DEFINING DIFFERENT

2017 THIRD QUARTER REPORT

AGFIRST
FARM CREDIT BANK

THIRD QUARTER 2017

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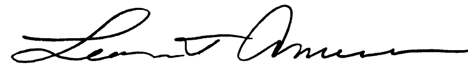
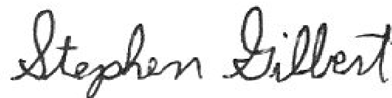
CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2017 quarterly report of AgFirst Farm Credit Bank, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

John S. Langford
Chairman of the Board



Leon T. Amerson
Chief Executive Officer & President



Stephen Gilbert
Chief Financial Officer

November 8, 2017

Report on Internal Control Over Financial Reporting

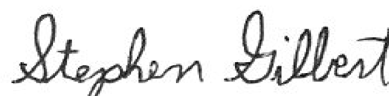
The Bank's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Bank's Financial Statements. For purposes of this report, "internal control over financial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

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

The Bank's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2017. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Bank's management concluded that as of September 30, 2017, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Bank's management determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2017.

Leon T. Amerson
Chief Executive Officer & President



Stephen Gilbert
Chief Financial Officer

November 8, 2017

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

The following discussion reviews the financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) as of and for the three and nine month periods ended September 30, 2017. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Financial Statements, and the 2016 Annual Report of AgFirst Farm Credit Bank. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the District. The accompanying financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

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

FORWARD-LOOKING INFORMATION

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

- political (including trade and tax policies), legal, regulatory, financial markets, and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural infrastructure, international, and farm-related business sectors, as well as in the general economy;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income of District borrowers;
- changes in United States government support of the agricultural industry and the Farm Credit System (System) as a government-sponsored enterprise (GSE), as well as investor and rating agency reactions to events involving the U.S. government, other GSEs and other financial institutions;
- actions taken by the Federal Reserve System in implementing monetary and fiscal policy, as well as other policies and actions of the federal government that impact the financial services industry and the debt markets;
- credit, interest rate and liquidity risk inherent in lending activities; and
- changes in the Bank's assumptions for determining the allowance for loan losses, other-than-temporary impairment and fair value measurements.

FINANCIAL CONDITION

Loan Portfolio

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

Loan Portfolio *(dollars in thousands)*	**September 30, 2017**		**December 31, 2016**		**September 30, 2016**	
Direct Notes*	$ 15,840,167	68.36%	$ 15,480,715	67.56%	$ 15,286,329	67.24%
Capital Markets*	4,153,498	17.93	4,442,524	19.39	4,499,427	19.79
Correspondent Lending	3,038,868	13.11	2,868,870	12.52	2,821,439	12.41
Loans to OFIs	139,724	0.60	122,573	0.53	126,045	0.56
Total	$ 23,172,257	100.00%	$ 22,914,682	100.00%	$ 22,733,240	100.00%

**Net of participations sold.*

Total loans outstanding were $23.172 billion at September 30, 2017, an increase of $257.6 million, or 1.12 percent, compared to total loans outstanding at December 31, 2016 and an increase of $439.0 million, or 1.93 percent, since September 30, 2016. Excluding Bank patronage payments to Associations of approximately $239.2 million which were applied to the Association Direct Notes at the beginning of 2017 and a participation interest of approximately $290.5 million in a Direct Note sold in February 2017 to another System bank, loan volume at September 30, 2017 increased 3.44 percent compared to 2016 year-end. The moderate increase in loan volume from December 31, 2016 to September 30, 2017 resulted primarily from strong demand in cotton, poultry, grains, tobacco, and timber. Minimal loan growth is expected for the remainder of 2017 as a result of weaker demand in the capital markets sector.

Credit Quality

Credit quality of AgFirst's loans is shown below:

	Total Loan Portfolio Credit Quality as of:		
Classification	**September 30, 2017**	**December 31, 2016**	**September 30, 2016**
Acceptable	99.17%	98.89%	98.77%
OAEM *	0.43%	0.67%	0.76%
Adverse **	0.40%	0.44%	0.47%

**Other Assets Especially Mentioned*
***Adverse loans include substandard, doubtful, and loss loans.*

Loan portfolio credit quality at September 30, 2017 improved slightly compared to December 31, 2016 and September 30, 2016. Improved housing starts continue to provide stability in certain housing-related segments such as forestry and nursery/greenhouse. District real estate values are stable. Credit quality is expected to remain relatively stable for the remainder of 2017. The impact of hurricanes in 2017 on District Associations is still being assessed, but is not expected to have a material impact on the Bank's financial condition or results of operations.

The credit conditions discussed above directly affect the credit quality of the Bank's participation/syndication loan portfolio. They also affect the credit quality of loan portfolios and earnings performance of the individual District Associations, which impacts the quality of the Bank's Direct Notes.

Direct Notes

AgFirst's primary business is to provide funding, operational support, and technology services to District Associations. Each Association, in addition to the Bank, is a federally chartered instrumentality of the United States and is regulated by the Farm Credit Administration (FCA). AgFirst provides a revolving line of credit, referred to as a Direct Note, to each of the District Associations. Each of the Associations funds its earning assets primarily by borrowing under its Direct Note. Lending terms are specified in a separate General Financing Agreement (GFA)

between AgFirst and each Association. Each GFA contains minimum borrowing base margin, capital, and earnings requirements that must be maintained by the Association.

At September 30, 2017, the total Direct Note volume outstanding was $15.840 billion, an increase of $359.5 million, or 2.32 percent, compared to December 31, 2016. Excluding Bank patronage payments of approximately $239.2 million and the sale of a participation interest of approximately $290.5 million referenced in the *Loan Portfolio* section above, Direct Note volume increased 5.74 percent when compared to 2016 year-end. See the *Loan Portfolio* section above for the primary reasons for the change in the Direct Note volume from December 2016 to September 2017.

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

At September 30, 2017, all District Associations were operating under normal FCA supervision and in compliance with GFA covenants.

Capital Markets

The Capital Markets portfolio consists primarily of loan participations and syndications. As of September 30, 2017, this portfolio totaled $4.153 billion, a decrease of $289.0 million, or 6.51 percent, from December 31, 2016. The decrease is primarily due to fewer capital markets transactions coming to market combined with several large unscheduled payoffs and paydowns.

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

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

	Participations/Syndications Credit Quality as of:		
Classification	**September 30, 2017**	**December 31, 2016**	**September 30, 2016**
Acceptable	95.54%	94.34%	93.84%
OAEM*	2.40%	3.46%	3.86%
Adverse**	2.06%	2.20%	2.30%

**Other Assets Especially Mentioned*
***Adverse loans include substandard, doubtful, and loss loans.*

Favorable credit quality in the participations/syndications portfolio has been sustained by continued improvement in general economic conditions.

Correspondent Lending

The Correspondent Lending portfolio consists primarily of first lien residential mortgages. As of September 30, 2017, the Correspondent Lending portfolio totaled $3.039 billion. From December 31, 2016 to September 30, 2017, this portfolio increased $170.0 million, or 5.93 percent.

Substantially all loans originated on or before July 31, 2013 in the Correspondent Lending portfolio have guarantees from the Federal National Mortgage Association (Fannie Mae) and/or the Federal Agricultural Mortgage Corporation (Farmer Mac), thereby limiting credit risk to AgFirst. The guarantees are in the form of Long-Term Standby Commitments to Purchase which give AgFirst the right to deliver delinquent loans to the guarantor at par. The

Fannie Mae guarantee program in which AgFirst participated ended on July 31, 2013. Subsequent to this date, new loans in this portfolio purchased by the Bank are held without a Fannie Mae guarantee. As of September 30, 2017, $1.488 billion, or 48.96 percent, of loans in the Correspondent Lending portfolio were guaranteed and $1.551 billion, or 51.04 percent, were unguaranteed. The discontinuation of the Fannie Mae guarantee program is reflected in the Bank's allowance for loan losses methodology related to this portfolio.

At September 30, 2017, 99.78 percent of the Correspondent Lending portfolio was classified as acceptable and 0.22 percent was classified as substandard.

Rural home loans, combined with Rural Home Mortgage-backed Securities, are limited to 15 percent of the three-month average daily balance of total loans outstanding. Based on September 30, 2017 levels, the Bank has unused capacity of $114.9 million under a total limit of $3.527 billion. The Bank monitors this position and will consider reduction options, should they become necessary, to manage the rural home asset level within the regulatory limit. See Note 3, *Investments*, in the Notes to the Financial Statements for further discussion of Rural Home Mortgage-backed Securities.

Nonaccrual Loans

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the Bank totaled $21.4 million at September 30, 2017, a decrease of 26.17 percent compared to $29.0 million at December 31, 2016. The decrease of $7.6 million resulted primarily from $10.6 million of repayments and $3.9 million of Correspondent Lending loans sold to guarantors (see *Correspondent Lending* section above), partially offset by $9.0 million of loan balances transferred to nonaccrual status. At September 30, 2017, total nonaccrual loans were primarily classified in the rural home loan (53.58 percent of the total), other real estate (12.04 percent), and field crops (10.94 percent) segments. Nonaccrual loans were 0.09 percent of total loans outstanding at September 30, 2017 and 0.13 percent at December 31, 2016.

Troubled Debt Restructurings

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms, rates, or amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by the Bank. TDRs decreased $255 thousand since December 31, 2016 and totaled $24.5 million at September 30, 2017. TDRs at September 30, 2017 were comprised of $16.2 million of accruing restructured loans and $8.4 million of nonaccrual restructured loans. Restructured loans were primarily in the nursery/greenhouse (36.10 percent of the total), non-farm income (15.54 percent), swine (11.90 percent), and other real estate (10.50 percent) segments.

Other Property Owned

Other property owned (OPO) consists primarily of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank (or a lender group) in satisfaction of secured loans. OPO may be comprised of real estate, equipment, and equity interests in companies or partnerships. OPO decreased $845 thousand since December 31, 2016 and totaled $2.5 million at September 30, 2017. The decrease was mainly due to the disposal of one property totaling $633 thousand. The remaining OPO balance at September 30, 2017 consisted primarily of a real estate holding of $2.4 million (95.69 percent of the total).

Allowance for Loan Losses

The Bank maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan portfolio as of each reported balance sheet date. The allowance for loan losses was $14.8 million at both September 30, 2017 and December 31, 2016. The allowance at September 30, 2017

included specific reserves of $259 thousand (1.76 percent of the total) and general reserves of $14.5 million (98.24 percent). The decrease of $33 thousand from December 31, 2016 to September 30, 2017 resulted from provision reversals of $143 thousand and chargeoffs of $89 thousand, partially offset by recoveries of $199 thousand. See *Provision for Loan Losses* section below for additional details regarding loan loss provision expense and reversals. The general reserves at September 30, 2017 included $3.2 million of allowance provided by the Bank for loans in the Correspondent Lending portfolio purchased after July 31, 2013 which are being held without a Fannie Mae guarantee. See further discussion in the *Correspondent Lending* section above. None of the allowance relates to the Direct Note portfolio. See further discussion in the *Direct Notes* section above. The total allowance at September 30, 2017 was comprised primarily of reserves for the rural home loan (22.12 percent of the total), utilities (16.18 percent), forestry (10.41 percent), field crops (9.75 percent), processing (8.97 percent), and cattle (5.33 percent) segments. The allowance for loan losses was 0.06 percent of total loans outstanding at both September 30, 2017 and December 31, 2016. See Note 2*, Loans and Allowance for Loan Losses,* in the Notes to the Financial Statements for further information.

Liquidity and Funding Sources

One of AgFirst's primary responsibilities is to maintain sufficient liquidity to fund the lending operations of the District Associations, in addition to its own needs. Along with normal cash flows associated with lending operations, AgFirst has two primary sources of liquidity: the capacity to issue Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation; and cash and investments. The Bank also maintains several securities 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 U.S. government does not guarantee, directly or indirectly, Systemwide Debt Securities. However, the Farm Credit System, as a GSE, has benefited from broad access to the domestic and global capital markets. This access has provided the System with a dependable source of competitively priced debt which is critical for supporting the System's mission of providing credit to agriculture and rural America. There is an implied link between the credit rating of the U.S. government and the System given the System's status as a GSE. Any significant concerns regarding the U.S. government could pose a risk to the credit rating of the System.

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

The System does not have a guaranteed line of credit from the U.S. Treasury or the Federal Reserve. However, the Farm Credit System Insurance Corporation (FCSIC) has an agreement with the Federal Financing Bank (FFB), a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the FFB could advance funds to the FCSIC. Under its existing statutory authority, the FCSIC may use these funds to provide assistance to the System banks in exigent market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to $10 billion and terminates on September 30, 2018, unless otherwise renewed. The decision whether to seek funds from the FFB is at the discretion of the FCSIC. Each funding obligation of the FFB is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by AgFirst or the System.

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

At September 30, 2017, AgFirst had $29.475 billion in total debt outstanding compared to $29.408 billion at December 31, 2016. Debt increased primarily to support a higher level of loans as discussed elsewhere in this report.

Cash and cash equivalents, which decreased $174.8 million from December 31, 2016 to a total of $636.9 million at September 30, 2017, consist primarily of cash on deposit and money market securities that are short-term in nature (from overnight maturities to maturities that range up to 90 days). Incremental movements in cash balances between reporting periods are due primarily to changes in liquidity needs in relation to upcoming debt maturities.

Investment securities totaled $8.004 billion, or 24.93 percent of total assets at September 30, 2017, compared to $8.032 billion, or 25.06 percent, as of December 31, 2016. Investment securities decreased $28.3 million, or 0.35 percent, compared to December 31, 2016. Management maintains the available-for-sale liquidity investment portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines which provide that a System bank may hold certain eligible available-for-sale investments in an amount not to exceed 35.00 percent of its total loans outstanding. Based upon FCA guidelines, at September 30, 2017, the Bank's eligible available-for-sale investments were 33.08 percent of the total loans outstanding.

