*Loans modified as TDRs*	*TDRs in nonaccrual status*
Real estate mortgage	$ 14,473	$ 12,898
Production and intermediate-term	25,634	17,387
Agribusiness	6,619	6,619
Rural residential real estate	1,190	-
Total	**$ 47,916**	**$ 36,904**

NOTE 4 – Capital

Capital Stock and Participation Certificates

In accordance with the Farm Credit Act and Northwest FCS' capitalization bylaws, each borrower is required to acquire capital stock or participation certificates in Northwest FCS as a condition of borrowing. Borrowers acquire ownership of capital stock or participation certificates at the time the loan is made. Borrowers are not currently required to make a cash investment to acquire capital stock or participation certificates; however, their obligation to pay for the capital stock or participation certificates is maintained as an interest free obligation with Northwest FCS. The capital stock and participation certificates are at-risk investments as described in the Northwest FCS capitalization bylaws. Northwest FCS retains a first lien on common stock or participation certificates owned by its borrowers. Stock is retired in accordance with Northwest FCS bylaws and Northwest FCS financial performance. Borrowers are responsible for payment of the cash investment upon demand by Northwest FCS. Effective January 1, 2020, due to a change in the regulatory interpretation, capital stock and participation certificates receivable will be included within members' equity on the Consolidated Balance Sheets under a new contra account titled 'Less: capital stock and participation certificates receivable (Note 4)'. This change has no impact on the capital stock or participation certificates owned by Northwest FCS's borrowers, as borrowers retain all rights afforded to them by the Farm Credit Act.

Other Accumulated Comprehensive (Loss) Income

The following tables present the activity in the accumulated other comprehensive (loss) income, net of tax by component:

	Pension and other benefit plans, net of tax	*Unrealized gains on investment securities*	*Accumulated other comprehensive (loss) income, net of tax*
Balance at December 31, 2019	$ (32,826)	$ 40	$ (32,786)
Other comprehensive income before reclassifications	20	2,126	2,146
Amounts reclassified from accumulated other comprehensive loss	468	-	468
Net current period other comprehensive income	**$ 488**	**$ 2,126**	**$ 2,614**
Balance at March 31, 2020	**$ (32,338)**	**$ 2,166**	**$ (30,172)**

	Pension and other benefit plans, net of tax	*Unrealized gains on investment securities*	*Accumulated other comprehensive (loss) income, net of tax*
Balance at December 31, 2018	$ (31,297)	$ -	$ (31,297)
Other comprehensive income before reclassifications	5	-	5
Amounts reclassified from accumulated other comprehensive loss	468	-	468
Net current period other comprehensive income	**$ 473**	**$ -**	**$ 473**
Balance at March 31, 2019	**$ (30,824)**	**$ -**	**$ (30,824)**

The following table represents amounts reclassified from accumulated other comprehensive (loss) income, net of tax, to the Consolidated Statements of Income:

	Location of (losses) gains recognized in Consolidated Statements of Income	*Amount reclassified from accumulated other comprehensive (loss) income*	
For the three months ended March 31,		*2020*	*2019*
Pension and other benefit plans:			
Amortization of net actuarial loss	Salaries and employee benefits	$ (473)	$ (469)
Deferred tax	Provision for income taxes	5	1
Total reclassifications		**$ (468)**	**$ (468)**

NOTE 5– Fair Value Measurements

Accounting guidance defines fair value 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. See Note 2 of the 2019 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis for each of the fair value hierarchy values are summarized in the following tables:

		Fair value measurement using			
March 31, 2020	*Classification on the Consolidated Balance Sheets*	*Level 1*	*Level 2*	*Level 3*	*Total fair value*
Assets:					
Investment securities	Investment securities	$ -	$ 330,637	$ -	$ 330,637
Derivative assets	Other assets	-	18,095	-	18,095
RBICs	Other assets	-	-	1,920	1,920
Total assets		**$ -**	**$ 348,732**	**$ 1,920**	**$ 350,652**
Liabilities:					
Derivative liabilities	Other liabilities	$ -	$ -	$ -	$ -
Total liabilities		**$ -**	**$ -**	**$ -**	**$ -**

		Fair value measurement using			
December 31, 2019	*Classification on the Consolidated Balance Sheets*	*Level 1*	*Level 2*	*Level 3*	*Total fair value*
Assets:					
Investment securities	Investment securities	$ -	$ 15,322	$ -	$ 15,322
Derivative assets	Other assets	-	6,924	-	6,924
RBICs	Other assets	-	-	1,275	1,275
Total assets		**$ -**	**$ 22,246**	**$ 1,275**	**$ 23,521**
Liabilities:					
Derivative liabilities	Other liabilities	$ -	$ 22	$ -	$ 22
Total liabilities		**$ -**	**$ 22**	**$ -**	**$ 22**

Assets measured at fair value on a non-recurring basis for each of the fair value hierarchy values are summarized in the following table:

	Fair value measurement using			
	Level 1	*Level 2*	*Level 3*	*Total fair value*
Assets:				
Nonaccrual loans				
March 31, 2020	$ -	$ -	$ 5,119	$ 5,119
December 31, 2019	$ -	$ -	$ 10,717	$ 10,717

Valuation Techniques

As more fully discussed in Note 2 of the 2019 Annual Report to Stockholders, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represents a brief summary of the valuation techniques used for Northwest FCS' assets and liabilities.

