

AGFIRST

Foundations for the Future

Building on Our Success

2016
Second Quarter
Quarterly Report

FARM CREDIT
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ESTABLISHED 1916



AGFIRST
FARM CREDIT BANK

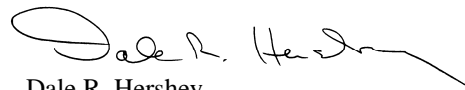
SECOND QUARTER 2016

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CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2016 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.



Dale R. Hershey
Chairman of the Board



Leon T. Amerson
Chief Executive Officer & President



Charl L. Butler
Chief Financial Officer

August 8, 2016

Report on Internal Control Over Financial Reporting

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

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

The Bank's management has completed an assessment of the effectiveness of internal control over financial reporting as of June 30, 2016. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Bank's management concluded that as of June 30, 2016, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Bank's management determined that there were no material weaknesses in the internal control over financial reporting as of June 30, 2016.



Leon T. Amerson
Chief Executive Officer & President



Charl L. Butler
Chief Financial Officer

August 8, 2016

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

The following discussion reviews the financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) as of and for the three and six month periods ended June 30, 2016. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Financial Statements, and the 2015 Annual Report of AgFirst Farm Credit Bank. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the District. The accompanying financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

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

FORWARD-LOOKING INFORMATION

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

- political, 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 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 <i>(dollars in thousands)</i>	June 30, 2016		December 31, 2015		June 30, 2015	
Direct Notes*	\$ 15,074,069	66.89%	\$ 14,890,580	67.25%	\$ 14,256,815	68.66%
Capital Markets*	4,559,757	20.24	4,457,397	20.13	3,818,113	18.39
Correspondent Lending	2,769,849	12.29	2,684,761	12.13	2,585,583	12.45
Loans to OFIs	130,632	0.58	108,020	0.49	104,633	0.50
Total	\$ 22,534,307	100.00%	\$ 22,140,758	100.00%	\$ 20,765,144	100.00%

*Net of participations sold.

Total loans outstanding were \$22.534 billion at June 30, 2016, an increase of \$393.5 million, or 1.78 percent, compared to total loans outstanding at December 31, 2015 and an increase of \$1.769 billion, or 8.52 percent, since June 30, 2015. Excluding Bank patronage payments to Associations of approximately \$231.3 million which were applied to the Association Direct Notes at the beginning of 2016 and a participation interest of approximately \$187.0 million in a Direct Note sold in February 2016 to another System bank, loan volume at June 30, 2016 increased 3.67 percent compared to 2015 year-end. The increase in loan volume at June 30, 2016 resulted from improved economic conditions positively impacting borrowers in economically sensitive segments such as forestry, nursery/greenhouse, and borrowers dependent on non-farm income. Row crop farmers have borrowed more for operating needs as a result of lower commodity prices in 2015. Additionally, loan demand over the previous twelve months benefitted from capital expansion in the poultry and swine sectors. Future Bank loan demand is difficult to predict; however, moderate growth is expected for the remainder of 2016.

Credit Quality

Credit quality of AgFirst's loans is shown below:

Total Loan Portfolio Credit Quality as of:			
Classification	June 30, 2016	December 31, 2015	June 30, 2015
Acceptable	98.67%	98.40%	98.26%
OAEM *	0.82%	1.09%	1.18%
Adverse **	0.51%	0.51%	0.56%

*Other Assets Especially Mentioned

**Adverse loans include substandard, doubtful, and loss loans.

Loan portfolio credit quality at June 30, 2016 improved compared to December 31, 2015 and June 30, 2015. The improvement in credit quality at June 30, 2016 compared to both December 31, 2015 and June 30, 2015, as reflected in the table above, was primarily due to improvement in the credit quality of the Direct Notes which is discussed in the Direct Notes section below. Total loan portfolio credit quality is anticipated to slightly deteriorate for the remainder of 2016 due to weakness in the dairy, beef, and row crop sectors. Over the past twelve months, the incremental improvement of general economic conditions positively impacted forestry, nursery/greenhouse, and borrowers dependent on non-farm income which has helped offset the declines in the above-mentioned sectors. District real estate values remain stable.

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 June 30, 2016, the total Direct Note volume outstanding was \$15.074 billion, an increase of \$183.5 million, or 1.23 percent, compared to December 31, 2015. Excluding Bank patronage payments of approximately \$231.3 million and the sale of participation interest of approximately \$187.0 million referenced in the *Loan Portfolio* section above, Direct Note volume increased 4.04 percent when compared to 2015 year-end. See the *Loan Portfolio* section above for the primary reasons for the change in the Direct Note volume from December 2015 to June 2016.

The following table presents selected statistics related to the credit quality of the Direct Note portfolio including accrued interest:

Classification	Direct Note Credit Quality as of					
	June 30, 2016		December 31, 2015		June 30, 2015	
	%	#	%	#	%	#
	Total	Total	Total	Total	Total	Total
Acceptable	100.00%	19	99.22%	18	99.17%	18
OAEM *	–%	–	0.78%	1	0.83%	1
Adverse **	–%	–	–%	–	–%	–

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

As reflected in the table above, over the previous twelve months, the classification of the Direct Note for one District Association improved from OAEM to Acceptable due to sustained satisfactory financial and operational performance at this Association. At June 30, 2016, all Associations were classified as acceptable.

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.

One District Association with total assets of \$173.1 million as of June 30, 2016 was operating under a written supervisory agreement with the FCA at December 31, 2015. In February, 2016, the FCA terminated the written supervisory agreement with this Association and returned the Association to normal supervision. At June 30, 2016, this Association continued to operate under a special credit agreement pursuant to its GFA as a result of events of default under the GFA. The GFA events of default are not expected to have a significant adverse impact on the Bank’s or District’s financial condition or results of operations.

Capital Markets

The Capital Markets portfolio consists primarily of loan participations and syndications. As of June 30, 2016, this portfolio totaled \$4.560 billion, an increase of \$102.4 million, or 2.30 percent, from December 31, 2015. It is anticipated that borrower demand in this portfolio will continue to reflect modest improvement.

AgFirst employs a number of management techniques to limit credit risk, including underwriting standards, limits on the amounts of loans purchased from a single originator, and maximum hold positions to a single borrower and commodity. Although the participations/syndications portfolio is comprised of a small number of relatively large

loans, it is diversified both geographically and on a commodity basis. Management makes adjustments to credit policy and underwriting standards when appropriate as a part of the ongoing risk management process.

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

Classification	Participations/Syndications Credit Quality as of:		
	June 30, 2016	December 31, 2015	June 30, 2015
Acceptable	93.49%	94.70%	93.70%
OAEM*	4.06%	2.82%	3.31%
Adverse**	2.45%	2.48%	2.99%

**Other Assets Especially Mentioned*

***Adverse loans include substandard, doubtful, and loss loans.*

Improvement in general economic conditions combined with stability in major commodity concentrations has supported favorable credit quality in the participations/syndications portfolio. See the *Credit Quality* section above for further information.

Correspondent Lending

The Correspondent Lending portfolio consists primarily of first lien residential mortgages. As of June 30, 2016, the Correspondent Lending portfolio totaled \$2.770 billion. From December 31, 2015 to June 30, 2016, this portfolio increased \$85.1 million, or 3.17 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 June 30, 2016, \$1.697 billion, or 61.27 percent, of loans in the Correspondent Lending portfolio were guaranteed and \$1.073 billion, or 38.73 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 June 30, 2016, 99.89 percent of the Correspondent Lending portfolio was classified as acceptable and 0.11 percent was classified as substandard.

FCA regulations limit rural home loans, combined with rural home mortgage-backed securities, to 15 percent of total loans outstanding. Based on June 30, 2016 levels, the Bank has unused capacity of \$210.5 million under a total limit of \$3.405 billion. The Bank monitors this position and will consider options 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 these 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 \$18.9 million at June 30, 2016, a decrease of 29.20 percent compared to \$26.6 million at December 31, 2015. The decrease of \$7.8 million resulted primarily from \$12.0 million of loan balances reinstated to accrual status. At June 30, 2016, total nonaccrual loans were primarily classified in the forestry (38.31 percent of the total), rural home loan (32.03 percent), and field crops (15.82 percent) segments. Nonaccrual loans were 0.08 percent and 0.12 percent of total loans outstanding at June 30, 2016 and December 31, 2015, respectively.

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 \$1.4 million since December 31, 2015 and totaled \$30.0 million at June 30, 2016. TDRs at June 30, 2016 were comprised of \$20.7 million of accruing restructured loans and \$9.3 million of nonaccrual restructured loans. Restructured loans were primarily in the nursery/greenhouse (31.89 percent of the total), forestry (20.98 percent), tree fruits and nuts (18.19 percent), and swine (7.9 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 \$5.5 million since December 31, 2015 and totaled \$8.0 million at June 30, 2016. The decrease was mainly due to the disposal of one \$5.2 million property. The remaining OPO balance at June 30, 2016 consisted primarily of a \$4.1 million real estate holding (51.03 percent of the total) which was sold in July, 2016.