Investment securities classified as being available-for-sale totaled $7.530 billion at September 30, 2017. Available-for-sale investments at September 30, 2017 included $326.4 million in U.S. Treasury securities, $4.582 billion in U.S. government guaranteed securities, $2.033 billion in U.S. government agency guaranteed securities, and $588.6 million in non-agency asset-backed securities. Since the majority of the portfolio is invested in U.S. government guaranteed and agency securities, the portfolio is highly liquid and potential credit loss exposure is limited.

As of September 30, 2017, AgFirst exceeded all applicable regulatory liquidity requirements. FCA regulations require that the Bank have a liquidity policy that establishes a minimum total "coverage" level of 90 days and that short-term liquidity requirements must be met by certain high quality investments or cash. "Coverage" is defined as the number of days that maturing debt could be funded with eligible cash, cash equivalents, and available-for-sale investments maintained by the Bank.

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

At September 30, 2017, AgFirst met each of the individual level criteria above and had a total of 197 days of maturing debt coverage compared to 201 days at December 31, 2016. The decrease resulted from a change in the timing of upcoming debt maturities. Cash provided by the Bank's operating activities is an additional source of liquidity for the Bank that is not reflected in the coverage calculation.

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

Capital Resources

Total shareholders' equity increased $250.9 million, or 11.27 percent, from December 31, 2016 to $2.476 billion at September 30, 2017. This increase is primarily attributed to 2017 unallocated retained earnings from net income of $247.4 million.

Regulatory Capital Ratios

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

	Regulatory Minimum, Including Buffer	9/30/17	12/31/16	9/30/16
Permanent Capital Ratio	7.00%	21.60%	21.31%	20.91%
Common Equity Tier 1 (CET1) Capital Ratio	5.125%	21.13%	*	*
Tier 1 Capital Ratio	6.625%	21.57%	*	*
Total Capital Ratio	8.625%	21.72%	*	*
Tier 1 Leverage Ratio	5.00%	7.51%	*	*
Unallocated Retained Earnings (URE) and URE Equivalents Ratio	1.50%	6.55%	*	*
Total Surplus Ratio	7.00%	*	21.21%	20.82%
Core Surplus Ratio	3.50%	*	19.13%	18.68%
Net Collateral Ratio	103.00%	*	106.69%	107.22%

**Not applicable due to changes in regulatory capital ratio requirements effective January 1, 2017*

The FCA sets minimum regulatory capital adequacy requirements for System banks and associations. Effective January 1, 2017, these requirements were modified to make System regulatory requirements more transparent and to ensure that the System's capital requirements are comparable with the Basel III framework and the standardized approach of federal banking regulatory agencies. The new requirements are based on regulatory ratios as defined by the FCA and include common equity tier 1 (CET1), tier 1, and total capital ratios which replace the total surplus and core surplus ratios. The net collateral ratio is also replaced by the tier 1 leverage ratio and the unallocated retained earnings (URE) and URE equivalents ratio under the new regulations. The permanent capital ratio remains in effect under the Farm Credit Act with minor modifications to risk-adjusted assets.

The permanent capital, CET1, tier 1, and total capital ratios are calculated by dividing the three-month average daily balance of the capital numerator, as defined by the FCA, by a risk-adjusted asset base as were the total surplus and core surplus ratios prior to 2017. Unlike these ratios, the tier 1 leverage, URE and URE equivalents, and collateral ratios do not incorporate any risk-adjusted weighting of assets. Risk-adjusted assets refer to the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. Generally, higher credit conversion factors are applied to assets with more inherent risk. The tier 1 leverage and URE and URE equivalents ratios are calculated by dividing the three-month average daily balance of the capital numerator, as defined by the FCA, by the three-month average daily balance of total assets adjusted for regulatory deductions. The collateral ratio was calculated by dividing the Bank's period-end collateral, as defined by FCA regulations, by period-end total liabilities.

For all periods presented, AgFirst exceeded minimum regulatory standards for all of the ratios. The permanent capital ratio increased for September 30, 2017 compared to both December 31, 2016 and September 30, 2016 due to higher average capital levels in the 2017 period. See *Regulatory Matters* section below for further discussion of capital ratios and related regulatory requirements effective in 2017.

RESULTS OF OPERATIONS

Net income for the three months ended September 30, 2017 was $83.5 million compared to $96.8 million for the three months ended September 30, 2016, a decrease of $13.4 million, or 13.81 percent. Net income for the nine months ended September 30, 2017 was $247.4 million compared to $240.8 million for the nine months ended September 30, 2016, an increase of $6.6 million, or 2.72 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, 2017	For the year ended December 31, 2016	Annualized for the nine months ended September 30, 2016
Return on average assets	1.05%	1.08%	1.03%
Return on average shareholders' equity	14.00%	14.45%	13.64%
Net interest margin	1.46%	1.53%	1.50%
Operating expense as a percentage of net interest income and noninterest income	28.63%	28.56%	29.63%
Net (charge-offs) recoveries to average loans	0.00%	0.02%	0.03%

The annualized return on average assets and return on average shareholders' equity ratios improved for the first nine months of 2017 compared to the same period in 2016 due to an increase in net income. Compared to the year ended December 31, 2016, slightly lower annualized net income for the first nine months of 2017 resulted in lower return on average assets and return on average shareholders' equity ratios. The lower net interest margin ratio in 2017 resulted from higher average interest-earning assets and higher debt costs in the 2017 period. Lower annualized net interest income in 2017 also contributed to the decline in the ratio. 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. Higher income for the 2017 period resulted in improvement in the ratio for the first nine months of 2017 compared to the same period in 2016. Net recoveries positively impacted the net (charge-offs) recoveries to average loans ratio for all periods presented. See *Allowance for Loan Losses*, *Net Interest Income*, *Noninterest Income*, and *Noninterest Expenses* sections for further discussion.

Net Interest Income

Net interest income for the three months ended September 30, 2017 was $113.9 million compared to $119.4 million for the same period of 2016, a decrease of $5.5 million or 4.60 percent. For the nine months ended September 30, 2017, net interest income was $336.8 million compared to $340.3 million for the same period of 2016, a decrease of $3.5 million, or 1.03 percent. The net interest margin, which is net interest income as a percentage of average earning assets, was 1.45 percent and 1.46 percent, decreases of nine and four basis points, respectively, for the three and nine month periods in 2017 compared to the prior year. For both the three and nine month periods, the decrease in net interest income resulted from higher rates paid on interest-bearing liabilities which more than offset the positive impact of higher yields and higher average balances for interest-earning assets.

During the nine months ended September 30, 2017 and 2016, the Bank called debt totaling $2.297 billion and $15.973 billion, respectively, and was able to lower the cost of funds. Over time, as interest rates change and as assets prepay or reprice, the positive impact on the net interest margin that the Bank has experienced over the last several years from calling debt will continue to diminish.

The effects of changes in volume and interest rates on net interest income for the three and nine months ended September 30, 2017, as compared with the corresponding periods in 2016, 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, 2017 vs. September 30, 2016			For the nine months ended September 30, 2017 vs. September 30, 2016		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
(dollars in thousands)	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Loans	$ 2,099	$ 15,909	$ 18,008	$ 10,267	$ 29,976	$ 40,243
Investments & Cash Equivalents	255	7,162	7,417	2,923	13,822	16,745
Total Interest Income	2,354	23,071	25,425	13,190	43,798	56,988
Interest Expense:						
Interest-Bearing Liabilities	(1,569)	32,485	30,916	2,308	58,200	60,508
Changes in Net Interest Income	$ 3,923	$ (9,414)	$ (5,491)	$ 10,882	$ (14,402)	$ (3,520)

Provision for Loan Losses

AgFirst measures risks inherent in its loan portfolio on an ongoing basis and, as necessary, recognizes provision for loan loss expense so that appropriate reserves for loan losses are maintained. Loan loss provision was a net reversal of $668 thousand and a net reversal of $143 thousand for the three and nine months ended September 30, 2017, respectively, compared to a net reversal of $5.7 million and a net reversal of $3.6 million for the corresponding periods in 2016. The higher provision reversals for the 2016 periods resulted primarily from a $4.5 million provision reversal related to one borrower in the other real estate segment. For the three months ended September 30, 2017, the provision for loan losses included net provision reversals of $1 thousand for specific reserves and net provision reversals of $667 thousand for general reserves. The largest segments included in the total provision reversal for the three month period in 2017 were nursery/greenhouse ($165 thousand reversal), field crops ($150 thousand reversal), utilities ($125 thousand reversal), and rural home loan ($230 thousand expense). For the nine month period in 2017, the provision for loan losses included reversals of $172 thousand for specific reserves and net provision expense of $29 thousand for general reserves. The largest segments included in the total provision reversal for the nine months ended September 30, 2017 were utilities ($450 thousand reversal), tree fruits and nuts ($320 thousand reversal), forestry ($308 thousand reversal), nursery/greenhouse ($100 thousand reversal), field crops ($754 thousand expense), and rural home loan ($665 thousand expense). For the three months ended September 30, 2016, the provision for loan losses included net provision reversals of $4.5 million for specific reserves (primarily resulting from the $4.5 million reversal discussed above) and $1.2 million for general reserves (primarily from $819 thousand reversals in the tree fruits and nuts segment). For the nine months ended September 30, 2016, net reversal of provision expense, which included a reversal of $5.8 million for specific reserves and expense of $2.2 million for general reserves, primarily related to borrowers in the other real estate ($4.6 million reversal), nursery/greenhouse ($864 thousand reversal) and rural home loan ($813 thousand expense). Provision expense for both periods in 2016 was impacted by the adoption of an updated System probability of default curve which contained higher probabilities of default. This default curve is utilized in determining the amount of general allowance. See Note 2, *Loans and Allowance for Loan Losses,* in the Notes to the Financial Statements for further information.

Noninterest Income

The following table illustrates the changes in noninterest income:

Change in Noninterest Income	**For the three months ended September 30,**			**For the nine months ended September 30,**		
(dollars in thousands)	**2017**	**2016**	**Increase/ (Decrease)**	**2017**	**2016**	**Increase/ (Decrease)**
Loan fees	$ 2,196	$ 2,283	$ (87)	$ 6,432	$ 6,805	$ (373)
Building lease income	809	882	(73)	2,736	2,607	129
Net impairment losses on investments	–	(13,217)	13,217	–	(14,947)	14,947
Gains (losses) on investments, net	–	23,202	(23,202)	(258)	23,822	(24,080)
Gains (losses) on called debt	(1,447)	(10,491)	9,044	(4,528)	(28,428)	23,900
Gains (losses) on other transactions	178	(436)	614	1,015	(116)	1,131
Other noninterest income	975	1,302	(327)	4,290	4,148	142
Total noninterest income	$ 2,711	$ 3,525	$ (814)	$ 9,687	$ (6,109)	$ 15,796

For the three and nine months ended September 30, 2017 compared to the corresponding periods in 2016, noninterest income decreased $814 thousand and increased $15.8 million, respectively. For both periods, the change was primarily due to lower investment impairment and called debt losses, offset by lower gains on investments. Significant line item variances are discussed further below.

Net impairment losses on investments decreased $13.2 million and $14.9 million for the three and nine months ended September 30, 2017, respectively, compared to the corresponding periods in the prior year. No impairment losses were recorded for the first nine months of 2017. The impairment losses for the 2016 periods resulted primarily from the Bank's sale of all of its ineligible available-for-sale investment securities in August, 2016. These securities totaled $129.4 million and an additional $13.2 million in impairment losses was recognized as a result of the sale. The nine month period also included $1.7 million in impairment losses recorded during the first quarter of 2016 on four non-agency collateralized mortgage obligation (CMO) securities. See further discussion of

investments in the *Liquidity and Funding Sources* section and Note 3, *Investments*, in the Notes to the Financial Statements.

For the three and nine month periods ended September 30, 2017, gains on investments decreased $23.2 million and $24.1 million, respectively, compared to the same periods in 2016 primarily as a result of gains of $23.2 million recognized in August, 2016 on the sale of the Bank's ineligible available-for-sale securities which totaled $129.4 million as discussed above and elsewhere in this report. These transactions benefitted the Bank by eliminating future costs related to third party impairment modeling, and reducing FCSIC premium and safekeeping expenses. In March, 2016, the Bank sold agency mortgage-backed securities totaling $15.0 million which resulted in gains totaling $620 thousand. In May 2017, the Bank sold securities totaling $77.4 million which resulted in a net loss of $258 thousand. These transactions benefitted the Bank by reducing carrying costs and improving liquidity. See further discussion of investments in *Liquidity and Funding Sources* section above and in Note 3, *Investments*, in the Notes to the Financial Statements.

Debt issuance expense is amortized over the life of the underlying debt security. When debt securities are called prior to maturity, any unamortized issuance cost is expensed. Losses on called debt decreased $9.0 million and $23.9 million for the three and nine month periods ended September 30, 2017, respectively, compared to the same periods in the prior year. Call options were exercised on bonds totaling $672.0 million and $2.297 billion for the three and nine month periods in 2017, respectively, compared to $6.867 billion and $15.973 billion for the same periods in 2016. 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 as called debt is replaced by new debt issued at a lower rate of interest.

For the three and nine months periods ended September 30, 2017, gains on other transactions increased $614 thousand and $1.1 million, respectively, compared to the same periods in the prior year. The higher gains for the three month period in 2017 compared to the prior year resulted primarily from a loss of $669 thousand recorded in the third quarter of 2016 due to the negotiated termination of a vendor contract. In addition to this 2016 loss, for the nine month period, higher market value gains in 2017 on certain retirement plan trust assets of $767 thousand also contributed to the increase, partially offset by $186 thousand in higher provision expense for unfunded commitments. Changes in the reserve for unfunded commitments result from fluctuations in both the balance and composition of unfunded commitments between periods.