Investment Securities

Investment securities are classified within Level 2 as they are determined by a third-party pricing service that uses valuation models to estimate current market prices. Inputs and assumptions related to these models are typically observable in the marketplace. Such models incorporate prepayment assumptions and underlying collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. These third-party valuation models also incorporate information regarding non-binding

broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. The estimated fair values of investment securities also appear in Note 2.

Derivative Assets and Liabilities

Exchange-traded derivatives valued using quoted prices would be classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the derivative positions are valued using internally developed models that use as their basis readily observable market parameters and are classified within Level 2 of the valuation hierarchy. Such derivatives include interest rate swaps and foreign currency forward contracts. The models used to determine the fair value of derivative assets and liabilities use an income approach based on observable market inputs, including the LIBOR curve and volatility assumptions about future interest rate movements.

Rural Business Investment Companies (RBICs)

The RBICs facilitate equity and debt investments in agriculture-related businesses that create growth and job opportunities in rural America. These investments are not publicly traded and book value approximates their fair value. As a result, RBICs are classified within fair value Level 3 hierarchy.

Nonaccrual Loans

For nonaccrual loans, it is assumed that collection will result from the disposition of the underlying collateral. Fair value of these loans is estimated to equal the aggregate net realizable value of the underlying collateral. When the net realizable value of collateral exceeds the legal obligation for a particular loan, the legal obligation was used for evaluating fair values of the respective loans. The carrying value of accrued interest receivable was assumed to approximate its fair value. As a result, nonaccrual loans are classified within the fair value Level 3 hierarchy.

NOTE 6 – Derivative Instruments and Hedging Activities

Risk Management Objectives and Strategies

Northwest FCS maintains an overall risk management strategy that incorporates the use of derivative financial instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets. As a result of interest rate fluctuations, fixed-rate assets and liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by gains and losses on the derivative instruments that are used to hedge these assets and liabilities. Interest rate fluctuations also cause interest income and interest expense of variable-rate assets and liabilities to increase or decrease. The effect of this variability in earnings is expected to be substantially offset by gains and losses on the derivative instruments that are used to hedge these assets and liabilities. Northwest FCS considers the strategic use of derivatives to be a prudent method of managing risk, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

By using derivative instruments, Northwest FCS exposes itself to credit risk and market risk. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes Northwest FCS, thus creating a repayment risk for Northwest FCS. When the fair value of the derivative contract is negative, Northwest FCS owes the counterparty and, therefore assumes no repayment risk. Northwest FCS' derivative activities are monitored by its asset/liability committee (ALCO) as part of its oversight of the asset/liability and treasury functions. The ALCO is responsible for approving hedging strategies that are developed within parameters established by the Northwest FCS' Board of Directors. The resulting hedging strategies are then incorporated into Northwest FCS' overall risk-management strategies.

Uses of Derivatives

To achieve risk management objectives and satisfy the financing needs of its borrowers, Northwest FCS executes derivative transactions with CoBank. Derivatives (interest rate swaps) are used to manage liquidity and the interest rate risk arising from maturity and repricing mismatches between assets and liabilities. Under interest rate swap arrangements, Northwest FCS agrees to exchange with CoBank, at specified intervals, interest payment streams calculated on a specified notional amount, with at least one interest payment stream based on a specified floating-rate index. Northwest FCS uses interest rate swaps where fixed-rate interest is received and floating-rate interest is paid with payment obligations tied to specific indices.

The notional amounts of derivatives and related activity of derivatives are shown in the following tables:

	Activity in the notional amounts of derivative financial instruments	
	Receive fixed swaps	*Total*
December 31, 2019	$ 615,000	$ 615,000
Additions	-	-
Maturities	-	-
Terminations	-	-
March 31, 2020	**$ 615,000**	**$ 615,000**

	Activity in the notional amounts of derivative financial instruments	
	Receive fixed swaps	*Total*
December 31, 2018	$ 556,000	$ 556,000
Additions	44,000	44,000
Maturities	-	-
Terminations	-	-
March 31, 2019	**$ 600,000**	**$ 600,000**

Accounting for Derivative Instruments and Hedging Activities

Northwest FCS records derivatives as assets or liabilities at their fair value on the Consolidated Balance Sheets. Northwest FCS records changes in the fair value of a derivative in the current period, depending on the use of the derivative and whether it qualifies for hedge accounting. For fair value hedge transactions that hedge changes in the fair value of assets or liabilities, changes in the fair value of the derivative will generally be offset on the Consolidated Statements of Income by changes in the hedged item's fair value attributable to the risk being hedged.

Fair-Value Hedges

The majority of the notional amount of the fair value hedging activity relates to entering into receive-fixed, pay-floating interest rate swaps to synthetically convert non-callable fixed-rate debt to floating-rate debt for liquidity management purposes. For the remaining fair value hedges, Northwest FCS enters into receive-fixed, pay-floating swaps to align its equity positioning with its overall risk management strategy. Northwest FCS includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps.