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 \$17.5 million at June 30, 2016, as compared with \$15.1 million at December 31, 2015. The allowance at June 30, 2016 included specific reserves of \$381 thousand (2.17 percent of the total) and general reserves of \$17.1 million (97.83 percent). For the six months ended June 30, 2016, the increase of \$2.4 million resulted from provision expense of \$2.0 million and recoveries of \$512 thousand, partially offset by chargeoffs of \$150 thousand. The general reserves at June 30, 2016 included \$2.2 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 as mentioned in the *Direct Notes* section above. The total allowance at June 30, 2016 was comprised primarily of reserves for the utilities (18.36 percent of the total), tree fruits and nuts (16.61 percent), rural home loan (12.74 percent), forestry (8.98 percent), processing (8.23 percent), and cattle (5.51 percent) segments. The allowance for loan losses was 0.08 percent and 0.07 percent of total loans outstanding at June 30, 2016 and December 31, 2015, respectively. See Note 2, *Loans and Allowance for Loan Losses*, in the Notes to the Financial Statements for further information. See *Provision for Loan Losses* section below for additional details regarding loan loss provision expense and reversals.

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 lines of credit with commercial banks, as well as securities repurchase agreement facilities.

The U.S. government does not guarantee, directly or indirectly, Systemwide Debt Securities. However, the Farm Credit System, as a GSE, has benefited from broad access to the domestic and global capital markets. This access has provided the System with a dependable source of competitively priced debt which is critical for supporting the System's mission of providing credit to agriculture and rural America. The implied link between the credit rating of the System and the U.S. government, given the System's status as a GSE and continued concerns regarding the government's borrowing limit and budget imbalances, could pose risk to the System in the future.

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, 2016, 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.

On September 25, 2015, S&P affirmed the Bank's AA-/A-1+ long- and short-term issuer credit ratings, the stand-alone credit profile of a+ and the BBB+ preferred stock rating. S&P also revised their outlook on the Bank to negative from stable, reflecting their assessment of the Bank's capital position. On February 5, 2016, S&P revised their outlook on the Bank back to stable from negative based upon additional analysis of the strength of the Bank's capital position. Ratings and outlook for AgFirst by Fitch Ratings remain unchanged at AA-/F1+ and stable.

At June 30, 2016, AgFirst had \$29.068 billion in total debt outstanding compared to \$27.973 billion at December 31, 2015. Debt increased primarily to support a higher level of investment securities and loans as discussed elsewhere in this report.

Cash and cash equivalents, which increased \$281.4 million from December 31, 2015 to a total of \$954.0 million at June 30, 2016, 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 are due primarily to changes in liquidity needs in relation to upcoming debt maturities between reporting periods.

Investment securities totaled \$7.840 billion, or 24.80 percent of total assets at June 30, 2016, compared to \$7.512 billion, or 24.53 percent, as of December 31, 2015. Investment securities increased \$328.3 million, or 4.37 percent, compared to December 31, 2015. Management maintains the available-for-sale liquidity investment portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines. In March, 2016, the Bank sold 29 agency mortgage-backed securities totaling \$15.0 million which resulted in gains totaling \$620 thousand. The proceeds were used to purchase one U.S. government guaranteed security. These transactions benefitted the Bank by reducing carrying costs and improving liquidity.

Investment securities classified as being available-for-sale totaled \$7.271 billion at June 30, 2016. Available-for-sale investments at June 30, 2016 included \$142.6 million in U.S. Treasury securities, \$4.077 billion in U.S. government guaranteed securities, \$2.254 billion in U.S. government agency guaranteed securities, \$111.3 million in non-agency collateralized mortgage obligations (CMOs), and \$685.7 million in non-agency asset-backed securities. Since the majority of the portfolio is invested in U.S. government guaranteed and agency securities, the portfolio is highly liquid and potential credit loss exposure is limited.

As of June 30, 2016, 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. agency investments. The fourth level is a supplemental liquidity buffer in excess of the 90-day minimum liquidity reserve which is set to provide coverage to at least 120 days.

At June 30, 2016, AgFirst met each of the individual level criteria above and had a total of 194 days of maturing debt coverage compared to 206 days at December 31, 2015. 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 for further information.

Capital Resources

Total shareholders' equity increased \$118.5 million, or 5.26 percent, from December 31, 2015 to a total of \$2.374 billion at June 30, 2016. This increase is primarily attributed to 2016 unallocated retained earnings from net income of \$144.0 million and \$9.5 million in unrealized gains on investment securities, partially offset by redemption of preferred stock of \$32.9 million.

In March and April, 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 of \$45.8 million. The effect of the repurchases on shareholders' equity was to reduce preferred stock outstanding by \$45.8 million and to increase additional paid-in capital by \$12.9 million. See Note 5, *Shareholders' Equity*, in the Notes to the Financial Statements for further information.

Regulatory Capital Ratios

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

	Regulatory Minimum	6/30/16	12/31/15	6/30/15
Permanent Capital Ratio	7.00%	20.32%	20.71%	21.15%
Total Surplus Ratio	7.00%	20.23%	20.64%	21.09%
Core Surplus Ratio	3.50%	18.07%	18.48%	18.78%
Net Collateral Ratio	103.00%	107.00%	106.93%	107.76%

The FCA sets minimum regulatory capital adequacy requirements for System banks and associations. These requirements are based on regulatory ratios as defined by the FCA, which include permanent capital, total surplus, core surplus, and for System banks only, net collateral. The permanent capital ratio is calculated by dividing permanent capital by a risk-adjusted asset base. The total surplus ratio is calculated by dividing total surplus by a risk-adjusted asset base and the core surplus ratio is calculated by dividing core surplus by a risk-adjusted asset base. Risk-adjusted assets refer to the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. Generally, higher credit conversion factors are applied to assets with more inherent risk. Unlike the permanent capital, total surplus and core surplus ratios, the net collateral ratio does not incorporate any risk-adjusted weighting of assets. The net collateral ratio is calculated by dividing the Bank's collateral, as defined by FCA regulations, by total liabilities. The permanent capital, total surplus, and core surplus ratios are calculated using three-month average daily balances and the net collateral ratio is calculated using period end balances.

For all periods presented, AgFirst exceeded minimum regulatory standards for all of the ratios. The Bank's permanent capital, total surplus, and core surplus ratios decreased at June 30, 2016 as compared to December 31, 2015. Because these three ratios are calculated using a three month average daily balance for both capital and

assets, the decrease in permanent capital resulting from total 2015 Bank declared patronage was fully reflected in these three ratios at June 30, 2016. Bank patronage for 2015, which was primarily accrued at the end of the year, totaled \$241.1 million and represented approximately 71.58 percent of 2015 net income.

In March, 2016, the FCA adopted a final rule to modify the regulatory capital requirements for System banks and associations. It is anticipated that the new capital requirements will be effective January 1, 2017. See *Regulatory Matters* section below for further discussion.

RESULTS OF OPERATIONS

Net income for the three months ended June 30, 2016 was \$72.3 million compared to \$84.4 million for the three months ended June 30, 2015, a decrease of \$12.0 million, or 14.28 percent. Net income for the six months ended June 30, 2016 was \$144.0 million compared to \$167.9 million for the six months ended June 30, 2015, a decrease of \$23.9 million, or 14.24 percent. See below for further discussion of the change in net income by major components.

Key Results of Operations Comparisons

	Annualized for the six months ended June 30, 2016	For the year ended December 31, 2015	Annualized for the six months ended June 30, 2015
Return on average assets	0.94%	1.14%	1.17%
Return on average shareholders' equity	12.44%	14.36%	14.75%
Net interest margin	1.49%	1.59%	1.64%
Operating expense as a percentage of net interest income and noninterest income	30.79%	27.50%	26.81%
Net (charge-offs) recoveries to average loans	0.00%	0.01%	(0.01)%

The return on average assets and return on average shareholders' equity ratios declined in 2016 primarily due to decreases in both net interest income and noninterest income. Net interest margin was also negatively impacted by the decrease in net interest income. For the operating expense as a percentage of net interest income and noninterest income ratio, operating expense consists primarily of noninterest expense excluding losses (gains) from other property owned. This ratio also was negatively impacted by the declines in net interest income and noninterest income as well as an increase in operating expenses. Net recoveries for the six months ended June 30, 2016 and the year ended December 31, 2015 positively impacted the net (charge-offs) recoveries to average loans ratio. See *Allowance for Loan Losses, Net Interest Income, Noninterest Income, and Noninterest Expenses* sections for further discussion.

Net Interest Income

Net interest income for the three months ended June 30, 2016 was \$112.3 million compared to \$113.8 million for the same period of 2015, a decrease of \$1.6 million or 1.38 percent. For the six months ended June 30, 2016, net interest income was \$220.9 million compared to \$227.6 million for the same period of 2015, a decrease of \$6.7 million, or 2.95 percent. The net interest margin, which is net interest income as a percentage of average earning assets, was 1.49 percent for both the three and six month periods in 2016, a decrease of 14 and 15 basis points from the three and six month periods of 2015, respectively. The decline for both periods was primarily the result of higher rates paid on interest-bearing liabilities. Higher average balances of interest bearing liabilities also negatively impacted net interest income. During the six months ended June 30, 2016 and 2015, the Bank called debt totaling \$9.107 billion and \$3.404 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 positive impact of higher average balances and higher yields on loans significantly offset the decline in net interest income.