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)	**2017**	**2016**	**Increase/ (Decrease)**	**2017**	**2016**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 14,589	$ 14,779	$ (190)	$ 44,229	$ 44,095	$ 134
Occupancy and equipment	5,481	5,937	(456)	16,479	16,456	23
Insurance Fund premiums	3,373	4,457	(1,084)	10,452	11,951	(1,499)
Other operating expenses	10,373	8,800	1,573	28,030	26,528	1,502
Losses (gains) from other property owned	(8)	(2,238)	2,230	30	(2,050)	2,080
Total noninterest expenses	$ 33,808	$ 31,735	$ 2,073	$ 99,220	$ 96,980	$ 2,240

Noninterest expenses for the three and nine months ended September 30, 2017 increased $2.1 million and $2.2 million, respectively, compared to the corresponding periods in 2016. The increases for the three and nine month periods were primarily due to decreases in gains from the sale of other property owned and higher other operating expenses, partially offset by lower insurance fund premiums. Significant line item variances are discussed below.

Insurance Fund premiums decreased $1.1 million and $1.5 million for the three and nine month periods ended September 30, 2017, respectively, compared to the same periods in 2016. These decreases resulted primarily from a decrease in the base annual premium rate to 15 basis points in 2017 from 16 basis points in the first and second

quarters and 18 basis points in the third quarter of 2016. The FCSIC Board makes premium rate adjustments, as necessary, to maintain their secure base amount which is based upon insured debt outstanding at System banks.

Other operating expenses increased $1.6 million and $1.5 million for the three and nine month periods, respectively, compared to the corresponding periods in 2016. The increases in both the three and nine month periods in 2017 were primarily due to increases of $1.3 million and $1.5 million, respectively, in consultant and professional fees primarily related to technology initiatives.

Gains on other property owned decreased $2.2 million and $2.1 million for the three and nine month periods, respectively. The decreases for both the three and nine month periods were primarily due to a $2.3 million gain recognized in the third quarter of 2016 on the sale of one real estate property. See *Other Property Owned* section above for further information.

REGULATORY MATTERS

Capital

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

SCOPE OF APPLICATION

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

As of September 30, 2017, the AgFirst District consisted of the Bank and 19 District Associations. All nineteen were structured as Agricultural Credit Association (ACA) holding companies, with Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries. AgFirst is owned by these 19 Associations. The Bank does not have any subsidiaries requiring consolidation; therefore, there are no consolidated entities for which the total capital requirement is deducted, there are no restrictions on transfer of funds or total capital with other consolidated entities and no subsidiary exists which is below the minimum total capital requirement individually or when aggregated at the Bank's consolidated level. In conjunction with other System entities, the Bank jointly owns certain service organizations: the Federal Farm Credit Banks Funding Corporation (Funding Corporation), the FCS Building Association (FCSBA), and the Farm Credit Association Captive Insurance Corporation (Captive). Certain of the Bank's investments in other System institutions, including the investment in the Funding Corporation and FCSBA, are deducted from capital as only the institution that issued the equities may count the amount as capital.

CAPITAL STRUCTURE

The table below outlines the Bank's capital structure for the capital adequacy calculations as of September 30, 2017:

(dollars in thousands)		3-Month Average Daily Balance
Common Equity Tier 1 Capital (CET1)		
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	$	23
Other required member purchased stock		120,840
Allocated equities:		
Qualified allocated equities		182,162
Nonqualified allocated equities		524
Unallocated retained earnings		2,029,265
Paid-in capital		58,883
Regulatory adjustments and deductions made to CET1*		(67,314)
Total CET1	$	2,324,383
Additional Tier 1 Capital (AT1)		
Non-cumulative perpetual preferred stock	$	49,250
Regulatory adjustments and deductions made to AT1		–
Total AT1	$	49,250
Total Tier 1 Capital	$	2,373,633
Tier 2 Capital		
Allowance for Loan Losses	$	15,388
Reserve for unfunded commitments		498
Regulatory adjustments and deductions made to total capital		–
Total Tier 2 Capital	$	15,886
Total Capital	$	2,389,519

**Primarily investments in other System institutions*

CAPITAL ADEQUACY AND CAPITAL BUFFERS

The table below outlines the Bank's risk-weighted assets by exposure (including accrued interest of that exposure) as of September 30, 2017:

(dollars in thousands)		Risk-Weighted Assets
Exposures to:		
Government-sponsored entities, including Direct Notes to Associations	$	3,952,411
Depository institutions		9,739
Corporate exposures, including borrower loans and leases		4,461,885
Residential mortgage loans		718,952
Past due > 90 days and nonaccrual loans		25,032
Securitizations		186,552
Equity Investments		7,884
Exposures to obligors and other assets		119,350
Off-balance sheet exposures		1,520,557
Total risk-weighted assets	$	11,002,362

As of September 30, 2017, the Bank was well-capitalized and exceeded all capital requirements to which it was subject, including applicable capital buffers. The Bank's capital conservation buffer was a minimum of 13.10 percent in excess of its risk-adjusted asset required minimum capital ratios. Additionally, the Bank's leverage ratio was 2.51 percent in excess of its required minimum leverage ratio, including the buffer. If the capital ratios fall below the minimum regulatory requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. The aggregate amount of eligible retained income was $69.7 million as of September 30, 2017.

The following sets forth the regulatory capital ratios as of September 30, 2017:

Ratio	Regulatory Minimum Requirement	Capital Conservation Buffer	Minimum Requirement, Including Buffer	Capital Ratios as of September 30, 2017
Risk-adjusted ratios:				
CET1 Capital*	4.5%	0.625%	5.125%	21.13%
Tier 1 Capital*	6.0%	0.625%	6.625%	21.57%
Total Capital*	8.0%	0.625%	8.625%	21.72%
Permanent Capital Ratio	7.0%	0.0%	7.0%	21.60%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	7.51%
UREE Leverage Ratio	1.5%	0.0%	1.5%	6.55%

** The capital conservation buffers over risk-adjusted ratio minimums have a 3 year phase-in period and will become fully effective January 1, 2020. Risk-adjusted ratio minimums will increase 0.625% each year until fully phased in. There is no phase-in period for the tier 1 leverage ratio.*

CREDIT RISK

System entities have specific lending authorities within their chartered territories. The Bank is subject to credit risk by lending to the District's FLCAs, PCAs, and ACAs. Allowance is determined at the individual entity basis based on loan or pool based on homogeneous characteristics such as probability of default (PD) and loss given default (LGD). Allowance needs by geographic region are only considered in rare circumstances that may not otherwise be reflected in the PD and LGD (flooding, drought, etc.) There was no allowance attributed to a geographic area as of September 30, 2017. See Note 2, *Loans and Allowance for Loan Losses*, and Note 3, *Investments*, in the Notes to the Financial Statements for quantitative disclosures related to the Bank's credit risk.

CREDIT RISK MITIGATION

Credit Risk Mitigation Related to Loans

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

The following table illustrates credit risk mitigants within AgFirst's loan portfolio which reduce capital requirements.

	September 30, 2017		
(dollars in thousands)	Amortized Cost	Risk-Weighted Exposures	% of Total Loans
Loans with unconditional guarantee	$ 8,117	$ –	–%
Loans with conditional guarantee	1,488,928	297,786	6%
Direct Notes	15,840,167	3,168,033	68%
Total	$ 17,337,212	$ 3,465,819	74%

The following table illustrates AgFirst's loan portfolio by geographic distribution at September 30, 2017. The loan portfolio includes loans in all 50 states and Puerto Rico. This table excludes the Bank's Direct Notes and loans to OFI portfolios.

(dollars in thousands)		
North Carolina	$ 1,191,381	17 %
Georgia	942,821	13
Virginia	564,050	8
Florida	517,600	7
Texas	397,031	5
South Carolina	337,813	5
Maryland	331,792	5
All Other States	2,909,878	40
	$ 7,192,366	100 %

The following table shows the various major commodity groups in the portfolio based on borrower eligibility and their percentage of the outstanding portfolio volume at September 30, 2017. This table excludes the Bank's Direct Notes and loans to OFI portfolios.

(dollars in thousands)		
Rural Home Loan	$ 2,898,416	40 %
Forestry	939,504	13
Utilities	695,478	10
Processing	676,062	9
Other	1,982,906	28
	$ 7,192,366	100 %

The following table segregates loans based upon repayment dependency by commodity at September 30, 2017. This table excludes the Bank's Direct Notes and loans to OFI portfolios.

(dollars in thousands)		
Non-Farm Income	$ 3,227,320	45 %
Timber	768,420	11
Rural Utilities	695,478	10
Fruit & Vegetables	367,098	5
Processing and Marketing	352,679	5
Grains	325,307	5
Other	1,456,064	19
	$ 7,192,366	100 %

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

Credit Risk Mitigation Related to Investments

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

The following table shows the investment exposures covered by a guarantee.

	September 30, 2017			
(dollars in thousands)	**Amortized Cost**	**Fair Value**	**% of Total Investments**	**Risk-Weighted Exposures**
Unconditional Guarantee:				
U.S. Govt. Treasury Securities	$ 326,559	$ 326,399	4%	$ –
U.S. Govt. Guaranteed	4,564,404	4,581,998	57%	–
Conditional Guarantee:				
U.S. Govt. Agency Guaranteed	2,459,136	2,451,654	31%	490,331
Total	$ 7,350,099	$ 7,360,051	92%	$ 490,331

COUNTERPARTY CREDIT RISK

See Note 10, *Derivative Financial Instruments and Hedging Activities*, in the Notes to the Financial Statements for further information on counterparty exposures related to derivatives as of September 30, 2017.

SECURITIZATION

The Bank has elected to utilize the simplified supervisory formula risk-based capital approach (SSFA) for securitization exposures. As such, the Bank's asset-backed securities portfolio is risk weighted on an individual security level. As of September 30, 2017, the ABS risk-weights ranged from 20 percent to 132.50 percent, with a weighted average risk-weight of 29.79 percent.

As of September 30, 2017, the Bank did not hold any off-balance sheet securitization exposures nor were any securitization exposures deducted from capital.

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

EQUITIES

The Bank does not have significant exposure to equity investments. At September 30, 2017, the Bank has investments in money market funds of $100.9 million classified as equity investments. These balances are accounted for as investment securities but are classified as Cash Equivalents in the Balance Sheet and Statement of Cash Flows. The Bank applies a 20 percent risk-weight for these investments.

INTEREST RATE RISK

The following tables represent AgFirst's market value of equity and projected change over the next twelve months in net interest income for various rate movements as of September 30, 2017:

Net Interest Income
(dollars in thousands)

Scenarios	Net Interest Income	% Change
+4.0% Shock	$398,984	-8.40%
+2.0% Shock	$426,749	-2.03%
Base line **	$435,582	–
-50% of 3M Tbill ***	$446,982	2.62%

Market Value of Equity
(dollars in thousands)

Scenarios	Assets	Liabilities*	Equity*	% Change
Book Value	$32,108,888	$29,682,026	$2,426,862	– %
+4.0% Shock	$29,243,027	$27,565,856	$1,677,171	-35.68%
+2.0% Shock	$30,713,806	$28,564,183	$2,149,623	-17.56%
Base line **	$32,243,873	$29,636,283	$2,607,590	– %
-50% of 3M Tbill ***	$32,582,375	$29,872,573	$2,709,802	3.92% %

* *For interest rate risk management, the $49.3 million perpetual preferred stock is included in liabilities rather than equity.*
** *Base line uses rates as of the balance sheet date before application of any interest rate shocks.*
*** *When the three-month Treasury bill interest rate is less than 4 percent, both the minus 200 and minus 400 basis point shocks are replaced with a downward shock equal to one-half of the three-month Treasury bill rate which is 25 basis points.*

Other Regulatory Matters

On July 25, 2014, the Farm Credit Administration (FCA) published a proposed rule in the Federal Register to revise the requirements governing the eligibility of investments for System banks and associations. The public comment period ended on October 23, 2014. The FCA expects to issue a final regulation in 2018. The stated objectives of the proposed rule are as follows:

- To strengthen the safety and soundness of System banks and associations,
- To ensure that System banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption,
- To enhance the ability of the System banks to supply credit to agricultural and aquatic producers,
- To comply with the requirements of Section 939A of the Dodd-Frank Act,
- To modernize the investment eligibility criteria for System banks, and
- To revise the investment regulation for System associations to improve their investment management practices so they are more resilient to risk.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2016 Annual Report of AgFirst Farm Credit Bank for recently issued accounting pronouncements. Additional information is provided in the table below.