Summary of Derivative Instruments and Hedging Activities

A summary of the impact of derivative financial instruments on the Consolidated Balance Sheets is shown in the following tables:

	Fair value of derivative financial instruments	
March 31, 2020	*Derivative assets (1)*	*Derivative liabilities (2)*
Receive fixed swaps	$ 18,095	$ -
Total derivatives designated as hedging instruments	**$ 18,095**	**$ -**

(1) Derivative assets are included in other assets on the Consolidated Balance Sheets.
(2) Derivative liabilities are included in other liabilities on the Consolidated Balance Sheets.

	Fair value of derivative financial instruments	
December 31, 2019	*Derivative assets (1)*	*Derivative liabilities (2)*
Receive fixed swaps	$ 6,924	$ 22
Total derivatives designated as hedging instruments	**$ 6,924**	**$ 22**

(1) Derivative assets are included in other assets on the Consolidated Balance Sheets.
(2) Derivative liabilities are included in other liabilities on the Consolidated Balance Sheets.

A summary of the impact of derivative financial instruments in the Consolidated Statement of Income is shown in the following tables:

	Effect of fair value hedge accounting on the Consolidated Statement of Income		
For the three months ended March 31, 2020	*Interest income*	*Interest expense*	*Net interest income*
Total amount of line items presented in Consolidated Statement of Income	$ 145,922	$ (53,767)	$ 92,155
Gain (loss) on fair value hedge relationships:			
Receive fixed swaps:			
Recognized on derivatives	$ -	$ 11,193	$ 11,193
Recognized on hedged items	-	(11,161)	(11,161)
Net expense recognized on fair value hedges	**$ -**	**$ 32**	**$ 32**

	Effect of fair value hedge accounting on the Consolidated Statement of Income		
For the three months ended March 31, 2019	*Interest income*	*Interest expense*	*Net interest income*
Total amount of line items presented in Consolidated Statement of Income	$ 144,057	$ (62,404)	$ 81,653
Gain (loss) on fair value hedge relationships:			
Receive fixed swaps:			
Recognized on derivatives	$ -	$ 3,807	$ 3,807
Recognized on hedged items	-	(3,761)	(3,761)
Net income recognized on fair value hedges	**$ -**	**$ 46**	**$ 46**

Derivative Financial Instruments in Fair Value Hedging Relationships

The following amounts were recorded on the Consolidated Balance Sheets related to the cumulative basis adjustments for fair value hedges:

	Carrying amount of the hedged item		*Cumulative amount of fair value hedging adjustment included in the carrying amount of the hedged item*	
	March 31, 2020	*December 31, 2019*	*March 31, 2020*	*December 31, 2019*
Note payable to CoBank, ACB	$ 633,110	$ 621,949	$ 18,110	$ 6,949

Counterparty Credit Risk

The use of derivatives for risk management introduces counterparty credit risk. Generally, when the fair value of a derivative contract is positive, Northwest FCS is exposed to credit risk. Northwest FCS has an International Securities Dealer Association agreement with CoBank, which meets the definition of a Qualifying Master Netting Agreement per FCA Regulations and requires the net settlement of covered contracts. Collateral is not exchanged between Northwest FCS and CoBank. Notwithstanding netting provisions, derivative assets and liabilities are not offset in the accompanying Consolidated Balance Sheets.

NOTE 7 – Subsequent Events

Northwest FCS has evaluated subsequent events through May 8, 2020, the date the financial statements were issued or available to be issued, and determined there are no other items to disclose.

Northwest Farm Credit Services, ACA

Board of Directors

Greg Hirai, Chair ..... Wendell, Idaho
John Helle, Vice Chair ..... Dillon, Montana
Christy Burmeister-Smith ..... Newman Lake, Washington
Nels DeBruycker ..... Choteau, Montana
Susan Doverspike ..... Burns, Oregon
Duane (Skip) Gray ..... Albany, Oregon
Dave Hedlin ..... Mt. Vernon, Washington
Bill Martin ..... Rufus, Oregon
Dave Nisbet ..... Bay Center, Washington
Nate Riggers ..... Nezperce, Idaho
Derek Schafer ..... Ritzville, Washington
Karen Schott ..... Broadview, Montana
Julie Shiflett ..... Spokane, Washington
Shawn Walters ..... Newdale, Idaho

Management Executive Committee

Phil DiPofi ..... President and Chief Executive Officer
Tom Nakano ..... Executive Vice President-Chief Administrative and Financial Officer
Mark Nonnenmacher ..... Executive Vice President-Special Industry Lending & Services
Bill Perry ..... Executive Vice President-Lending & Insurance
John Phelan ..... Executive Vice President-Chief Risk and Credit Officer
David Barbieri ..... Senior Vice President-Chief Information Officer
Linda Hendricksen ..... Senior Vice President-Marketing and Public Affairs
Brent Fetsch ..... Oregon President
Doug Robison ..... Idaho President
Megan Shroyer ..... Montana President
Josh Siler ..... Washington President