The effects of changes in volume and interest rates on net interest income for the three and six months ended June 30, 2016, as compared with the corresponding periods in 2015, are presented in the following table. The table distinguishes between the changes in interest income and interest expense related to average outstanding balances

and to the levels of average interest rates. Accordingly, the benefit derived from funding earning assets with interest-free funds (principally capital) is reflected solely as a volume increase.

<i>(dollars in thousands)</i>	For the three months ended June 30, 2016 vs. June 30, 2015			For the six months ended June 30, 2016 vs. June 30, 2015		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Loans	\$ 12,310	\$ 4,100	\$ 16,410	\$ 21,842	\$ 10,204	\$ 32,046
Investments & Cash Equivalents	1,548	379	1,927	2,337	381	2,718
Total Interest Income	13,858	4,479	18,337	24,179	10,585	34,764
Interest Expense:						
Interest-Bearing Liabilities	5,981	13,925	19,906	11,028	30,458	41,486
Changes in Net Interest Income	\$ 7,877	\$ (9,446)	\$ (1,569)	\$ 13,151	\$ (19,873)	\$ (6,722)

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 allowances for loan losses are maintained. Loan loss provision was a net expense of \$1.1 million and \$2.0 million for the three and six months ended June 30, 2016, respectively, compared to a net reversal of \$324 thousand and a net expense of \$1.0 million for the corresponding periods in 2015. For the three months ended June 30, 2016, the provision for loan losses included provision reversals of \$786 thousand for specific reserves and provision expense of \$1.9 million for general reserves. For the six months ended June 30, 2016, the provision for loan losses included provision reversals of \$1.3 million for specific reserves and provision expense of \$3.3 million for general reserves. Provision expense for both periods in 2016 was primarily due to 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. For both the three and six month periods, provision expense was spread across multiple commodity groups, none of which were significant. 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:

<i>(dollars in thousands)</i>	For the three months ended June 30,			For the six months ended June 30,		
	2016	2015	Increase/ (Decrease)	2016	2015	Increase/ (Decrease)
	Loan fees	\$ 2,238	\$ 1,912	\$ 326	\$ 4,522	\$ 4,178
Building lease income	845	881	(36)	1,725	1,792	(67)
Net impairment losses on investments	-	(106)	106	(1,730)	(213)	(1,517)
Gains (losses) on investments, net	-	-	-	620	1,126	(506)
Gains (losses) on called debt	(10,729)	(1,681)	(9,048)	(17,937)	(5,985)	(11,952)
Gains (losses) on other transactions	953	(301)	1,254	320	(80)	400
Other noninterest income	1,270	866	404	2,846	2,496	350
Total noninterest income	\$ (5,423)	\$ 1,571	\$ (6,994)	\$ (9,634)	\$ 3,314	\$ (12,948)

For the three and six months ended June 30, 2016 compared to the corresponding periods in 2015, noninterest income decreased \$7.0 million and \$12.9 million, respectively. For both periods, the decrease was primarily due to higher losses from called debt. For the three month period, higher gains on other transactions slightly offset some of the decline in noninterest income. For the six month period, higher impairment losses on investments and lower gains on investments also contributed to the decline in noninterest income. Significant line item variances are discussed further below.

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 increased \$9.0 million for the three month period ended June 30, 2016 and \$12.0 million for the six month period ended June 30, 2016 compared

to the same periods in the prior year. Call options were exercised on bonds totaling \$5.889 billion and \$9.107 billion for the three and six month periods in 2016, respectively, compared to \$1.362 billion and \$3.404 billion for the same periods in 2015. 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 month period ended June 30, 2016 compared to the same period in the prior year, gains on other transactions increased \$1.3 million primarily due to a \$532 thousand increase in the market value of certain retirement plan trust assets and a \$655 thousand decrease in reserve 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.

Higher impairment losses on investments of \$1.5 million for the six months ended June 30, 2016 compared to the prior year resulted primarily from impairment losses recorded in the first quarter of 2016 on four non-agency collateralized mortgage obligation (CMO) securities. The Bank performs periodic credit reviews, including other-than-temporary impairment analyses, on its entire investment securities portfolio. Estimating credit losses on these types of investments utilizes a number of assumptions and management judgment. The Bank's third party pricing consultant uses the US House Price Index as a significant input to its model. Although home prices have generally been increasing, the loss severities associated with foreclosures and bankruptcies have also been on the increase. The consultant adjusted its model in early 2016 to reflect this pattern of increased loss severities which resulted in increased impairment in the first quarter of 2016. See further discussion in Note 3, *Investments*, in the Notes to the Financial Statements.

For the six months ended June 30, 2016 compared to the corresponding period in 2015, gains on investments decreased \$506 thousand. In March 2016, the Bank sold 29 agency mortgage-backed securities totaling \$15.0 million which resulted in gains totaling \$620 thousand. The proceeds from these sales were used to purchase one U.S. government guaranteed security. In March, 2015, the Bank sold 204 agency mortgage-backed securities totaling \$28.0 million which resulted in gains totaling \$1.1 million. The proceeds from these sales were also used to purchase one U.S. government guaranteed security. These transactions benefitted the Bank by reducing carrying costs and improving liquidity. See discussion of investments in *Liquidity and Funding Sources* section above and in Note 3, *Investments*, in the Notes to the Financial Statements.

Noninterest Expenses

The following table illustrates the changes in noninterest expense:

Change in Noninterest Expenses	For the three months ended June 30,			For the six months ended June 30,		
	2016	2015	Increase/ (Decrease)	2016	2015	Increase/ (Decrease)
<i>(dollars in thousands)</i>						
Salaries and employee benefits	\$ 14,935	\$ 14,205	\$ 730	\$ 29,316	\$ 28,722	\$ 594
Occupancy and equipment	5,371	5,101	270	10,519	10,181	338
Insurance Fund premiums	3,821	2,922	899	7,494	5,765	1,729
Other operating expenses	9,053	9,065	(12)	17,728	17,244	484
Losses (gains) from other property owned	184	40	144	188	105	83
Total noninterest expenses	\$ 33,364	\$ 31,333	\$ 2,031	\$ 65,245	\$ 62,017	\$ 3,228

Noninterest expense for the three and six months ended June 30, 2016 increased \$2.0 million and \$3.2 million, respectively, compared to the corresponding periods in 2015. The increase for the three and six month periods was primarily due to increases in salaries and employee benefits and insurance fund premiums. Significant line item variances are discussed further below.

Salaries and employee benefits increased \$730 thousand and \$594 thousand for the three and six month periods, respectively. These increases resulted primarily from increases of \$720 thousand and \$898 thousand, respectively, in salaries and incentives due mainly to normal salary administration.

Insurance Fund premiums increased \$899 thousand and \$1.7 million for the three and six month periods ended June 30, 2016, respectively, compared to the same periods in 2015. These increases resulted primarily from an increase in the base annual premium rate to 16 basis points in 2016 from 13 basis points in 2015. 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. Effective July 1, 2016, the base annual premium rate increased to 18 basis points.

REGULATORY MATTERS

On March 10, 2016, the FCA adopted a final regulation to modify the regulatory capital requirements for System banks and associations. The stated objectives of the rule are as follows:

- To modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise,
- To ensure that the System’s capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System,
- To make System regulatory capital requirements more transparent, and
- To meet the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).

The final rule will replace existing core surplus and total surplus requirements with Common Equity Tier 1, Tier 1 and Total Capital risk-based capital ratio requirements. The final rule will also replace the existing net collateral ratio with a Tier 1 Leverage ratio and is applicable to all banks and associations. The Permanent Capital Ratio will remain in effect with the final rule. The following sets forth the new regulatory capital ratios:

Ratio	Primary Components of Numerator	Denominator	Minimum Requirement	Minimum Requirement with Conservation Buffer
Common Equity Tier 1 (CET1) Capital	Unallocated retained earnings/surplus (URE), Common Stock (subject to certain conditions)	Risk-weighted assets	4.5%	7.0%
Tier 1 Capital	CET1 Capital, Non-cumulative perpetual preferred stock	Risk-weighted assets	6.0%	8.5%
Total Capital	Tier 1 Capital, Allowance for Loan Losses, other equity securities not included in Tier 1 Capital	Risk-weighted assets	8.0%	10.5%
Tier 1 Leverage	Tier 1 Capital (1.5% must be URE or URE equivalents)	Total assets	4.0%	5.0%

On July 28, 2016, the FCA published the final regulation in the Federal Register, and it is anticipated that the effective date of the new capital requirements will be January 1, 2017, with a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. District institutions are well-positioned to be in compliance with the new requirements at adoption.