The following Accounting Standards Updates (ASUs) were issued by the Financial Accounting Standards Board (FASB) but have not yet been adopted:

Standard	Summary of Guidance	Effective Date and Potential Financial Statement Impact
ASU 2017-08 – Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): *Premium Amortization on Purchased Callable Debt Securities*	• Requires amortization of premiums to the earliest call date on debt securities with call features that are explicit, noncontingent and callable at fixed prices and on preset dates. • Does not impact securities held at a discount; the discount continues to be amortized to the contractual maturity. • Requires adoption on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. • Effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted.	• The investment securities portfolio may include holdings of callable debt securities. The Bank is currently evaluating the impact of the Update on the financial statements, which will be affected by any investments in callable debt securities carried at a premium at the time of adoption. • The Bank expects to adopt the guidance in first quarter 2019 using the modified retrospective method with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption.
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): *Measurement of Credit Losses on Financial Instruments*	• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to a current expected credit loss (CECL) model.	• The Bank has begun implementation efforts by establishing a cross-discipline governance structure. The Bank is currently identifying key interpretive issues, and assessing existing credit loss forecasting models and processes against the new guidance to determine what modifications may be required. • The Bank expects that the new guidance will result in an increase in its allowance for credit losses due to several factors, including: 1. The allowance related to loans and

	• The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on financial assets purchased with more than insignificant credit deterioration since origination. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.	commitments will most likely increase to cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of the increase is under evaluation, but will depend upon the nature and characteristics of the Bank's portfolio at the adoption date, and the macroeconomic conditions and forecasts at that date. • The Bank expects to adopt the guidance in first quarter 2021 using the modified retrospective method with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption.
ASU 2016-02 – Leases (Topic 842)	• Requires lessees to recognize leases on the balance sheet with lease liabilities and corresponding right-of-use assets based on the present value of lease payments. • Lessor accounting activities are largely unchanged from existing lease accounting. • The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification. • Expands qualitative and quantitative disclosures of leasing arrangements. • Requires adoption using a modified cumulative-effect approach wherein the guidance is applied to all periods presented. • Effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted.	• The practical expedients allow entities to largely account for existing leases consistent with current guidance, except for the incremental balance sheet recognition for lessees. • The Bank has started its implementation of the Update which has included an initial evaluation of leasing contracts and activities. • As a lessee the Bank is developing its methodology to estimate the right-of use assets and lease liabilities, which is based on the present value of lease payments but does not expect a material change to the timing of expense recognition. • Given the limited changes to lessor accounting, the Bank does not expect material changes to recognition or measurement, but it is early in the implementation process and the impact will continue to be evaluated. • The Bank is evaluating existing disclosures and may need to provide additional information as a result of adoption of the Update. • The Bank expects to adopt the guidance in first quarter 2019 using the modified retrospective method and practical expedients for transition.
ASU 2016-01 – Financial Instruments – Overall (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities*	• The Update amends the presentation and accounting for certain financial instruments, including liabilities measured at fair value under the fair value option and equity investments.	• The Bank is currently evaluating any impacts to the financial statements. The Bank's implementation efforts include the identification of securities within the scope of the guidance, the evaluation of the

	• Requires certain equity instruments be measured at fair value, with changes in fair value recognized in earnings. • The guidance also updates fair value presentation and disclosure requirements for financial instruments measured at amortized cost. • Effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.	measurement alternative available for equity securities without a readily determinable fair value, and the related impact to accounting policies, presentation, and disclosures. • Any investments in nonmarketable equity investments accounted for under the cost method of accounting (except for other Farm Credit Institution stock) will be accounted for either at fair value with unrealized gains and losses reflected in earnings or, if elected, using an alternative method. The alternative method is similar to the cost method of accounting, except that the carrying value is adjusted (through earnings) for subsequent observable transactions in the same or similar investment. The Bank is evaluating which method will be applied to these nonmarketable equity investments. • Additionally, for purposes of disclosing the fair value of loans carried at amortized cost, the Bank is evaluating valuation methods to determine the necessary changes to conform to an "exit price" notion as required by the Standard. Accordingly, the fair value amounts disclosed for such loans may change upon adoption. • The Bank expects to adopt the guidance in first quarter 2018 with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption, except for changes related to nonmarketable equity investments, which is applied prospectively. The Bank expects the primary accounting changes will relate to equity investments.
ASU 2014-09 – Revenue from Contracts With Customers (Topic 606) and subsequent related Updates	• Requires that revenue from contracts with customers be recognized upon transfer of control of a good or service, and transfers of nonfinancial assets, in an amount equaling the consideration expected to be received. • Changes the accounting for certain contract costs, including whether they may be offset against revenue in the Statements of Income, and requires additional disclosures about revenue and contract costs. • May be adopted using a full retrospective approach or a modified, cumulative-effect approach wherein the guidance is applied only to existing contracts as of the date of initial application, and to new contracts transacted after that date. • Effective for reporting periods beginning after December 15, 2017.	• The Bank's revenue is the sum of net interest income and noninterest income. The scope of the guidance explicitly excludes net interest income as well as many other revenues for financial assets and liabilities including loans, leases, securities, and derivatives. Accordingly, the majority of the Bank's revenues will not be affected. • The Bank is performing an assessment of revenue contracts as well as working with industry participants on matters of interpretation and application. Accounting policies will not change materially since the principles of revenue recognition from the Update are largely consistent with existing guidance and current practices. The Bank has not identified material changes to the timing or amount of revenue recognition. • The Bank expects a minor change to the presentation of costs for certain underwriting activities which will be presented in expenses

	Early application is not permitted.	rather than the current presentation against the related revenues. The Bank will provide qualitative disclosures of performance obligations related to revenue recognition and will continue to evaluate disaggregation for significant categories of revenue in the scope of the guidance. • The Bank expects to adopt the guidance in first quarter 2018 using the modified retrospective method with a cumulative-effect adjustment to opening retained earnings.

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

Balance Sheets

(dollars in thousands)	September 30, 2017	December 31, 2016
	(unaudited)	*(audited)*
Assets		
Cash	**$ 385,977**	$ 549,124
Cash equivalents	**250,946**	262,624
Investment securities:		
Available for sale (amortized cost of $7,524,815 and $7,488,279, respectively)	**7,530,107**	7,490,841
Held to maturity (fair value of $481,313 and $545,926, respectively)	**473,787**	541,354
Total investment securities	**8,003,894**	8,032,195
Loans	**23,172,257**	22,914,682
Allowance for loan losses	**(14,750)**	(14,783)
Net loans	**23,157,507**	22,899,899
Accrued interest receivable	**75,713**	66,120
Accounts receivable	**77,349**	89,466
Investments in other Farm Credit System institutions	**71,174**	70,255
Premises and equipment, net	**58,949**	60,046
Other property owned	**2,501**	3,346
Other assets	**24,878**	24,522
Total assets	**$ 32,108,888**	$ 32,057,597
Liabilities		
Systemwide bonds payable	**$ 24,062,362**	$ 22,660,317
Systemwide notes payable	**5,412,453**	6,748,166
Accrued interest payable	**74,467**	58,524
Accounts payable	**34,202**	302,720
Other liabilities	**49,292**	62,622
Total liabilities	**29,632,776**	29,832,349
Commitments and contingencies (Note 8)		
Shareholders' Equity		
Perpetual preferred stock	**49,250**	49,250
Capital stock and participation certificates	**303,025**	301,905
Additional paid-in-capital	**58,883**	58,883
Retained earnings		
Allocated	**494**	559
Unallocated	**2,063,342**	1,817,004
Accumulated other comprehensive income (loss)	**1,118**	(2,353)
Total shareholders' equity	**2,476,112**	2,225,248
Total liabilities and equity	**$ 32,108,888**	$ 32,057,597

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

Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2017	For the three months ended September 30, 2016	For the nine months ended September 30, 2017	For the nine months ended September 30, 2016
Interest Income				
Investment securities and other	**$ 38,684**	$ 31,267	**$ 109,046**	$ 92,301
Loans	**183,686**	165,678	**525,030**	484,787
Total interest income	**222,370**	196,945	**634,076**	577,088
Interest Expense	**108,478**	77,562	**297,316**	236,808
Net interest income	**113,892**	119,383	**336,760**	340,280
Provision for (reversal of allowance for) loan losses	**(668)**	(5,667)	**(143)**	(3,618)
Net interest income after provision for loan losses	**114,560**	125,050	**336,903**	343,898
Noninterest Income				
Loan fees	**2,196**	2,283	**6,432**	6,805
Building lease income	**809**	882	**2,736**	2,607
Total other-than-temporary impairment losses	**—**	(4,665)	**—**	(4,665)
Portion of loss recognized in other comprehensive income	**—**	(8,552)	**—**	(10,282)
Net other-than-temporary impairment losses	**—**	(13,217)	**—**	(14,947)
Gains (losses) on investments, net	**—**	23,202	**(258)**	23,822
Gains (losses) on called debt	**(1,447)**	(10,491)	**(4,528)**	(28,428)
Gains (losses) on other transactions	**178**	(436)	**1,015**	(116)
Other noninterest income	**975**	1,302	**4,290**	4,148
Total noninterest income (loss)	**2,711**	3,525	**9,687**	(6,109)
Noninterest Expenses				
Salaries and employee benefits	**14,589**	14,779	**44,229**	44,095
Occupancy and equipment	**5,481**	5,937	**16,479**	16,456
Insurance Fund premiums	**3,373**	4,457	**10,452**	11,951
Other operating expenses	**10,373**	8,800	**28,030**	26,528
Losses (gains) from other property owned	**(8)**	(2,238)	**30**	(2,050)
Total noninterest expenses	**33,808**	31,735	**99,220**	96,980
Net income	**$ 83,463**	$ 96,840	**$ 247,370**	$ 240,809

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

Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2017	For the three months ended September 30, 2016	For the nine months ended September 30, 2017	For the nine months ended September 30, 2016
Net income	**$ 83,463**	$ 96,840	**$ 247,370**	$ 240,809
Other comprehensive income:				
Unrealized gains (losses) on investments:				
Other-than-temporarily impaired	**—**	(14,791)	**—**	(15,973)
Not other-than-temporarily impaired	**1,901**	(6,981)	**2,730**	3,745
Change in value of cash flow hedges	**191**	(85)	**464**	(22)
Employee benefit plans adjustments	**92**	84	**277**	252
Other comprehensive income (Note 5)	**2,184**	(21,773)	**3,471**	(11,998)
Comprehensive income	**$ 85,647**	$ 75,067	**$ 250,841**	$ 228,811

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

Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Additional Paid-In-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2015	$ 115,000	$ 307,483	$ 39,988	$ 656	$ 1,731,972	$ 59,922	$ 2,255,021
Comprehensive income					240,809	(11,998)	228,811
Capital stock/participation certificates issued/(retired), net		560					560
Redemption of perpetual preferred stock (Note 5)	(45,750)		12,870				(32,880)
Dividends paid on perpetual preferred stock					(1,193)		(1,193)
Retained earnings retired				(62)			(62)
Patronage distribution adjustment		13			(92)		(79)
Balance at September 30, 2016	$ 69,250	$ 308,056	$ 52,858	$ 594	$ 1,971,496	$ 47,924	$ 2,450,178
Balance at December 31, 2016	**$ 49,250**	**$ 301,905**	**$ 58,883**	**$ 559**	**$ 1,817,004**	**$ (2,353)**	**$ 2,225,248**
Comprehensive income					**247,370**	**3,471**	**250,841**
Capital stock/participation certificates issued/(retired), net		**1,118**					**1,118**
Dividends paid on perpetual preferred stock					**(841)**		**(841)**
Retained earnings retired				**(65)**			**(65)**
Patronage distribution adjustment		**2**			**(191)**		**(189)**
Balance at September 30, 2017	**$ 49,250**	**$ 303,025**	**$ 58,883**	**$ 494**	**$ 2,063,342**	**$ 1,118**	**$ 2,476,112**

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the nine months ended September 30, 2017	2016
Cash flows from operating activities:		
Net income	**$ 247,370**	$ 240,809
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	**6,221**	7,579
Amortization of net deferred loan (fees) costs and premium amortization (discount accretion)	**977**	1,146
Premium amortization (discount accretion) on investment securities	**8,458**	8,104
(Premium amortization) discount accretion on bonds and notes	**43,153**	31,690
Provision for loan losses	**(143)**	(3,618)
(Gains) losses on other property owned, net	**31**	(2,150)
Net impairment losses on investments	**—**	14,947
(Gains) losses on investments, net	**258**	(23,822)
(Gains) losses on called debt	**4,528**	28,428
(Gains) losses on other transactions	**(1,015)**	116
Net change in loans held for sale	**4,935**	5,935
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	**(9,593)**	(7,540)
(Increase) decrease in accounts receivable	**12,117**	(1,161)
Increase (decrease) in accrued interest payable	**15,943**	(11,737)
Increase (decrease) in accounts payable	**(15,860)**	(4,192)
Change in other, net	**(12,344)**	(367)
Total adjustments	**57,666**	43,358
Net cash provided by (used in) operating activities	**305,036**	284,167
Cash flows from investing activities:		
Investment securities purchased	**(2,119,266)**	(2,390,324)
Investment securities sold or matured	**2,142,045**	1,836,613
Net (increase) decrease in loans	**(263,388)**	(595,730)
(Increase) decrease in investments in other Farm Credit System institutions	**(919)**	38
Purchase of premises and equipment, net	**(5,128)**	(4,987)
Proceeds from sale of other property owned	**686**	12,125
Net cash provided by (used in) investing activities	**(245,970)**	(1,142,265)
Cash flows from financing activities:		
Bonds and notes issued	**14,203,819**	30,037,407
Bonds and notes retired	**(14,185,075)**	(27,971,003)
Capital stock and participation certificates issued/retired, net	**1,118**	573
Cash distribution to shareholders	**(252,847)**	(241,095)
Redemption of perpetual preferred stock	**—**	(32,880)
Dividends paid on perpetual preferred stock	**(841)**	(1,193)
Retained earnings retired	**(65)**	(62)
Net cash provided by (used in) financing activities	**(233,891)**	1,791,747
Net increase (decrease) in cash and cash equivalents	**(174,825)**	933,649
Cash and cash equivalents, beginning of period	**811,748**	672,622
Cash and cash equivalents, end of period	**$ 636,923**	$ 1,606,271
Supplemental schedule of non-cash activities:		
Receipt of property in settlement of loans	**$ 43**	$ 945
Change in unrealized gains (losses) on investments, net	**2,730**	(12,228)
Employee benefit plans adjustments	**(277)**	(252)
Non-cash changes related to interest rate hedging activities:		
Increase (decrease) in bonds and notes	**$ (92)**	$ (4,546)
Decrease (increase) in other assets	**92**	4,546
Supplemental information:		
Interest paid	**$ 238,220**	$ 216,855

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

Notes to the Financial Statements

(unaudited)

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

Organization
The accompanying financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst or Bank). AgFirst and its related Agricultural Credit Associations (Associations or District Associations) are collectively referred to as the AgFirst District (District). A complete description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations of the Bank as of and for the year ended December 31, 2016 are contained in the 2016 Annual Report to Shareholders. These unaudited interim financial statements should be read in conjunction with the latest Annual Report to Shareholders.

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

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

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

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

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

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

Accounting Standards Updates (ASUs) Issued During the Period
The following ASUs were issued by the Financial Accounting Standards Board (FASB) since the most recent Annual Report:

- In March 2017, the FASB issued ASU 2017-08 Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The guidance relates to certain callable debt securities and shortens the amortization period for any premium to the earliest call date. The Update will be effective for interim and annual periods beginning after December 15, 2018 for public business entities. Early adoption is permitted. The Bank is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- In February 2017, the FASB issued ASU 2017-05 Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The Update clarifies whether certain transactions are within the scope of the guidance on derecognition and the accounting for partial sales of nonfinancial assets, and defines the term in substance nonfinancial asset. The amendments conform the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue recognition standard. The amendments will be effective for reporting periods beginning after December 15, 2017 for public business entities. The Bank is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- In January 2017, the FASB issued ASU 2017-04 Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The Update simplifies the accounting for goodwill impairment for public business entities and other entities that have goodwill reported in their financial statements and have not elected the private company alternative for the subsequent measurement of goodwill. The amendment removes Step 2 of the goodwill impairment test. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The effective date and transition requirements for the technical corrections will be effective for reporting periods beginning after December 15, 2020 for public business entities that are not SEC filers. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Bank does not expect these amendments to have a material effect on its financial statements.

- In January 2017, the FASB issued ASU 2017-03 Accounting Changes and Error Corrections (Topic 250) and Investments—Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings (SEC Update). The ASU incorporates recent SEC guidance about disclosing, under SEC SAB Topic 11.M, the effect on financial statements of adopting the revenue, leases, and credit losses standards. The Update was effective upon issuance. Application of this guidance did not have a material impact on the Bank's financial condition or results of operations.

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

Potential effects of ASUs issued in previous periods:

- 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business. In January, 2017, the FASB issued this update to provide a more robust framework to use in determining when a set of assets and activities is a business. It supports more consistency in applying the guidance, reduces the costs of application, and makes the definition of a business more operable. For public business entities, the ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The amendments should be applied prospectively. The Bank is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2016-16 Income Taxes (Topic 740) - Intra-Entity Transfers of Assets Other Than Inventory: In October, 2016, the FASB issued this Update that requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. For public business entities, the amendments are effective, on a modified retrospective basis, for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The Bank is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments: In June, 2016, the FASB issued this Update to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to better estimate their credit losses. Additionally, the ASU amends the accounting

for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Bank is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2016-07 Investments Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. In March, 2016, the FASB issued this Update to simplify the accounting for equity method investments. The amendments eliminate the requirement that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Earlier application is permitted. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. The Bank is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2016-02 Leases (Topic 842): In February, 2016, the FASB issued this Update which requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. The amendments will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities. Early adoption is permitted. The Bank is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2016-01 Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities: In January, 2016, the FASB issued this Update which is intended to improve the recognition and measurement of financial instruments. The new guidance makes targeted improvements to existing GAAP. The ASU will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years for public business entities. The Bank is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2014-09 Revenue from Contracts with Customers (Topic 606): In May 2014, the FASB issued this guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. This guidance also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Based on input received from stakeholders, the FASB has issued several additional Updates that generally provide clarifying guidance where there was the potential for diversity in practice, or address the cost and complexity of applying Topic 606. The guidance and all related updates will be effective for reporting periods beginning after December 15, 2017 for public business entities. Early application is not permitted. The amendments are to be applied retrospectively. The Bank has identified ancillary revenues that will be affected by this Update. However, because financial instruments are not within the scope of the guidance, it is expected that adoption will not have a material impact on the Bank's financial condition or results of operations, but may result in additional disclosures.

Accounting Standards Effective During the Period

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

No recently adopted accounting guidance issued by the FASB had a significant effect on the current period reporting. See the most recent Annual Report for a detailed description of each of the standards below:

- 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash. In November, 2016, the FASB issued this Update to clarify that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted using a retrospective transition method to each period presented. The Bank elected retrospective early adoption of this guidance. The criteria of the standard were not significantly different from the Bank's policy in place at adoption. Application of the guidance had no impact on the Bank's Statements of Cash Flows.

- 2016-17 Consolidation (Topic 810) - Interests Held through Related Parties That Are under Common Control: In October, 2016, the FASB issued this Update to amend the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity (VIE) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. The amendments are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Application of the guidance had no impact on the Bank's financial statements.

- 2016-15 Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force): In August, 2016, the FASB issued this Update to eliminate diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The Update addresses eight specific cash flow issues with the objective of reducing existing diversity in practice. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments are to be applied using a retrospective transition method to each period presented. The Bank elected retrospective early adoption of this guidance. The criteria of the standard were not significantly different from the Bank's policy in place at adoption. Application of the guidance had no impact on the Bank's Statements of Cash Flows.

- In March, 2016, the FASB issued ASU 2016-06 Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments to clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. The Update requires the assessment to be done solely in accordance with the four-step decision sequence. The amendments were effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The amendments were applied on a modified retrospective basis to existing debt instruments at the beginning of the fiscal year. The criteria of the standard were not significantly different from the Bank's policy in place at adoption. Application of the guidance had no impact on the Bank's financial statements.

- In March, 2016, the FASB issued ASU 2016-05 Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships. The term novation refers to replacing one counterparty to a derivative instrument with a new counterparty. The amendments clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815, does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The amendments were effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The amendments were applied on a prospective basis. The criteria of the standard were not significantly different from the Bank's policy in place at adoption. Application of the guidance had no impact on the Bank's financial statements.

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

(dollars in thousands)	September 30, 2017	December 31, 2016
Direct notes	$ 15,840,167	$ 15,480,715
Real estate mortgage	1,101,674	1,056,241
Production and intermediate-term	1,044,460	1,247,467
Loans to cooperatives	469,082	480,944
Processing and marketing	789,005	848,750
Farm-related business	71,147	68,903
Communication	228,653	239,580
Power and water/waste disposal	516,902	543,052
Rural residential real estate	2,898,576	2,754,273
International	56,986	54,837
Lease receivables	7,081	8,054
Loans to other financing institutions (OFIs)	139,724	122,573
Other (including Mission Related)	8,800	9,293
Total Loans	$ 23,172,257	$ 22,914,682

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

The Bank may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. During the first quarter of 2017, two Associations canceled their participation in the Capitalized Participation Pool program with the Bank. As a result, the Associations repurchased $16.7 million of participations previously sold to AgFirst. The following tables present the principal balance of participation loans at periods ended:

	September 30, 2017							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Direct note	$ –	$ –	$ –	$ 1,022,766	$ –	$ –	$ –	$ 1,022,766
Real estate mortgage	768,629	88,861	340,757	49,554	–	–	1,109,386	138,415
Production and intermediate-term	513,250	309,918	730,408	120,659	223,115	–	1,466,773	430,577
Loans to cooperatives	–	68,027	536,028	–	2,000	–	538,028	68,027
Processing and marketing	250,644	353,254	369,640	309,650	834,985	1,500	1,455,269	664,404
Farm-related business	52,770	7,851	–	–	26,394	–	79,164	7,851
Communication	–	124,869	354,173	–	–	–	354,173	124,869
Power and water/waste disposal	–	12,562	512,544	–	18,275	–	530,819	12,562
Rural residential real estate	160	–	–	–	–	–	160	–
International	–	35,838	92,988	–	–	–	92,988	35,838
Lease receivables	7,081	–	–	–	–	–	7,081	–
Other (including Mission Related)	8,938	–	–	–	–	–	8,938	–
Total	$ 1,601,472	$1,001,180	$ 2,936,538	$ 1,502,629	$ 1,104,769	$ 1,500	$ 5,642,779	$ 2,505,309

	December 31, 2016							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Direct notes	$ –	$ –	$ –	$ 694,390	$ –	$ –	$ –	$ 694,390
Real estate mortgage	804,680	87,488	304,300	78,378	–	–	1,108,980	165,866
Production and intermediate-term	884,503	333,468	754,266	204,963	152,658	–	1,791,427	538,431
Loans to cooperatives	187	77,508	557,079	–	2,000	–	559,266	77,508
Processing and marketing	170,542	319,367	434,227	274,009	844,536	5,100	1,449,305	598,476
Farm-related business	44,597	7,016	–	–	31,500	–	76,097	7,016
Communication	–	120,669	360,990	–	–	–	360,990	120,669
Power and water/waste disposal	–	14,897	553,727	–	5,733	–	559,460	14,897
Rural residential real estate	169	–	–	–	–	–	169	–
International	–	34,127	89,068	–	–	–	89,068	34,127
Lease receivables	8,054	–	–	–	–	–	8,054	–
Other (including Mission Related)	9,436	–	–	–	–	–	9,436	–
Total	$ 1,922,168	$ 994,540	$ 3,053,657	$ 1,251,740	$ 1,036,427	$ 5,100	$ 6,012,252	$ 2,251,380

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

	September 30, 2017			
(dollars in thousands)	Due less than 1 year	Due 1 through 5 years	Due after 5 years	Total
Direct notes	$ 685,769	$ 2,893,877	$ 12,260,521	$ 15,840,167
Real estate mortgage	25,719	330,276	745,679	1,101,674
Production and intermediate-term	156,232	582,787	305,441	1,044,460
Loans to cooperatives	20,969	250,487	197,626	469,082
Processing and marketing	18,950	544,141	225,914	789,005
Farm-related business	9,834	40,005	21,308	71,147
Communication	–	188,887	39,766	228,653
Power and water/waste disposal	17,751	137,114	362,037	516,902
Rural residential real estate	65,870	12,246	2,820,460	2,898,576
International	–	46,410	10,576	56,986
Lease receivables	–	7,081	–	7,081
Loans to OFIs	133,207	6,517	–	139,724
Other (including Mission Related)	–	46	8,754	8,800
Total Loans	$ 1,134,301	$ 5,039,874	$ 16,998,082	$ 23,172,257
Percentage	4.89%	21.75%	73.36%	100.00%

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

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

	September 30, 2017	December 31, 2016
Direct notes:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Real estate mortgage:		
Acceptable	93.86%	91.79%
OAEM	1.34	2.19
Substandard/doubtful/loss	4.80	6.02
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	93.76%	93.48%
OAEM	4.84	5.30
Substandard/doubtful/loss	1.40	1.22
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	98.20%	98.02%
OAEM	–	1.81
Substandard/doubtful/loss	1.80	0.17
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	99.27%
OAEM	–	0.73
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	85.67%	73.60%
OAEM	–	–
Substandard/doubtful/loss	14.33	26.40
	100.00%	100.00%
Communication:		
Acceptable	100.00%	97.16%
OAEM	–	2.84
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Power and water/waste disposal:		
Acceptable	93.35%	92.10%
OAEM	6.65	7.90
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	99.79%	99.88%
OAEM	–	–
Substandard/doubtful/loss	0.21	0.12
	100.00%	100.00%
International:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Lease receivables:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Loans to OFIs:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Other (including Mission Related):		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total Loans:		
Acceptable	99.17%	98.89%
OAEM	0.43	0.67
Substandard/doubtful/loss	0.40	0.44
	100.00%	100.00%

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

	September 30, 2017					
(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**	**Recorded Investment 90 Days or More Past Due and Accruing Interest**
Direct notes	$ –	$ –	$ –	$ 15,877,464	$ 15,877,464	$ –
Real estate mortgage	272	3,422	3,694	1,105,313	1,109,007	–
Production and intermediate-term	–	1,783	1,783	1,047,583	1,049,366	–
Loans to cooperatives	–	–	–	469,996	469,996	–
Processing and marketing	–	–	–	790,939	790,939	–
Farm-related business	–	–	–	71,606	71,606	–
Communication	–	–	–	228,833	228,833	–
Power and water/waste disposal	–	–	–	520,291	520,291	–
Rural residential real estate	5,686	4,986	10,672	2,894,995	2,905,667	–
International	–	–	–	57,273	57,273	–
Lease receivables	–	–	–	7,096	7,096	–
Loans to OFIs	–	–	–	139,977	139,977	–
Other (including Mission Related)	–	–	–	8,943	8,943	–
Total	$ 5,958	$ 10,191	$ 16,149	$ 23,220,309	$ 23,236,458	$ –

	December 31, 2016					
(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	Recorded Investment 90 Days or More Past Due and Accruing Interest
Direct notes	$ –	$ –	$ –	$ 15,514,031	$ 15,514,031	$ –
Real estate mortgage	699	3,787	4,486	1,057,779	1,062,265	–
Production and intermediate-term	11,266	1,700	12,966	1,238,016	1,250,982	–
Loans to cooperatives	–	–	–	481,767	481,767	–
Processing and marketing	–	–	–	850,996	850,996	–
Farm-related business	–	–	–	69,340	69,340	–
Communication	–	–	–	239,743	239,743	–
Power and water/waste disposal	–	–	–	545,489	545,489	–
Rural residential real estate	41,475	4,201	45,676	2,715,087	2,760,763	–
International	–	–	–	55,383	55,383	–
Lease receivables	–	–	–	8,071	8,071	–
Loans to OFIs	–	–	–	122,772	122,772	–
Other (including Mission Related)	–	–	–	9,402	9,402	–
Total	$ 53,440	$ 9,688	$ 63,128	$ 22,907,876	$ 22,971,004	$ –