On November 30, 2015, the FCA, along with four other federal agencies, published in the Federal Register a final rule to establish capital and margin requirements for covered swap entities as required by the Dodd-Frank Act. See below for further information regarding the Dodd-Frank Act.

On July 25, 2014, the 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 2016. 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.

FINANCIAL REGULATORY REFORM

See discussion of the Dodd-Frank Act in the *Financial Regulatory Reform* section of the 2015 Annual Report of AgFirst Farm Credit Bank.

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 2015 Annual Report of AgFirst Farm Credit Bank for recently issued accounting pronouncements.

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. 2832, or writing Susanne Caughman, Reporting Manager, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Combined information concerning AgFirst Farm Credit Bank and District Associations can also be obtained at the Bank's website, www.agfirst.com. AgFirst prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no quarterly report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2016	December 31, 2015
	<i>(unaudited)</i>	<i>(audited)</i>
Assets		
Cash	\$ 729,481	\$ 461,068
Cash equivalents	224,514	211,554
Investment securities:		
Available for sale (amortized cost of \$7,196,097 and \$6,884,126, respectively)	7,270,627	6,949,112
Held to maturity (fair value of \$597,275 and \$576,764, respectively)	569,483	562,698
Total investment securities	7,840,110	7,511,810
Loans	22,534,307	22,140,758
Allowance for loan losses	(17,524)	(15,113)
Net loans	22,516,783	22,125,645
Accrued interest receivable	64,671	62,156
Accounts receivable	74,140	72,657
Investments in other Farm Credit System institutions	69,847	69,836
Premises and equipment, net	61,816	62,051
Other property owned	7,956	13,411
Other assets	26,824	30,412
Total assets	\$ 31,616,142	\$ 30,620,600
Liabilities		
Systemwide bonds payable	\$ 20,715,948	\$ 22,339,694
Systemwide notes payable	8,352,514	5,633,413
Accrued interest payable	44,806	56,340
Accounts payable	77,345	281,870
Other liabilities	51,996	54,262
Total liabilities	29,242,609	28,365,579
Commitments and contingencies (Note 8)		
Shareholders' Equity		
Perpetual preferred stock	69,250	115,000
Capital stock and participation certificates	306,103	307,483
Additional paid-in-capital	52,858	39,988
Retained earnings		
Allocated	643	656
Unallocated	1,874,982	1,731,972
Accumulated other comprehensive income (loss)	69,697	59,922
Total shareholders' equity	2,373,533	2,255,021
Total liabilities and equity	\$ 31,616,142	\$ 30,620,600

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

Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Interest Income				
Investment securities and other	\$ 30,202	\$ 28,275	\$ 61,034	\$ 58,316
Loans	161,630	145,220	319,109	287,063
Total interest income	191,832	173,495	380,143	345,379
Interest Expense				
	79,578	59,672	159,246	117,760
Net interest income	112,254	113,823	220,897	227,619
Provision for (reversal of allowance for) loan losses	1,129	(324)	2,049	1,045
Net interest income after provision for loan losses	111,125	114,147	218,848	226,574
Noninterest Income				
Loan fees	2,238	1,912	4,522	4,178
Building lease income	845	881	1,725	1,792
Total other-than-temporary impairment losses	—	—	—	—
Portion of loss recognized in other comprehensive income	—	(106)	(1,730)	(213)
Net other-than-temporary impairment losses	—	(106)	(1,730)	(213)
Gains (losses) on investments, net	—	—	620	1,126
Gains (losses) on called debt	(10,729)	(1,681)	(17,937)	(5,985)
Gains (losses) on other transactions	953	(301)	320	(80)
Other noninterest income	1,270	866	2,846	2,496
Total noninterest income (loss)	(5,423)	1,571	(9,634)	3,314
Noninterest Expenses				
Salaries and employee benefits	14,935	14,205	29,316	28,722
Occupancy and equipment	5,371	5,101	10,519	10,181
Insurance Fund premiums	3,821	2,922	7,494	5,765
Other operating expenses	9,053	9,065	17,728	17,244
Losses (gains) from other property owned	184	40	188	105
Total noninterest expenses	33,364	31,333	65,245	62,017
Net income	\$ 72,338	\$ 84,385	\$ 143,969	\$ 167,871

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

Statements of Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Net income	\$ 72,338	\$ 84,385	\$ 143,969	\$ 167,871
Other comprehensive income:				
Unrealized gains (losses) on investments:				
Other-than-temporarily impaired	(143)	(507)	(1,182)	1,486
Not other-than-temporarily impaired	809	(10,618)	10,726	(15,151)
Change in value of cash flow hedges	44	(115)	63	(268)
Employee benefit plans adjustments	84	100	168	200
Other comprehensive income (Note 5)	794	(11,140)	9,775	(13,733)
Comprehensive income	\$ 73,132	\$ 73,245	\$ 153,744	\$ 154,138

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

Statements of Changes in Shareholders' Equity

(unaudited)

<i>(dollars in thousands)</i>	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Additional Paid-In-Capital	Retained Earnings		Accumulated Other Comprehensive Income	Total Shareholders' Equity
				Allocated	Unallocated		
Balance at December 31, 2014	\$ 125,250	\$ 303,180	\$ 36,580	\$ 692	\$ 1,639,757	\$ 101,948	\$ 2,207,407
Comprehensive income					167,871	(13,733)	154,138
Capital stock/participation certificates issued/(retired), net		(538)					(538)
Dividends paid on perpetual preferred stock					(877)		(877)
Retained earnings retired				(29)			(29)
Patronage distribution adjustment					(53)		(53)
Balance at June 30, 2015	\$ 125,250	\$ 302,642	\$ 36,580	\$ 663	\$ 1,806,698	\$ 88,215	\$ 2,360,048
Balance at December 31, 2015	\$ 115,000	\$ 307,483	\$ 39,988	\$ 656	\$ 1,731,972	\$ 59,922	\$ 2,255,021
Comprehensive income					143,969	9,775	153,744
Capital stock/participation certificates issued/(retired), net		(1,382)					(1,382)
Redemption of perpetual preferred stock (Note 5)	(45,750)		12,870				(32,880)
Dividends paid on perpetual preferred stock					(878)		(878)
Retained earnings retired				(13)			(13)
Patronage distribution adjustment		2			(81)		(79)
Balance at June 30, 2016	\$ 69,250	\$ 306,103	\$ 52,858	\$ 643	\$ 1,874,982	\$ 69,697	\$ 2,373,533

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the six months ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 143,969	\$ 167,871
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	4,596	3,862
Amortization of net deferred loan (fees) costs and premium amortization (discount accretion)	574	(368)
Premium amortization (discount accretion) on investment securities	4,152	4,568
(Premium amortization) discount accretion on bonds and notes	8,974	3,756
Provision for (reversal of allowance for) loan losses	2,049	1,045
(Gains) losses on other property owned, net	170	116
Net impairment losses on investments	1,730	213
(Gains) losses on investments, net	(620)	(1,126)
(Gains) losses on other transactions	(320)	80
Net change in loans held for sale	4,077	5,161
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(2,515)	2,318
(Increase) decrease in accounts receivable	(1,483)	21,086
(Increase) decrease in other assets	343	890
Increase (decrease) in accrued interest payable	(11,534)	4,336
Increase (decrease) in accounts payable	36,478	(12,146)
Increase (decrease) in other liabilities	(1,712)	(6,284)
Total adjustments	44,959	27,507
Net cash provided by (used in) operating activities	188,928	195,378
Cash flows from investing activities:		
Investment securities purchased	(1,232,845)	(830,115)
Investment securities sold or matured	908,890	896,235
Net (increase) decrease in loans	(398,245)	121,553
(Increase) decrease in investments in other Farm Credit System institutions	(11)	35
Purchase of premises and equipment, net	(4,361)	(1,264)
Proceeds from sale of other property owned	5,626	432
Net cash provided by (used in) investing activities	(720,946)	186,876
Cash flows from financing activities:		
Bonds and notes issued	18,754,334	11,166,405
Bonds and notes retired	(17,664,709)	(11,724,139)
Capital stock and participation certificates issued/retired, net	(1,382)	(538)
Cash distribution to shareholders	(241,081)	(315,237)
Redemption of perpetual preferred stock	(32,880)	—
Dividends paid on perpetual preferred stock	(878)	(877)
Retained earnings retired	(13)	(29)
Net cash provided by (used in) financing activities	813,391	(874,415)
Net increase (decrease) in cash and cash equivalents	281,373	(492,161)
Cash and cash equivalents, beginning of period	672,622	847,350
Cash and cash equivalents, end of period	\$ 953,995	\$ 355,189
Supplemental schedule of non-cash activities:		
Receipt of property in settlement of loans	\$ 342	\$ 1,591
Change in unrealized gains (losses) on investments, net	9,544	(13,665)
Employee benefit plans adjustments	(168)	(200)
Non-cash changes related to interest rate hedging activities:		
Increase (decrease) in bonds and notes	\$ (3,245)	\$ (5,238)
Decrease (increase) in other assets	3,245	5,238
Supplemental information:		
Interest paid	\$ 161,806	\$ 109,668

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, 2015 are contained in the 2015 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 June, 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The Update improves 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. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will

change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The Update will take effect for U.S. Securities and Exchange Commission (SEC) filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. 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. For all other organizations, the ASU will take effect for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.