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

(dollars in thousands)	September 30, 2017	December 31, 2016
Nonaccrual loans:		
Real estate mortgage	$ 7,875	$ 9,153
Production and intermediate-term	3,542	13,135
Rural residential real estate	9,978	6,690
Total	$ 21,395	$ 28,978
Accruing restructured loans:		
Real estate mortgage	$ 1,051	$ 406
Production and intermediate-term	8,857	9,445
Rural residential real estate	1,874	1,558
Other (including Mission Related)	4,375	4,262
Total	$ 16,157	$ 15,671
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 37,552	$ 44,649
Other property owned	2,501	3,346
Total nonperforming assets	$ 40,053	$ 47,995
Nonaccrual loans as a percentage of total loans	0.09%	0.13%
Nonperforming assets as a percentage of total loans and other property owned	0.17%	0.21%
Nonperforming assets as a percentage of capital	1.62%	2.16%

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

(dollars in thousands)	September 30, 2017	December 31, 2016
Impaired nonaccrual loans:		
Current as to principal and interest	$ 10,419	$ 6,113
Past due	10,976	22,865
Total	$ 21,395	$ 28,978
Impaired accrual loans:		
Restructured	$ 16,157	$ 15,671
90 days or more past due	–	–
Total	$ 16,157	$ 15,671
Total impaired loans	$ 37,552	$ 44,649
Additional commitments to lend	$ –	$ –

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

(dollars in thousands)	September 30, 2017			Quarter Ended September 30, 2017		Nine Months Ended September 30, 2017	
Impaired Loans	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:							
Real estate mortgage	$ 71	$ 71	$ 4	$ 2	$ –	$ 167	$ –
Production and intermediate-term	169	169	33	169	–	141	–
Rural residential real estate	1,191	1,190	69	36	–	51	–
Other (including Mission Related)	4,375	4,293	153	4,293	60	4,343	201
Total	$ 5,806	$ 5,723	$ 259	$ 4,500	$ 60	$ 4,702	$ 201
With no related allowance for credit losses:							
Real estate mortgage	$ 8,855	$ 12,209	$ –	$ 9,070	$ 37	$ 8,989	$ 252
Production and intermediate-term	12,230	20,603	–	12,305	247	13,941	1,578
Rural residential real estate	10,661	10,655	–	9,981	110	8,738	288
Other (including Mission Related)	–	–	–	–	–	–	–
Total	$ 31,746	$ 43,467	$ –	$ 31,356	$ 394	$ 31,668	$ 2,118
Total:							
Real estate mortgage	$ 8,926	$ 12,280	$ 4	$ 9,072	$ 37	$ 9,156	$ 252
Production and intermediate-term	12,399	20,772	33	12,474	247	14,082	1,578
Rural residential real estate	11,852	11,845	69	10,017	110	8,789	288
Other (including Mission Related)	4,375	4,293	153	4,293	60	4,343	201
Total	$ 37,552	$ 49,190	$ 259	$ 35,856	$ 454	$ 36,370	$ 2,319

(dollars in thousands)	December 31, 2016			Year Ended December 31, 2016	
Impaired Loans	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 1,069	$ 1,365	$ 97	$ 1,118	$ –
Production and intermediate-term	–	–	–	2,237	–
Rural residential real estate	579	499	71	60	–
Other (including Mission Related)	4,262	4,267	153	4,298	23
Total	$ 5,910	$ 6,131	$ 321	$ 7,713	$ 23
With no related allowance for credit losses:					
Real estate mortgage	$ 8,490	$ 11,703	$ –	$ 13,850	$ 435
Production and intermediate-term	22,580	31,402	–	15,720	2,825
Rural residential real estate	7,669	7,729	–	6,262	262
Other (including Mission Related)	–	–	–	310	245
Total	$ 38,739	$ 50,834	$ –	$ 36,142	$ 3,767
Total:					
Real estate mortgage	$ 9,559	$ 13,068	$ 97	$ 14,968	$ 435
Production and intermediate-term	22,580	31,402	–	17,957	2,825
Rural residential real estate	8,248	8,228	71	6,322	262
Other (including Mission Related)	4,262	4,267	153	4,608	268
Total	$ 44,649	$ 56,965	$ 321	$ 43,855	$ 3,790

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

(dollars in thousands)	Direct Note	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Other**	Total
Activity related to the allowance for credit losses:										
Balance at June 30, 2017	$ –	$ 2,266	$ 3,482	$ 3,753	$ 794	$ 1,778	$ 3,039	$ 41	$ 242	$ 15,395
Charge-offs	–	–	–	–	–	–	(5)	–	–	(5)
Recoveries	–	1	27	–	–	–	–	–	–	28
Provision for loan losses	–	(250)	(362)	(166)	(34)	(92)	232	–	4	(668)
Balance at September 30, 2017	$ –	$ 2,017	$ 3,147	$ 3,587	$ 760	$ 1,686	$ 3,266	$ 41	$ 246	$ 14,750
Balance at December 31, 2016	$ –	$ 2,569	$ 3,039	$ 3,287	$ 899	$ 1,997	$ 2,688	$ 58	$ 246	$ 14,783
Charge-offs	–	–	–	–	–	–	(89)	–	–	(89)
Recoveries	–	35	164	–	–	–	–	–	–	199
Provision for loan losses	–	(554)	(89)	300	(139)	(311)	667	(17)	–	(143)
Loan type reclassification	–	(33)	33	–	–	–	–	–	–	–
Balance at September 30, 2017	$ –	$ 2,017	$ 3,147	$ 3,587	$ 760	$ 1,686	$ 3,266	$ 41	$ 246	$ 14,750
Balance at June 30, 2016	$ –	$ 3,281	$ 4,964	$ 3,451	$ 997	$ 2,231	$ 2,232	$ 136	$ 232	$ 17,524
Charge-offs	–	–	(8)	–	–	–	(15)	–	–	(23)
Recoveries	–	4,506	–	–	–	–	–	–	–	4,506
Provision for loan losses	–	(4,581)	(778)	(212)	(78)	(241)	255	(50)	18	(5,667)
Balance at September 30, 2016	$ –	$ 3,206	$ 4,178	$ 3,239	$ 919	$ 1,990	$ 2,472	$ 86	$ 250	$ 16,340
Balance at December 31, 2015	$ –	$ 3,615	$ 4,779	$ 2,243	$ 777	$ 1,646	$ 1,770	$ 79	$ 204	$ 15,113
Charge-offs	–	(55)	(8)	–	–	–	(110)	–	–	(173)
Recoveries	–	4,511	194	313	–	–	–	–	–	5,018
Provision for loan losses	–	(4,865)	(787)	683	142	344	812	7	46	(3,618)
Balance at September 30, 2016	$ –	$ 3,206	$ 4,178	$ 3,239	$ 919	$ 1,990	$ 2,472	$ 86	$ 250	$ 16,340
Allowance on loans evaluated for impairment:										
Individually	$ –	$ 4	$ 33	$ –	$ –	$ –	$ 69	$ –	$ 153	$ 259
Collectively	–	2,013	3,114	3,587	760	1,686	3,197	41	93	14,491
Balance at September 30, 2017	$ –	$ 2,017	$ 3,147	$ 3,587	$ 760	$ 1,686	$ 3,266	$ 41	$ 246	$ 14,750
Individually	$ –	$ 97	$ –	$ –	$ –	$ –	$ 71	$ –	$ 153	$ 321
Collectively	–	2,472	3,039	3,287	899	1,997	2,617	58	93	14,462
Balance at December 31, 2016	$ –	$ 2,569	$ 3,039	$ 3,287	$ 899	$ 1,997	$ 2,688	$ 58	$ 246	$ 14,783
Recorded investment in loans evaluated for impairment:										
Individually	$ 15,877,464	$ 147,685	$ 12,398	$ –	$ –	$ –	$ 1,540,001	$ –	$ 4,375	$ 17,581,923
Collectively	–	961,322	1,036,968	1,332,541	228,833	520,291	1,365,666	57,273	151,641	5,654,535
Balance at September 30, 2017	$ 15,877,464	$ 1,109,007	$ 1,049,366	$ 1,332,541	$ 228,833	$ 520,291	$ 2,905,667	$ 57,273	$ 156,016	$ 23,236,458
Individually	$ 15,514,031	$ 121,444	$ 22,580	$ 1,788	$ –	$ –	$ 1,664,394	$ –	$ 4,262	$ 17,328,499
Collectively	–	940,821	1,228,402	1,400,315	239,743	545,489	1,096,369	55,383	135,983	5,642,505
Balance at December 31, 2016	$ 15,514,031	$ 1,062,265	$ 1,250,982	$ 1,402,103	$ 239,743	$ 545,489	$ 2,760,763	$ 55,383	$ 140,245	$ 22,971,004

**Includes the loan types: Loans to cooperatives, Processing and marketing, and Farm-related business.*
***Includes the loan types: Mission Related Loans, Loans to OFIs, and Lease Receivables.*

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. The tables do not include any purchased credit impaired loans.

(dollars in thousands)	Three months ended September 30, 2017				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification					
Rural residential real estate	$ 155	$ –	$	$ 155	
Total	$ 155	$ –	$	$ 155	
Post-modification					
Rural residential real estate	$ 166	$ –	$	$ 166	$ –
Total	$ 166	$ –	$	$ 166	$ –

(dollars in thousands)	Nine months ended September 30, 2017				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification					
Rural residential real estate	$ 349	$ 132	$ –	$ 481	
Total	$ 349	$ 132	$ –	$ 481	
Post-modification					
Rural residential real estate	$ 394	$ 135	$ –	$ 529	$ –
Total	$ 394	$ 135	$ –	$ 529	$ –

(dollars in thousands)	Three months ended September 30, 2016				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification					
Rural residential real estate	$ 202	$ –	$ –	$ 202	
Total	$ 202	$ –	$ –	$ 202	
Post-modification					
Rural residential real estate	$ 205	$ –	$ –	$ 205	$ –
Total	$ 205	$ –	$ –	$ 205	$ –

(dollars in thousands)	Nine months ended September 30, 2016				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification					
Real estate mortgage	$ –	$ 467	$ –	$ 467	
Rural residential real estate	401	92	–	493	
Total	$ 401	$ 559	$ –	$ 960	
Post-modification					
Real estate mortgage	$ –	$ 467	$ –	$ 467	$ –
Rural residential real estate	411	96	–	507	–
Total	$ 411	$ 563	$ –	$ 974	$ –

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	**2016**	**2017**	**2016**
Defaulted troubled debt restructurings:				
Rural residential real estate	$ 169	$ –	$ 397	$ 209
Total	$ 169	$ –	$ 397	$ 209

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

	Total TDRs		Nonaccrual TDRs	
(dollars in thousands)	**September 30, 2017**	**December 31, 2016**	**September 30, 2017**	**December 31, 2016**
Real estate mortgage	$ 7,440	$ 7,693	$ 6,389	$ 7,287
Production and intermediate-term	9,799	10,407	942	962
Rural residential real estate	2,920	2,427	1,046	869
Other (including Mission Related)	4,375	4,262	–	–
Total	$ 24,534	$ 24,789	$ 8,377	$ 9,118
Additional commitments to lend	$ –	$ –		

The following table presents foreclosure information as of period end:

	September 30, 2017
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	$ 108
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ 1,213

Note 3 — Investments

Investment Securities
AgFirst's investments consist primarily of mortgage-backed securities (MBSs) collateralized by U.S. government or U.S. agency guaranteed residential and commercial mortgages (agency securities). They are held to maintain a liquidity reserve, manage short-term surplus funds, and manage interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

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

The FCA considers a non-agency security ineligible if it falls below AAA/Aaa credit rating criteria and requires Farm Credit System (System) institutions to provide notification to the FCA when a security becomes ineligible. In August, 2016, the Bank disposed of its non-agency CMO and ABS securities not rated in the top category by at least one of the NRSROs.

Held-to-maturity investments consist of Mission Related Investments acquired primarily under the Rural Housing Mortgage-Backed Securities (RHMS) and Rural America Bond (RAB) pilot programs. RHMS must be fully guaranteed by a government agency or government sponsored enterprise. RABs are private placement securities, which generally have some form of credit enhancement.

In its Conditions of Approval for the program, the FCA considers an RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9. The FCA requires System institutions to provide notification when a security becomes ineligible. At September 30, 2017, the Bank held one RAB whose credit quality had deteriorated beyond the program limits.

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

An agreement with a commercial bank requires AgFirst to maintain $50.0 million as a compensating balance. At September 30, 2017, the Bank held $27.5 million in U.S. Treasury securities for that purpose. The remainder of the compensating balance was held in cash in a demand deposit account. These securities are excluded when calculating the amount of eligible liquidity investments.

The Bank also holds certain equity investments in Money Market funds. These funds are accounted for as investment securities but are classified as Cash Equivalents in the Balance Sheet and Statement of Cash Flows.

During the first nine months of 2017, proceeds from sales of investments were $77.2 million and realized losses were $258 thousand. During the first nine months of 2016, proceeds from sales of investments were $155.3 million and realized gains were $23.8 million.

Available-for-sale

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

	September 30, 2017				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Treasury Securities	$ 326,559	$ 46	$ (206)	$ 326,399	1.09%
U.S. Govt. Guaranteed	4,564,404	39,031	(21,437)	4,581,998	1.98
U.S. Govt. Agency Guaranteed	2,044,453	7,362	(18,663)	2,033,152	1.81
Non-Agency ABSs	589,399	284	(1,125)	588,558	1.57
Total	$ 7,524,815	$ 46,723	$ (41,431)	$ 7,530,107	1.86%

	December 31, 2016				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Treasury Securities	$ 342,171	$ 12	$ (235)	$ 341,948	0.56%
U.S. Govt. Guaranteed	4,255,293	41,462	(22,469)	4,274,286	1.61
U.S. Govt. Agency Guaranteed	2,265,945	10,763	(26,085)	2,250,623	1.37
Non-Agency ABSs	624,870	163	(1,049)	623,984	1.20
Total	$ 7,488,279	$ 52,400	$ (49,838)	$ 7,490,841	1.46%

Held-to-maturity

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

	September 30, 2017				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	$ 414,683	$ 9,236	$ (5,416)	$ 418,503	3.14%
RABs and Other	59,104	3,870	(164)	62,810	6.08
Total	$ 473,787	$ 13,106	$ (5,580)	$ 481,313	3.50%

	December 31, 2016				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	$ 462,888	$ 10,553	$ (8,505)	$ 464,936	2.98%
RABs and Other	78,466	3,685	(1,161)	80,990	6.00
Total	$ 541,354	$ 14,238	$ (9,666)	$ 545,926	3.41%

A summary of the contractual maturity, estimated fair value and amortized cost of investment securities at September 30, 2017 follows:

Available-for-sale

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Treasury Securities	$ 299,123	1.10%	$ 27,276	0.94 %	$ –	– %	$ –	– %	$ 326,399	1.09 %
U.S. Govt. Guaranteed	–	–	–	–	89,976	1.77	4,492,022	1.99	4,581,998	1.98
U.S. Govt. Agency Guaranteed	135	(1.25)	205,059	1.75	180,332	1.85	1,647,626	1.81	2,033,152	1.81
Non-Agency ABSs	1,035	1.40	418,346	1.46	169,177	1.83	–	–	588,558	1.57
Total fair value	$ 300,293	1.10%	$ 650,681	1.53 %	$ 439,485	1.82 %	$ 6,139,648	1.94 %	$ 7,530,107	1.86 %
Total amortized cost	$ 300,248		$ 651,421		$ 439,374		$ 6,133,772		$ 7,524,815	

Held-to-maturity

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Agency Guaranteed	$ –	– %	$ 58	4.32 %	$ –	– %	$ 414,625	3.14 %	$ 414,683	3.14 %
RABs and Other	3,004	5.00	16,448	6.39	13,630	6.12	26,022	5.99	59,104	6.08
Total amortized cost	$ 3,004	5.00 %	$ 16,506	6.39 %	$ 13,630	6.12 %	$ 440,647	3.30 %	$ 473,787	3.50 %
Total fair value	$ 3,002		$ 16,927		$ 14,767		$ 446,617		$ 481,313	

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

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

	September 30, 2017					
	Less than 12 Months		12 Months or Greater		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Treasury Securities	$ 64,630	$ (61)	$ 12,355	$ (145)	$ 76,985	$ (206)
U.S. Govt. Guaranteed	1,694,992	(12,590)	916,932	(8,847)	2,611,924	(21,437)
U.S. Govt. Agency Guaranteed	812,295	(14,500)	860,951	(9,579)	1,673,246	(24,079)
Non-Agency ABSs	371,713	(892)	63,304	(233)	435,017	(1,125)
RABs and Other	–	–	6,797	(164)	6,797	(164)
Total	$ 2,943,630	$ (28,043)	$ 1,860,339	$ (18,968)	$ 4,803,969	$ (47,011)

	December 31, 2016					
	Less than 12 Months		12 Months or Greater		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Treasury Securities	$ 142,097	$ (235)	$ –	$ –	$ 142,097	$ (235)
U.S. Govt. Guaranteed	2,069,868	(18,855)	446,237	(3,614)	2,516,105	(22,469)
U.S. Govt. Agency Guaranteed	1,273,491	(26,423)	694,614	(8,167)	1,968,105	(34,590)
Non-Agency ABSs	374,745	(1,049)	–	–	374,745	(1,049)
RABs and Other	5,851	(210)	7,643	(951)	13,494	(1,161)
Total	$ 3,866,052	$ (46,772)	$ 1,148,494	$ (12,732)	$ 5,014,546	$ (59,504)

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

The Bank performs periodic credit reviews, including other-than-temporary impairment (OTTI) analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary

include among others: (1) the length of time and the extent to which the fair value is less than cost, (2) adverse conditions specifically related to the industry, (3) geographic area and the condition of the underlying collateral, (4) payment structure of the security, (5) ratings by rating agencies, (6) the creditworthiness of bond insurers, and (7) volatility of the fair value changes.

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

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

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

When the Bank does not intend to sell other-than-temporarily impaired debt securities and is not more likely than not to be required to sell before recovery, the total OTTI is reflected in the Statements of Income with: (1) a net other-than-temporary impairment amount related to estimated credit loss, and (2) an amount relating to all other factors, recognized as a reclassification to or from Other Comprehensive Income (OCI).

For the nine months ended September 30, 2017, net unrealized gains of $2.7 million were recognized in OCI on available-for-sale investments that are not other-than-temporarily impaired.

The following schedule details the activity related to cumulative credit losses on investments recognized in earnings for which a portion of an other-than-temporary impairment was recognized in OCI:

	For the three months ended September 30,		For the nine months ended September 30,	
(dollars in thousands)	**2017**	**2016**	**2017**	**2016**
Amount related to credit loss-beginning balance	$ –	$ 56,943	$ –	$ 56,692
Additions for initial credit impairments	–	4,665	–	4,665
Additions for subsequent credit impairments	–	8,552	–	10,282
Reductions for increases in expected cash flows	–	(335)	–	(1,814)
Reductions for securities sold/settled/matured	–	(69,825)	–	(69,825)
Amount related to credit loss-ending balance	$ –	$ –	$ –	$ –
Life to date incurred credit losses	–	–	–	–
Remaining unrealized credit losses	$ –	$ –	$ –	$ –

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

The following table summarizes gains (losses) for the period related to equity securities:

	Three months ended September 30,		Nine months ended September 30,	
	2017	**2016**	**2017**	**2016**
Net gains (losses) on equity securities				
Net gains (losses) recognized	$ 53	$ –	$ 53	$ –
Less realized net gains (losses)	18	–	18	–
Unrealized gains (losses)	$ 35	$ –	$ 35	$ –

Note 4 — Debt

Bonds and Notes

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

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

The System may issue the following types of Systemwide Debt Securities:

- Federal Farm Credit Banks Consolidated Systemwide Bonds,
- Federal Farm Credit Banks Consolidated Systemwide Discount Notes,
- Federal Farm Credit Banks Consolidated Systemwide Master Notes,
- Federal Farm Credit Banks Global Debt Securities, and
- Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes.

Additional information regarding Systemwide Debt Securities can be found in their respective offering circulars.

The following table provides a summary of AgFirst's participation in outstanding Systemwide Debt Securities by maturity. Weighted average interest rates include the effect of related derivative financial instruments.

	September 30, 2017					
(dollars in thousands)	Bonds		Discount Notes		Total	
Maturities	**Amortized Cost**	**Weighted Average Interest Rate**	**Amortized Cost**	**Weighted Average Interest Rate**	**Amortized Cost**	**Weighted Average Interest Rate**
One year or less	$ 7,374,465	1.20%	$ 5,412,453	1.14%	$ 12,786,918	1.17%
Greater than one year to two years	5,714,060	1.24	–	–	5,714,060	1.24
Greater than two years to three years	2,857,043	1.42	–	–	2,857,043	1.42
Greater than three years to four years	1,881,591	1.63	–	–	1,881,591	1.63
Greater than four years to five years	1,672,158	1.78	–	–	1,672,158	1.78
Greater than five years	4,563,045	2.45	–	–	4,563,045	2.45
Total	$ 24,062,362	1.55%	$ 5,412,453	1.14%	$ 29,474,815	1.47%

Discount notes are issued with maturities ranging from 1 to 365 days. The average maturity of discount notes at September 30, 2017 was 165 days.

Note 5 — Shareholders' Equity

Perpetual Preferred Stock

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

During 2016, the Bank repurchased through privately negotiated transactions, and subsequently cancelled, Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with a par value totaling $65.8 million. The effect of the repurchases on shareholders' equity was to reduce preferred stock outstanding by $65.8 million and to increase additional paid-in capital by $18.9 million.

Accumulated Other Comprehensive Income

The following presents activity related to AOCI for the periods presented below:

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

(dollars in thousands)	For the three months ended September 30, 2017	For the three months ended September 30, 2016	For the nine months ended September 30, 2017	For the nine months ended September 30, 2016
Investment Securities:				
Balance at beginning of period	$ 3,390	$ 74,529	$ 2,561	$ 64,985
Other comprehensive income before reclassifications	1,901	(11,787)	2,472	(3,353)
Amounts reclassified from AOCI	–	(9,985)	258	(8,875)
Net current period other comprehensive income	1,901	(21,772)	2,730	(12,228)
Balance at end of period	$ 5,291	$ 52,757	$ 5,291	$ 52,757
Cash Flow Hedges:				
Balance at beginning of period	$ (565)	$ (894)	$ (838)	$ (957)
Other comprehensive income before reclassifications	(57)	(2)	(103)	3
Amounts reclassified from AOCI	248	(83)	567	(25)
Net current period other comprehensive income	191	(85)	464	(22)
Balance at end of period	$ (374)	$ (979)	$ (374)	$ (979)
Employee Benefit Plans:				
Balance at beginning of period	$ (3,891)	$ (3,938)	$ (4,076)	$ (4,106)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	92	84	277	252
Net current period other comprehensive income	92	84	277	252
Balance at end of period	$ (3,799)	$ (3,854)	$ (3,799)	$ (3,854)
Total Accumulated Other Comprehensive Income:				
Balance at beginning of period	$ (1,066)	$ 69,697	$ (2,353)	$ 59,922
Other comprehensive income before reclassifications	1,844	(11,789)	2,369	(3,350)
Amounts reclassified from AOCI	340	(9,984)	1,102	(8,648)
Net current period other comprehensive income	2,184	(21,773)	3,471	(11,998)
Balance at end of period	$ 1,118	$ 47,924	$ 1,118	$ 47,924

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

(dollars in thousands)	For the three months ended September 30, 2017	For the three months ended September 30, 2016	For the nine months ended September 30, 2017	For the nine months ended September 30, 2016	Income Statement Line Item
Investment Securities:					
Sales gains & losses	$ –	$ 23,202	$ (258)	$ 23,822	Gains (losses) on investments, net
Holding gains & losses	–	(13,217)	–	(14,947)	Net other-than-temporary impairment
Net amounts reclassified	–	9,985	(258)	8,875	
Cash Flow Hedges:					
Interest income	(191)	85	(464)	22	See Note 10.
Gains (losses) on other transactions	(57)	(2)	(103)	3	See Note 10.
Net amounts reclassified	(248)	83	(567)	25	
Employee Benefit Plans:					
Periodic pension costs	(92)	(84)	(277)	(252)	See Note 7.
Net amounts reclassified	(92)	(84)	(277)	(252)	
Total reclassifications for period	$ (340)	$ 9,984	$ (1,102)	$ 8,648	

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

Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

On December 31, 2016, agency collateralized CMOs with a fair value of $27.6 million were transferred into Level 3 to reflect a change in valuation technique. The modeling technique previously used to value them was no longer available, the bonds were nearing end of life, and third-party valuation services generally would not provide prices for them. The Bank began employing a valuation technique based on multiple factors including information obtained from broker-dealers using Level 3 inputs.

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

(dollars in thousands)		**Agency Collateralized CMOs**
Balance at December 31, 2016	$	27,582
Gains or (losses) included in earnings		(446)
Gains or (losses) included in OCI		634
Purchases		–
Sales		(24,981)
Settlements		(2,789)
Transfers in and/or out of Level 3		–
Balance at September 30, 2017	$	–

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

	At or for the Nine Months Ended September 30, 2017					
(dollars in thousands)	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. Treasury Securities	$ 326,399	$ –	$ 326,399	$ –	$ 326,399	
U.S. Govt. Guaranteed	4,581,998	–	4,581,998	–	4,581,998	
U.S. Govt. Agency Guaranteed	2,033,152	–	2,033,152	–	2,033,152	
Non-Agency ABSs	588,558	–	588,558	–	588,558	
Total investments available-for-sale	7,530,107	–	7,530,107	–	7,530,107	
Federal funds sold, securities purchased under resale agreements, and other	150,000	–	150,000	–	150,000	
Interest rate swaps and other derivative instruments	–	–	–	–	–	
Money Market funds	100,946	100,946	–	–	100,946	
Assets held in trust funds	12,578	12,578	–	–	12,578	
Recurring Assets	$ 7,793,631	$ 113,524	$ 7,680,107	$ –	$ 7,793,631	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	–	–	–	–	–	
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 5,547	$ –	$ –	$ 5,547	$ 5,547	$ 172
Other property owned	2,501	–	–	2,862	2,862	(31)
Nonrecurring Assets	$ 8,048	$ –	$ –	$ 8,409	$ 8,409	$ 141
Other Financial Instruments						
Assets:						
Cash	$ 385,977	$ 385,977	$ –	$ –	$ 385,977	
Investments held to maturity	473,787	–	418,503	62,810	481,313	
Loans	23,151,960	–	–	23,097,553	23,097,553	
Other Financial Assets	$ 24,011,724	$ 385,977	$ 418,503	$ 23,160,363	$ 23,964,843	
Liabilities:						
Systemwide debt securities	$ 29,474,815	$ –	$ –	$ 29,428,591	$ 29,428,591	
Other Financial Liabilities	$ 29,474,815	$ –	$ –	$ 29,428,591	$ 29,428,591	

(dollars in thousands)	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
	At or for the Year Ended December 31, 2016					
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. Treasury Securities	$ 341,948	$ –	$ 341,948	$ –	$ 341,948	
U.S. Govt. Guaranteed	4,274,286	–	4,249,239	25,047	4,274,286	
U.S. Govt. Agency Guaranteed	2,250,623	–	2,248,088	2,535	2,250,623	
Non-Agency ABSs	623,984	–	623,984	–	623,984	
Total investments available-for-sale	7,490,841	–	7,463,259	27,582	7,490,841	
Federal funds sold, securities purchased under resale agreements, and other	262,624	–	262,624	–	262,624	
Interest rate swaps and other derivative instruments	92	–	92	–	92	
Assets held in trust funds	10,147	10,147	–	–	10,147	
Recurring Assets	$ 7,763,704	$ 10,147	$ 7,725,975	$ 27,582	$ 7,763,704	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	–	–	–	–	–	
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans*	$ 5,589	$ –	$ –	$ 5,589	$ 5,589	$ 5,968
Other property owned	3,346	–	–	3,625	3,625	2,183
Nonrecurring Assets	$ 8,935	$ –	$ –	$ 9,214	$ 9,214	$ 8,151
Other Financial Instruments						
Assets:						
Cash	$ 549,124	$ 549,124	$ –	$ –	$ 549,124	
Investments held to maturity	541,354	–	464,936	80,990	545,926	
Loans*	22,894,310	–	–	22,730,150	22,730,150	
Other Financial Assets	$ 23,984,788	$ 549,124	$ 464,936	$ 22,811,140	$ 23,825,200	
Liabilities:						
Systemwide debt securities	$ 29,408,483	$ –	$ –	$ 29,285,303	$ 29,285,303	
Other Financial Liabilities	$ 29,408,483	$ –	$ –	$ 29,285,303	$ 29,285,303	

**Subsequent to the issuance of the 2016 Annual Report, management identified errors in the reporting of certain loans measured at fair value on a non-recurring basis using Level 3. Management has evaluated the impact of the errors on the disclosure in this note and concluded that individually and in the aggregate, the errors do not result in a material misstatement of the previously issued financial statements. The Level 3 fair values of impaired loans and loans reported for December 31, 2016 have been revised from the previously reported amounts of $44.3 million and $22.691 billion to $5.6 million and $22.730 billion, respectively.*

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

Investment Securities

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

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

Derivative Instruments

Level 3 derivative instruments consist of forward contracts that represent a hedge of an unrecognized firm commitment to purchase agency securities at a future date. The value of the forward is the difference between the fair value of the security at inception of the forward and the measurement date. Significant inputs for these valuations would be discount rate and volatility. These Level 3 derivatives would decrease (increase) in value based upon an increase (decrease) in the discount rate.