- In May, 2016, the FASB issued ASU 2016-12 Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The guidance addresses certain issues identified by the Transition Resource Group (TRG) in the guidance on assessing collectibility, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09).
- In April, 2016, the FASB issued ASU 2016-10 Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The Update clarifies the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09).
- In March, 2016, the FASB issued ASU 2016-08 Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). The amendments clarify the implementation guidance on principal versus agent considerations. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09).
- In March, 2016, the FASB issued ASU 2016-07 Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. To simplify the accounting for equity method investments, the amendments in the Update 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.
- In March, 2016, the FASB issued ASU 2016-06 Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments. Topic 815 requires that embedded derivatives be separated from the host contract and accounted for separately as derivatives if certain criteria are met, including the "clearly and closely related" criterion. The amendments in this Update 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. An entity performing the assessment under the amendments is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. The amendments apply to all entities that are issuers of or investors in debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded call (put) options. For

public business entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The amendments are to be applied on a modified retrospective basis to existing debt instruments as of the beginning of the fiscal year for which the amendments are effective. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.

- 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. That change occurs for a variety of reasons, including financial institution mergers, intercompany transactions, an entity exiting a particular derivatives business or relationship, an entity managing against internal credit limits, or in response to laws or regulatory requirements. 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. For public business entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Entities have an option to apply the amendments on either a prospective basis or a modified retrospective basis. Early adoption is permitted, including adoption in an interim period.

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:

- 2016-02 Leases (Topic 842): In February, 2016, the FASB issued an update that requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. 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 an update that is intended to improve the recognition and measurement of financial instruments. The Bank is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2015-14 Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date: In August, 2015, the FASB issued an update that defers by one year the effective date of ASU 2014-09, Revenue from Contracts with Customers. The new ASU reflects decisions reached by the FASB at its meeting on July 9, 2015. The Bank is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

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:

- 2015-07 Fair Value Measurement (Topic 820): Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) –The amendment was adopted prospectively. There were no changes to the Bank’s statements of financial condition or results of operations as a result of this guidance. See Note 6, *Fair Value Measurement*, for the disclosures required by this guidance.
- 2015-01 Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items – The amendment was adopted

retrospectively. There were no changes to the Bank's statements of financial condition or results of operations as a result of this guidance.

- 2014-15 Income Statement – Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern: This amendment is effective for the annual reporting period ended December 31, 2016 and interim and annual periods thereafter. It may require additional disclosures but will not have a material impact on the Bank's financial condition or results of operations.

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 individual 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:

<i>(dollars in thousands)</i>	June 30, 2016	December 31, 2015
Direct notes	\$ 15,074,069	\$ 14,890,580
Real estate mortgage	1,264,790	1,188,460
Production and intermediate-term	1,058,565	1,158,432
Loans to cooperatives	488,447	217,610
Processing and marketing	840,910	1,015,066
Farm-related business	82,061	185,707
Communication	242,161	238,681
Energy and water/waste disposal	556,272	468,152
Rural residential real estate	2,670,476	2,593,981
International	111,699	66,205
Lease receivables	4,667	-
Loans to other financing institutions (OFIs)	130,632	108,020
Other (including Mission Related)	9,558	9,864
Total Loans	<u>\$ 22,534,307</u>	<u>\$ 22,140,758</u>

A substantial portion of the Bank's loan portfolio consists of notes receivable from District Associations (Direct Notes). These notes are used by the Associations to fund their loan portfolios, which collateralize the notes. Therefore, the Bank's concentration of credit risk in various agricultural commodities associated with these notes approximates that of the District as a whole. Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities, which would cause them to be similarly impacted by economic or other conditions. A substantial portion of the Associations' lending activities is collateralized, and their exposure to credit loss associated with lending activities is reduced accordingly, which further mitigates credit risk to 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. The following tables present the principal balance of participation loans at periods ended:

June 30, 2016

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
<i>(dollars in thousands)</i>								
Direct note	\$ —	\$ —	\$ —	\$ 677,580	\$ —	\$ —	\$ —	\$ 677,580
Real estate mortgage	1,062,975	65,153	306,189	134,870	—	—	1,369,164	200,023
Production and intermediate-term	668,092	318,333	714,631	136,246	132,252	—	1,514,975	454,579
Loans to cooperatives	234	93,118	548,193	—	34,000	—	582,427	93,118
Processing and marketing	122,409	327,687	402,424	270,363	922,317	6,300	1,447,150	604,350
Farm-related business	41,573	21,091	—	—	61,767	—	103,340	21,091
Communication	92	120,484	363,293	—	—	—	363,385	120,484
Energy and water/waste disposal	—	16,162	568,058	—	5,935	—	573,993	16,162
Rural residential real estate	175	—	—	—	—	—	175	—
International	—	40,505	152,234	—	—	—	152,234	40,505
Lease receivables	4,667	—	—	—	—	—	4,667	—
Other (including Mission Related)	9,700	—	—	—	—	—	9,700	—
Total	\$ 1,909,917	\$ 1,002,533	\$ 3,055,022	\$ 1,219,059	\$ 1,156,271	\$ 6,300	\$ 6,121,210	\$ 2,227,892

December 31, 2015

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
<i>(dollars in thousands)</i>								
Direct notes	\$ —	\$ —	\$ —	\$ 449,660	\$ —	\$ —	\$ —	\$ 449,660
Real estate mortgage	963,088	53,072	271,563	54,252	—	—	1,234,651	107,324
Production and intermediate-term	884,552	239,287	550,286	188,962	135,318	10,375	1,570,156	438,624
Loans to cooperatives	6,929	2,070	209,255	—	4,000	—	220,184	2,070
Processing and marketing	113,046	441,053	704,194	274,193	925,387	8,700	1,742,627	723,946
Farm-related business	29,697	58,248	83,593	—	131,023	—	244,313	58,248
Communication	103	100,018	339,329	—	—	—	339,432	100,018
Energy and water/waste disposal	—	15,088	478,822	—	6,137	—	484,959	15,088
Rural residential real estate	—	—	—	—	—	—	—	—
International	—	3,849	70,078	—	—	—	70,078	3,849
Other (including Mission Related)	10,008	—	—	—	—	—	10,008	—
Total	\$ 2,007,423	\$ 912,685	\$ 2,707,120	\$ 967,067	\$ 1,201,865	\$ 19,075	\$ 5,916,408	\$ 1,898,827

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

June 30, 2016

	Due less than 1 year		Due 1 through 5 years		Due after 5 years		Total
<i>(dollars in thousands)</i>							
Direct notes	\$ 588,856	\$ 2,967,908	\$ 11,517,305	\$ 15,074,069			
Real estate mortgage	115,057	311,871	837,862	1,264,790			
Production and intermediate-term	147,758	532,550	378,257	1,058,565			
Loans to cooperatives	9,178	202,674	276,595	488,447			
Processing and marketing	51,055	521,456	268,399	840,910			
Farm-related business	13,775	44,274	24,012	82,061			
Communication	21,470	131,884	88,807	242,161			
Energy and water/waste disposal	11,677	155,858	388,737	556,272			
Rural residential real estate	44,910	9,877	2,615,689	2,670,476			
International	42,853	51,083	17,763	111,699			
Lease receivables	—	558	4,109	4,667			
Loans to OFIs	114,130	—	16,502	130,632			
Other (including Mission Related)	41	3,537	5,980	9,558			
Total Loans	\$ 1,160,760	\$ 4,933,530	\$ 16,440,017	\$ 22,534,307			
Percentage	5.15%	21.89%	72.96%	100.00%			

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

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

	June 30, 2016	December 31, 2015		June 30, 2016	December 31, 2015
Direct notes:			Energy and water/waste disposal:		
Acceptable	100.00%	99.22%	Acceptable	88.25%	89.50%
OAEM	—	0.78	OAEM	11.75	10.50
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	—	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Real estate mortgage:			Rural residential real estate:		
Acceptable	95.03%	93.16%	Acceptable	99.90%	99.90%
OAEM	1.73	3.36	OAEM	—	—
Substandard/doubtful/loss	3.24	3.48	Substandard/doubtful/loss	0.10	0.10
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Production and intermediate-term:			International:		
Acceptable	88.35%	91.60%	Acceptable	100.00%	100.00%
OAEM	6.38	2.58	OAEM	—	—
Substandard/doubtful/loss	5.27	5.82	Substandard/doubtful/loss	—	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Loans to cooperatives:			Lease receivables:		
Acceptable	98.90%	99.10%	Acceptable	100.00%	—%
OAEM	1.10	—	OAEM	—	—
Substandard/doubtful/loss	—	0.90	Substandard/doubtful/loss	—	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>—%</u>
Processing and marketing:			Loans to OFIs:		
Acceptable	98.42%	100.00%	Acceptable	100.00%	100.00%
OAEM	1.58	—	OAEM	—	—
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	—	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Farm-related business:			Other (including Mission Related):		
Acceptable	75.60%	100.00%	Acceptable	100.00%	100.00%
OAEM	6.11	—	OAEM	—	—
Substandard/doubtful/loss	18.29	—	Substandard/doubtful/loss	—	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Communication:			Total Loans:		
Acceptable	97.19%	97.15%	Acceptable	98.67%	98.40%
OAEM	2.81	2.85	OAEM	0.82	1.09
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	0.51	0.51
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>

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

	June 30, 2016					Recorded Investment 90 Days or More Past Due and Accruing Interest
	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	
(dollars in thousands)						
Direct notes	\$ —	\$ —	\$ —	\$ 15,106,090	\$ 15,106,090	\$ —
Real estate mortgage	151	3,201	3,352	1,268,584	1,271,936	—
Production and intermediate-term	324	773	1,097	1,061,067	1,062,164	—
Loans to cooperatives	—	—	—	489,326	489,326	—
Processing and marketing	—	—	—	843,073	843,073	—
Farm-related business	—	—	—	82,466	82,466	—
Communication	—	—	—	242,373	242,373	—
Energy and water/waste disposal	—	—	—	558,154	558,154	—
Rural residential real estate	2,820	2,695	5,515	2,671,684	2,677,199	—
International	—	—	—	111,856	111,856	—
Lease receivables	—	—	—	4,677	4,677	—
Loans to OFIs	—	—	—	130,824	130,824	—
Other (including Mission Related)	—	—	—	9,670	9,670	—
Total	\$ 3,295	\$ 6,669	\$ 9,964	\$ 22,579,844	\$ 22,589,808	\$ —

December 31, 2015

<i>(dollars in thousands)</i>	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Direct notes	\$ —	\$ —	\$ —	\$ 14,921,735	\$ 14,921,735	\$ —
Real estate mortgage	2,533	4,636	7,169	1,188,698	1,195,867	217
Production and intermediate-term	135	7,485	7,620	1,154,793	1,162,413	—
Loans to cooperatives	—	—	—	218,025	218,025	—
Processing and marketing	—	—	—	1,017,428	1,017,428	—
Farm-related business	—	—	—	186,327	186,327	—
Communication	—	—	—	238,950	238,950	—
Energy and water/waste disposal	—	—	—	469,084	469,084	—
Rural residential real estate	32,286	4,499	36,785	2,563,519	2,600,304	944
International	—	—	—	66,195	66,195	—
Loans to OFIs	—	—	—	108,181	108,181	—
Other (including Mission Related)	—	—	—	9,978	9,978	—
Total	\$ 34,954	\$ 16,620	\$ 51,574	\$ 22,142,913	\$ 22,194,487	\$ 1,161

Nonperforming assets (including the recorded investment for loans) and related credit quality statistics are summarized as follows:

<i>(dollars in thousands)</i>	June 30, 2016	December 31, 2015
Nonaccrual loans:		
Real estate mortgage	\$ 9,881	\$ 12,697
Production and intermediate-term	3,931	9,208
Rural residential real estate	5,056	4,744
Total	\$ 18,868	\$ 26,649
Accruing restructured loans:		
Real estate mortgage	\$ 3,395	\$ 6,795
Production and intermediate-term	11,641	2,046
Rural residential real estate	1,397	1,150
Other (including Mission Related)	4,264	4,406
Total	\$ 20,697	\$ 14,397
Accruing loans 90 days or more past due:		
Real estate mortgage	\$ —	\$ 217
Rural residential real estate	—	944
Total	\$ —	\$ 1,161
Total nonperforming loans	\$ 39,565	\$ 42,207
Other property owned	7,956	13,411
Total nonperforming assets	\$ 47,521	\$ 55,618
Nonaccrual loans as a percentage of total loans	0.08%	0.12%
Nonperforming assets as a percentage of total loans and other property owned	0.21%	0.25%
Nonperforming assets as a percentage of capital	2.00%	2.47%

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

<i>(dollars in thousands)</i>	June 30, 2016	December 31, 2015
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 11,561	\$ 10,054
Past due	7,307	16,595
Total	18,868	26,649
Impaired accrual loans:		
Restructured	20,697	14,397
90 days or more past due	—	1,161
Total	20,697	15,558
Total impaired loans	\$ 39,565	\$ 42,207
Additional commitments to lend	\$ 3,263	\$ 3,857

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

<i>(dollars in thousands)</i>	June 30, 2016			Quarter Ended June 30, 2016		Six Months Ended June 30, 2016	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired Loans							
With a related allowance for credit losses:							
Real estate mortgage	\$ 1,433	\$ 1,707	\$ 167	\$ 1,282	\$ —	\$ 1,340	\$ —
Production and intermediate-term	—	—	—	—	—	4,473	—
Rural residential real estate	365	365	61	30	—	34	—
Other (including Mission Related)	4,264	4,267	153	4,298	67	4,330	135
Total	\$ 6,062	\$ 6,339	\$ 381	\$ 5,610	\$ 67	\$ 10,177	\$ 135
With no related allowance for credit losses:							
Real estate mortgage	\$ 11,843	\$ 15,222	\$ —	\$ 15,239	\$ 75	\$ 17,972	\$ 265
Production and intermediate-term	15,572	24,290	—	16,854	1,984	12,784	2,024
Rural residential real estate	6,088	6,072	—	6,007	52	5,728	136
Other (including Mission Related)	—	—	—	—	—	603	—
Total	\$ 33,503	\$ 45,584	\$ —	\$ 38,100	\$ 2,111	\$ 37,087	\$ 2,425
Total:							
Real estate mortgage	\$ 13,276	\$ 16,929	\$ 167	\$ 16,521	\$ 75	\$ 19,312	\$ 265
Production and intermediate-term	15,572	24,290	—	16,854	1,984	17,257	2,024
Rural residential real estate	6,453	6,437	61	6,037	52	5,762	136
Other (including Mission Related)	4,264	4,267	153	4,298	67	4,933	135
Total	\$ 39,565	\$ 51,923	\$ 381	\$ 43,710	\$ 2,178	\$ 47,264	\$ 2,560

<i>(dollars in thousands)</i>	December 31, 2015			Year Ended December 31, 2015	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired Loans					
With a related allowance for credit losses:					
Real estate mortgage	\$ 3,427	\$ 3,796	\$ 378	\$ 7,613	\$ —
Production and intermediate-term	6,837	16,683	749	9,918	—
Processing and marketing	—	—	—	—	—
Farm-related business	—	—	—	832	—
Rural residential real estate	168	169	56	147	—
Other (including Mission Related)	4,359	4,313	153	4,310	273
Total	\$ 14,791	\$ 24,961	\$ 1,336	\$ 22,820	\$ 273
With no related allowance for credit losses:					
Real estate mortgage	\$ 16,282	\$ 19,589	\$ —	\$ 15,262	\$ 1,915
Production and intermediate-term	4,417	5,916	—	6,239	354
Processing and marketing	—	828	—	—	—
Farm-related business	—	—	—	1,454	—
Rural residential real estate	6,670	6,623	—	3,833	184
Other (including Mission Related)	47	48	—	131	2
Total	\$ 27,416	\$ 33,004	\$ —	\$ 26,919	\$ 2,455
Total:					
Real estate mortgage	\$ 19,709	\$ 23,385	\$ 378	\$ 22,875	\$ 1,915
Production and intermediate-term	11,254	22,599	749	16,157	354
Processing and marketing	—	828	—	—	—
Farm-related business	—	—	—	2,286	—
Rural residential real estate	6,838	6,792	56	3,980	184
Other (including Mission Related)	4,406	4,361	153	4,441	275
Total	\$ 42,207	\$ 57,965	\$ 1,336	\$ 49,739	\$ 2,728

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows. Prior to issuance of the Bank's 2015 Annual Report, management identified errors in classification of the loan portfolio among the various FCA loan type categories that are used to report disaggregated loan information in footnote disclosures. As discussed in Note 3, *Loans and Allowance for Loan Losses*, of the Bank's 2015 Annual Report, FCA loan type classifications prior to December 31, 2015 have been revised as necessary to reflect these loan type classifications, as adjusted. In the table below, activity for the quarter and six months ended June 30, 2015 is presented as revised.