Generally, for derivative instruments which are subject to changes in the value of the underlying referenced instrument, change in the assumption used for default rate is accompanied by directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayment rates.

Unobservable inputs for discount rate and volatility do not increase or decrease based on movements in other significant unobservable inputs for these Level 3 instruments.

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Investments available-for-sale	$ –	Vendor priced	Price adjustment	-1.000
Impaired loans and other property owned	$ 8,409	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

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

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Cash and cash equivalents	Carrying value	Par/principal and appropriate interest yield
RABs and other	Discounted cash flow	Risk adjusted spread
		Prepayment rates
		Probability of default
		Loss severity
Assets held in trust funds	Quoted prices	Price for identical security
Bonds and notes	Discounted cash flow	Benchmark yield curve
		Derived yield spread
		Own credit risk
Cash collateral	Carrying value	Par/principal and appropriate interest yield

Note 7 — Employee Benefit Plans

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

	For the three months ended September 30,		For the nine months ended September 30,	
(dollars in thousands)	2017	2016	2017	2016
Pension	$ 1,476	$ 2,255	$ 4,430	$ 6,765
401k	683	656	2,073	1,900
Other postretirement benefits	216	356	723	1,069
Total	$ 2,375	$ 3,267	$ 7,226	$ 9,734

Following are retirement and other postretirement benefit contributions for the Bank. Projections are based upon actuarially determined amounts as of the most recent measurement date of December 31, 2016.

(dollars in thousands)	Actual YTD Through 9/30/17	Projected Contributions for Remainder of 2017	Projected Total Contributions 2017
Pensions	$ 418	$ 4,429	$ 4,847
Other postretirement benefits	730	271	1,001
Total	$ 1,148	$ 4,700	$ 5,848

Contributions in the above table include allocated estimates of funding for multiemployer plans in which the Bank participates. These amounts may change when a total funding amount and allocation is determined by the respective Plans' Sponsor Committees. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2017.

Further details regarding employee benefit plans are contained in the most recent Annual Report to Shareholders. As of March 31, 2017, the AgFirst Farm Credit Cash Balance Retirement Plan had been terminated and all vested benefits had been distributed to participants.

Note 8 — Commitments and Contingencies

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

In the event a bank is unable to timely pay principal or interest on an insured debt obligation for which the bank is primarily liable, the Farm Credit System Insurance Corporation (FCSIC) must expend amounts in the Insurance Fund to the extent available to ensure the timely payment of principal and interest on the insured debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the banks on the obligation cannot be invoked until the amounts in the Insurance Fund have been exhausted. However, because of other mandatory and discretionary uses of the Insurance Fund, there is no assurance that there will be sufficient funds to pay the principal or interest on the insured debt obligation.

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

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

(dollars in billions)	**9/30/17**	**12/31/16**
Total System bonds and notes	$ 257.851	$ 257.782
AgFirst bonds and notes	$ 29.475	$ 29.408

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

Note 9 — Additional Financial Information

Offsetting of Financial and Derivative Assets

	September 30, 2017					
				Gross Amounts Not Offset in the Balance Sheets		
(dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets Presented in the Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	$ –	$ –	$ –	$ –	$ –	$ –
Reverse repurchase and similar arrangements	150,000	–	150,000	(150,000)	–	–
Total	$ 150,000	$ –	$ 150,000	$ (150,000)	$ –	$ –

	December 31, 2016					
				Gross Amounts Not Offset in the Balance Sheets		
(dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets Presented in the Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	$ 92	$ –	$ 92	$ –	$ –	$ 92
Reverse repurchase and similar arrangements	262,624	–	262,624	(262,624)	–	–
Total	$ 262,716	$ –	$ 262,716	$ (262,624)	$ –	$ 92

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

A description of the rights of setoff associated with recognized derivative assets and liabilities subject to enforceable master netting arrangements is located in Note 10, *Derivative Financial Instruments and Hedging Activities*.

The reverse repurchase agreements are accounted for as collateralized lending.

Combined ACA Only Financial Data (Unaudited)

Condensed financial information for the combined District Associations follows. All significant transactions and balances between the Associations are eliminated in combination.

Combined financial statements of the District Associations and the Bank are included in the AgFirst Farm Credit Bank and District Associations' Third Quarter 2017 Report and 2016 Annual Report. Eliminations for all significant transactions and balances between the Bank and the District Associations are reflected in the combined financial statements included in that report. In addition, the multiemployer structure of certain of the District's retirement and benefit plans results in the recording of these plans only in the District's combined financial statements.

Balance Sheet *(dollars in thousands)*	**September 30, 2017**	**December 31, 2016**
Cash and investment securities	$ 86,790	$ 121,948
Loans	20,919,600	20,059,952
Allowance for loan losses	(175,854)	(167,817)
Net loans	20,743,746	19,892,135
Other assets	862,318	971,468
Total assets	$ 21,692,854	$ 20,985,551
Direct note	$ 16,863,287	$ 16,175,477
Other liabilities	367,729	553,179
Total liabilities	17,231,016	16,728,656
Capital stock and participation certificates	191,549	199,453
Additional paid-in-capital	23,691	23,691
Retained earnings	4,277,468	4,066,721
Accumulated other comprehensive income (loss)	(30,870)	(32,970)
Total shareholders' equity	4,461,838	4,256,895
Total liabilities and shareholders' equity	$ 21,692,854	$ 20,985,551

Statements of Income	**For the nine months ended September 30,**	
(dollars in thousands)	**2017**	**2016**
Interest income	$ 767,560	$ 714,126
Interest expense	329,483	290,797
Net interest income	438,077	423,329
Provision for (reversal of allowance for) loan losses	8,797	2,333
Net interest income after provision for (reversal of allowance for) loan losses	429,280	420,996
Noninterest income	137,845	139,067
Noninterest expenses		
Salaries and employee benefits	193,285	197,979
Occupancy and equipment	14,725	14,957
Insurance Fund premiums	16,888	17,751
Other operating expenses	57,675	57,751
Losses (gains) from other property owned	1,575	1,841
Total noninterest expenses	284,148	290,279
Income (loss) before taxes	282,977	269,784
Provision for income taxes	644	328
Net income	$ 282,333	$ 269,456

Note 10 — Derivative Financial Instruments and Hedging Activities

One of the Bank's goals is to minimize interest rate sensitivity by managing the repricing characteristics of assets and liabilities so that the net interest margin is not adversely affected by movements in interest rates. The Bank maintains an overall interest rate risk management strategy that may incorporate the use of derivative instruments to achieve that goal. Currently, the primary derivative type used by the Bank is interest rate swaps, which convert fixed interest rate debt to a lower floating interest rate than was achievable from issuing floating rate debt with identical repricing characteristics. They may allow the Bank to lower funding costs, diversify sources of funding, or alter interest rate exposures arising from mismatches between assets and liabilities. Under these arrangements, the

Bank agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index.

The Bank may also purchase interest rate derivatives, such as caps, in order to reduce the impact of rising interest rates on its floating-rate debt, and floors, in order to reduce the impact of falling interest rates on its floating-rate assets. In addition, the Bank may also fix a price to be paid in the future which qualifies as a derivative forward contract.

As a result of interest rate fluctuations, interest income and interest expense related to hedged variable-rate assets and liabilities, respectively, will increase or decrease. Another result of interest rate fluctuations is that hedged fixed-rate assets and liabilities will appreciate or depreciate in market value. The effects of any earnings variability or unrealized changes in market value are expected to be substantially offset by the Bank's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. The Bank considers its strategic use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

The primary types of derivative instruments used and the amount of activity for the periods presented is summarized in the following table:

	For the Nine Months Ended September 30,			
	2017		2016	
Notional Amounts *(dollars in millions)*	**Receive-Fixed Swaps**	**Forward Contracts**	**Receive-Fixed Swaps**	**Forward Contracts**
Balance at beginning of period	$ 50	$ 1	$ 150	$ –
Additions	–	7	–	1
Maturities/amortization	(50)	(7)	(100)	(1)
Terminations	–	–	–	–
Balance at end of period	$ –	$ 1	$ 50	$ –

By using derivative instruments, the Bank exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Bank's credit risk will equal the fair value gain in the derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the Bank, thus creating a repayment risk for the Bank. When the fair value of the derivative contract is negative, the Bank owes the counterparty and, therefore, assumes no repayment risk.

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

Counterparty exposure related to derivatives at:

(dollars in millions)	**September 30, 2017**	**December 31, 2016**
Estimated Gross Credit Risk	$–	$0.1
Percent of Notional	–%	0.18%

There was no cash or securities collateral held or posted for the periods presented.

The Bank's derivative activities are monitored by its Asset-Liability Management Committee (ALCO) as part of the Committee's oversight of the Bank's asset/liability and treasury functions. The ALCO is responsible for approving hedging strategies that are developed within parameters established by the Bank's Board of Directors through the analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the Bank's overall interest rate risk-management strategies.

Fair Value Hedges
For derivative instruments designated as fair value hedges, the gains or losses on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings. The Bank 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. During the nine months ended September 30, 2017, there were no gains or losses recognized related to interest rate swaps. The amount of the loss on interest rate swaps recognized in interest expense for the nine months ended September 30, 2016 was $4.5 million, while the amount of the gain on the Systemwide Debt Securities was $4.5 million. Gains and losses on each derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Cash Flow Hedges
From time to time, the Bank may acquire when-issued securities, generally government agency guaranteed bonds. The when-issued transactions are contracts to purchase securities that will not be delivered until 30 or more days in the future. These purchase commitments are considered derivatives (cash flow hedges) in the form of forward contracts. Any differences in market value of the contracted securities, between the purchase and reporting or settlement date, represent the value of the forward contracts. These amounts are included in OCI, and Other Liabilities or Other Assets as appropriate, as firm commitments in the Bank's Balance Sheet for each period end. As of the periods presented, the Bank had not committed to purchase any when-issued bonds.

For derivative instruments that are designated and qualify as a cash flow hedge, such as the Bank's forward contracts, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Fair Values of Derivative Instruments
The following tables represent the fair value of derivative instruments designated as hedging instruments for the periods presented:

(dollars in thousands)	**Balance Sheet Classification – Assets**	**9/30/17 Fair Value**	**Balance Sheet Classification – Liabilities**	**9/30/17 Fair Value**
Receive-fixed swaps	Other Assets	$ –	Other Liabilities	$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		$ –		$ –

(dollars in thousands)	**Balance Sheet Classification – Assets**	**12/31/16 Fair Value**	**Balance Sheet Classification – Liabilities**	**12/31/16 Fair Value**
Receive-fixed swaps	Other Assets	$ 92	Other Liabilities	$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		$ 92		$ –

The following table sets forth the amount of net gain (loss) on derivatives recognized in earnings and, for cash flow hedges, the amount of net gain (loss) recognized in AOCI for the periods presented. See Note 5, *Shareholders' Equity*.

(dollars in thousands)	Location of Gain or (Loss) Recognized in, or Reclassified from AOCI into, Income	Amount of Gain or (Loss) Recognized in, or Reclassified from AOCI into, Income *		Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)		Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	
		2017	2016	2017	2016	2017	2016
Fair Value Hedges:							
Receive-fixed swaps	Noninterest income	$ –	$ –				
Cash Flow Hedges:							
Firm Commitments	Interest Income	$ (464)	$ 22	$ –	$ –	$ –	$ –
Forward Contracts	Gains (Losses) on Other Transactions	(103)	3	–	–	(103)	3

** Represents total gain or loss for fair value hedges and effective portion for cash flow hedges.*

Note 11 — Subsequent Events

The Bank evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through November 8, 2017, which was the date the financial statements were issued.

On October 16, 2017, the Bank's Board of Directors indicated an intention to declare, in December 2017, a special patronage distribution between $125.0 million and $150.0 million.