<i>(dollars in thousands)</i>	Direct Note	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	International	Lease receivables	Other**	Total
Activity related to the allowance for credit losses:											
Balance at March 31, 2016	\$ -	\$ 4,078	\$ 4,975	\$ 2,617	\$ 839	\$ 1,630	\$ 1,973	\$ 86	-	\$ 214	\$ 16,412
Charge-offs	-	-	-	-	-	-	(22)	-	-	-	(22)
Recoveries	-	5	-	-	-	-	-	-	-	-	5
Provision for loan losses	-	(802)	(11)	834	158	601	281	50	-	18	1,129
Balance at June 30, 2016	\$ -	\$ 3,281	\$ 4,964	\$ 3,451	\$ 997	\$ 2,231	\$ 2,232	\$ 136	-	\$ 232	\$ 17,524
Balance at December 31, 2015											
Balance at December 31, 2015	\$ -	\$ 3,615	\$ 4,779	\$ 2,243	\$ 777	\$ 1,646	\$ 1,770	\$ 79	-	\$ 204	\$ 15,113
Charge-offs	-	(55)	-	-	-	-	(95)	-	-	-	(150)
Recoveries	-	5	194	313	-	-	-	-	-	-	512
Provision for loan losses	-	(284)	(9)	895	220	585	557	57	-	28	2,049
Balance at June 30, 2016	\$ -	\$ 3,281	\$ 4,964	\$ 3,451	\$ 997	\$ 2,231	\$ 2,232	\$ 136	-	\$ 232	\$ 17,524
Balance at March 31, 2015											
Balance at March 31, 2015	\$ -	\$ 6,204	\$ 4,522	\$ 2,764	\$ 614	\$ 1,312	\$ 1,188	\$ 65	-	\$ 199	\$ 16,868
Charge-offs	-	(254)	(168)	-	-	-	(55)	-	-	-	(477)
Recoveries	-	-	-	-	-	-	-	-	-	-	-
Provision for loan losses	-	(260)	(1,212)	860	(2)	105	179	3	-	3	(324)
Loan type reclassification	-	(1,753)	1,084	669	-	-	-	-	-	-	-
Balance at June 30, 2015	\$ -	\$ 3,937	\$ 4,226	\$ 4,293	\$ 612	\$ 1,417	\$ 1,312	\$ 68	-	\$ 202	\$ 16,067
Balance at December 31, 2014											
Balance at December 31, 2014	\$ -	\$ 5,989	\$ 3,585	\$ 2,785	\$ 579	\$ 1,332	\$ 919	\$ 54	-	\$ 292	\$ 15,535
Charge-offs	-	(254)	(168)	-	-	-	(104)	-	-	-	(526)
Recoveries	-	13	-	-	-	-	-	-	-	-	13
Provision for loan losses	-	(58)	(275)	839	33	85	497	14	-	(90)	1,045
Loan type reclassification	-	(1,753)	1,084	669	-	-	-	-	-	-	-
Balance at June 30, 2015	\$ -	\$ 3,937	\$ 4,226	\$ 4,293	\$ 612	\$ 1,417	\$ 1,312	\$ 68	-	\$ 202	\$ 16,067
Allowance on loans evaluated for impairment:											
Individually	\$ -	\$ 167	\$ -	\$ -	\$ -	\$ -	\$ 61	\$ -	-	\$ 153	\$ 381
Collectively	-	3,114	4,964	3,451	997	2,231	2,171	136	-	79	17,143
Balance at June 30, 2016	\$ -	\$ 3,281	\$ 4,964	\$ 3,451	\$ 997	\$ 2,231	\$ 2,232	\$ 136	-	\$ 232	\$ 17,524
Balance at December 31, 2015											
Individually	\$ -	\$ 378	\$ 749	\$ -	\$ -	\$ -	\$ 56	\$ -	-	\$ 153	\$ 1,336
Collectively	-	3,237	4,030	2,243	777	1,646	1,714	79	-	51	13,777
Balance at December 31, 2015	\$ -	\$ 3,615	\$ 4,779	\$ 2,243	\$ 777	\$ 1,646	\$ 1,770	\$ 79	-	\$ 204	\$ 15,113
Recorded investment in loans evaluated for impairment:											
Individually	\$ 15,106,090	\$ 110,331	\$ 15,572	\$ -	\$ -	\$ -	\$ 1,682,982	\$ -	-	\$ 4,264	\$ 16,919,239
Collectively	-	1,161,605	1,046,592	1,414,865	242,373	558,154	994,217	111,856	4,677	136,230	5,670,569
Balance at June 30, 2016	\$ 15,106,090	\$ 1,271,936	\$ 1,062,164	\$ 1,414,865	\$ 242,373	\$ 558,154	\$ 2,677,199	\$ 111,856	4,677	\$ 140,494	\$ 22,589,808
Balance at December 31, 2015											
Individually	\$ 14,921,735	\$ 104,515	\$ 11,246	\$ -	\$ -	\$ -	\$ 1,785,135	\$ -	-	\$ 4,359	\$ 16,826,990
Collectively	-	1,091,352	1,151,167	1,421,780	238,950	469,084	815,169	66,195	-	113,800	5,367,497
Balance at December 31, 2015	\$ 14,921,735	\$ 1,195,867	\$ 1,162,413	\$ 1,421,780	\$ 238,950	\$ 469,084	\$ 2,600,304	\$ 66,195	-	\$ 118,159	\$ 22,194,487

*Includes the loan types: Loans to cooperatives, Processing and marketing, and Farm-related business.

**Includes mission related loans and loans to OFIs.

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. In the tables below, activity for the quarter and six months ended June 30, 2015 is presented as revised for FCA loan type reclassifications discussed above. There were no new TDRs that occurred during the three month period ended June 30, 2015.

<i>(dollars in thousands)</i>		Three months ended June 30, 2016				
Outstanding	Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification						
Real estate mortgage		\$ -	\$ 467	\$ -	\$ 467	
Production and intermediate-term		199	92	-	291	
Total		\$ 199	\$ 559	\$ -	\$ 758	
Post-modification						
Real estate mortgage		\$ -	\$ 467	\$ -	\$ 467	\$ -
Production and intermediate-term		206	96	-	302	-
Total		\$ 206	\$ 563	\$ -	\$ 769	\$ -

(dollars in thousands)

Outstanding Recorded Investment	Six months ended June 30, 2016					Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total		
Pre-modification						
Real estate mortgage	\$ –	\$ 467	\$ –	\$ 467		
Production and intermediate-term	199	92	–	291		
Total	\$ 199	\$ 559	\$ –	\$ 758		
Post-modification						
Real estate mortgage	\$ –	\$ 467	\$ –	\$ 467	\$ –	
Production and intermediate-term	206	96	–	302		
Total	\$ 206	\$ 563	\$ –	\$ 769	\$ –	

(dollars in thousands)

Outstanding Recorded Investment	Six months ended June 30, 2015 (as revised)					Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total		
Pre-modification						
Production and intermediate-term	\$ –	\$ 3,339	\$ –	\$ 3,339		
Rural residential real estate	–	390	–	390		
Total	\$ –	\$ 3,729	\$ –	\$ 3,729		
Post-modification						
Production and intermediate-term	\$ –	\$ 3,339	\$ –	\$ 3,339	\$ –	
Rural residential real estate	–	390	–	390		
Total	\$ –	\$ 3,729	\$ –	\$ 3,729	\$ –	

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension.

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Rural residential real estate	\$ 209	\$ –	\$ 209	\$ –
Total	\$ 209	\$ –	\$ 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:

(dollars in thousands)	Total TDRs		Nonaccrual TDRs	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Real estate mortgage	\$ 10,760	\$ 14,881	\$ 7,365	\$ 8,086
Production and intermediate-term	12,634	9,891	993	7,845
Rural residential real estate	2,367	2,202	970	1,052
Other (including Mission Related)	4,264	4,406	–	–
Total Loans	\$ 30,025	\$ 31,380	\$ 9,328	\$ 16,983
Additional commitments to lend	\$ 1,125	\$ 3,263		

The following table presents foreclosure information as of period end:

	June 30, 2016	December 31, 2015
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ 644	\$ 723
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ 871	\$ –

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

The FCA considers a non-agency security ineligible if it falls below AAA/Aaa credit rating criteria and requires Farm Credit System (System) institutions to provide notification to the FCA when a security becomes ineligible. Non-agency CMO and ABS securities not rated in the top category by at least one of the NRSROs at June 30, 2016 had a fair value of \$110.4 million and \$29.7 million, respectively.

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 June 30, 2016, the Bank held two RABs 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. In 2015, the Bank purchased \$42.4 million in U.S. Treasury securities which are held for that purpose. The remainder of the compensating balance is held in cash in a demand deposit account. These securities are excluded when calculating the amount of eligible liquidity investments.

During the first six months of 2016, proceeds from sales of investments were \$16.0 million and realized gains were \$620 thousand. During the first six months of 2015, proceeds from sales of investments were \$29.1 million and realized gains were \$1.1 million.

Available-for-sale

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

	June 30, 2016				
<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Treasury Securities	\$ 142,433	\$ 194	\$ —	\$ 142,627	0.55%
U.S. Govt. Guaranteed	4,021,141	61,372	(5,616)	4,076,897	1.57
U.S. Govt. Agency Guaranteed	2,245,999	16,837	(8,662)	2,254,174	1.23
Non-Agency CMOs (a)	125,258	824	(14,813)	111,269	1.00
Non-Agency ABSs	661,266	24,798	(404)	685,660	1.42
Total	\$ 7,196,097	\$ 104,025	\$ (29,495)	\$ 7,270,627	1.42%

December 31, 2015

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Treasury Securities	\$ 42,405	\$ –	\$ –	\$ 42,405	0.68%
U.S. Govt. Guaranteed	3,924,073	55,715	(9,198)	3,970,590	1.69
U.S. Govt. Agency Guaranteed	2,123,526	16,050	(7,688)	2,131,888	0.98
Non-Agency CMOs (b)	140,516	51	(13,707)	126,860	0.75
Non-Agency ABSs	653,606	25,084	(1,321)	677,369	1.24%
Total	\$ 6,884,126	\$ 96,900	\$ (31,914)	\$ 6,949,112	1.40%

(a) Gross unrealized losses included non-credit related other-than-temporary impairment included in Accumulated Other Comprehensive Income (AOCI) of \$9.6 million for Non-Agency CMOs.

(b) Gross unrealized losses included non-credit related other-than-temporary impairment included in AOCI of \$9.2 million for Non-Agency CMOs.

Held-to-maturity

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

June 30, 2016

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	\$ 475,354	\$ 19,158	\$ (146)	\$ 494,366	3.38%
RABs and Other	94,129	8,931	(151)	102,909	6.06
Total	\$ 569,483	\$ 28,089	\$ (297)	\$ 597,275	3.82%

December 31, 2015

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	\$ 465,073	\$ 14,891	\$ (5,978)	\$ 473,986	3.50%
RABs and Other	97,625	5,945	(792)	102,778	6.06
Total	\$ 562,698	\$ 20,836	\$ (6,770)	\$ 576,764	3.94%

A summary of the contractual maturity, estimated fair value and amortized cost of investment securities at June 30, 2016 follows:

Available-for-sale

(dollars in thousands)	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Treasury Securities	\$ 112,533	0.47 %	\$ 30,094	0.85 %	\$ –	– %	\$ –	– %	\$ 142,627	0.55 %
U.S. Govt. Guaranteed	1	0.68	–	–	88,857	0.97	3,988,039	1.59	4,076,897	1.57
U.S. Govt. Agency Guaranteed	54,267	2.90	233,353	1.24	146,508	1.29	1,820,046	1.17	2,254,174	1.23
Non-Agency CMOs	–	–	–	–	877	1.16	110,392	0.99	111,269	1.00
Non-Agency ABSs	–	–	656,005	1.03	–	–	29,655	40.88	685,660	1.42
Total fair value	\$ 166,801	1.26 %	\$ 919,452	1.08 %	\$ 236,242	1.16 %	\$ 5,948,132	1.49 %	\$ 7,270,627	1.42 %
Total amortized cost	\$ 166,757		\$ 916,523		\$ 235,498		\$ 5,877,319		\$ 7,196,097	

Held-to-maturity

(dollars in thousands)	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Agency Guaranteed	\$ –	– %	\$ 129	4.44 %	\$ –	– %	\$ 475,225	3.38 %	\$ 475,354	3.38 %
RABs and Other	10,149	5.86	28,382	6.22	15,463	6.12	40,135	5.97	94,129	6.06
Total amortized cost	\$ 10,149	5.86 %	\$ 28,511	6.21 %	\$ 15,463	6.12 %	\$ 515,360	3.58 %	\$ 569,483	3.82 %
Total fair value	\$ 10,482		\$ 29,746		\$ 17,054		\$ 539,993		\$ 597,275	

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

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

	June 30, 2016					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(dollars in thousands)</i>						
U.S. Govt. Treasury Securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Govt. Guaranteed	708,729	(2,802)	544,081	(2,814)	1,252,810	(5,616)
U.S. Govt. Agency Guaranteed	895,301	(4,606)	442,339	(4,202)	1,337,640	(8,808)
Non-Agency CMOs	138	-	101,533	(14,813)	101,671	(14,813)
Non-Agency ABSs	79,751	(44)	5,896	(360)	85,647	(404)
RABs and Other	-	-	8,661	(151)	8,661	(151)
Total	\$ 1,683,919	\$ (7,452)	\$ 1,102,510	\$ (22,340)	\$ 2,786,429	\$ (29,792)

	December 31, 2015					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(dollars in thousands)</i>						
U.S. Govt. Guaranteed	\$ 1,110,754	\$ (5,606)	\$ 449,637	\$ (3,592)	\$ 1,560,391	\$ (9,198)
U.S. Govt. Agency Guaranteed	925,228	(6,849)	478,018	(6,817)	1,403,246	(13,666)
Non-Agency CMOs	753	(2)	121,417	(13,705)	122,170	(13,707)
Non-Agency ABSs	600,067	(955)	2,064	(366)	602,131	(1,321)
RABs and Other	10,644	(614)	3,604	(178)	14,248	(792)
Total	\$ 2,647,446	\$ (14,026)	\$ 1,054,740	\$ (24,658)	\$ 3,702,186	\$ (38,684)

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.

Following are the assumptions used for the periods ended:

Assumptions Used	MBSs	ABSs
June 30, 2016		
Default rate by range	1.36% to 22.06%	19.13% to 33.61%
Prepayment rate by range	3.60% to 11.93%	2.71% to 11.11%
Loss severity by range	12.83% to 78.78%	84.28% to 100.73%
December 31, 2015		
Default rate by range	1.24% to 25.28%	24.03% to 39.76%
Prepayment rate by range	3.11% to 15.56%	2.35% to 10.41%
Loss severity by range	4.37% to 59.66%	86.04% to 100.65%

Based on the results of all analyses, the Bank has recognized \$1.7 million of credit-related OTTI for 2016, which is included in Net Other-than-temporary Impairment Losses in the Statements of Income. Since the Bank does not intend to sell these 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.

For the six months ended June 30, 2016, net unrealized gains of \$10.7 million were recognized in other comprehensive income 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 other comprehensive income:

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Amount related to credit loss-beginning balance	\$ 57,867	\$ 57,429	\$ 56,692	\$ 57,459
Additions for initial credit impairments	—	—	—	—
Additions for subsequent credit impairments	—	106	1,730	213
Reductions for increases in expected cash flows	(924)	(696)	(1,479)	(833)
Reductions for securities sold/settled/matured	—	—	—	—
Amount related to credit loss-ending balance	56,943	56,839	56,943	56,839
Life to date incurred credit losses	(22,073)	(20,111)	(22,073)	(20,111)
Remaining unrealized credit losses	\$ 34,870	\$ 36,728	\$ 34,870	\$ 36,728

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.

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.

<i>(dollars in thousands)</i>	June 30, 2016					
	Bonds		Discount Notes		Total	
	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate
Maturities						
One year or less	\$ 6,591,944	1.00%	\$ 8,352,514	0.55%	\$ 14,944,458	0.75%
Greater than one year to two years	5,303,157	0.77	-	-	5,303,157	0.77
Greater than two years to three years	2,397,339	1.07	-	-	2,397,339	1.07
Greater than three years to four years	1,451,785	1.55	-	-	1,451,785	1.55
Greater than four years to five years	1,320,897	1.65	-	-	1,320,897	1.65
Greater than five years	3,650,826	2.37	-	-	3,650,826	2.37
Total	\$ 20,715,948	1.27%	\$ 8,352,514	0.55%	\$ 29,068,462	1.06%

Discount notes are issued with maturities ranging from 1 to 365 days. The average maturity of discount notes at June 30, 2016 was 161 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.

In April, 2016, the Bank repurchased through a privately negotiated transaction, and subsequently cancelled, Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with a par value of \$41.8 million. The effect of the repurchase on shareholders' equity was to reduce preferred stock outstanding by \$41.8 million and to increase additional paid-in capital by \$11.7 million.

In March, 2016, the Bank repurchased through a privately negotiated transaction, and subsequently cancelled, Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with a par value of \$4.0 million. The effect of the repurchase on shareholders' equity was to reduce preferred stock outstanding by \$4.0 million and to increase additional paid-in capital by \$1.2 million.

In August, 2015, the Bank repurchased through a privately negotiated transaction, and subsequently cancelled, Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with a par value of \$10.3 million. The effect of the repurchase on shareholders' equity was to reduce preferred stock outstanding by \$10.3 million and to increase additional paid-in-capital by \$3.4 million.

Accumulated Other Comprehensive Income

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

<i>(dollars in thousands)</i>	Changes in Accumulated Other Comprehensive Income by Component (a)			
	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Investment Securities:				
Balance at beginning of period	\$ 73,863	\$ 105,107	\$ 64,985	\$ 107,647
Other comprehensive income before reclassifications	666	(11,231)	8,434	(12,752)
Amounts reclassified from AOCI	–	106	1,110	(913)
Net current period other comprehensive income	666	(11,125)	9,544	(13,665)
Balance at end of period	\$ 74,529	\$ 93,982	\$ 74,529	\$ 93,982
Cash Flow Hedges:				
Balance at beginning of period	\$ (938)	\$ (701)	\$ (957)	\$ (548)
Other comprehensive income before reclassifications	5	(29)	5	105
Amounts reclassified from AOCI	39	(86)	58	(373)
Net current period other comprehensive income	44	(115)	63	(268)
Balance at end of period	\$ (894)	\$ (816)	\$ (894)	\$ (816)
Employee Benefit Plans:				
Balance at beginning of period	\$ (4,022)	\$ (5,051)	\$ (4,106)	\$ (5,151)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	84	100	168	200
Net current period other comprehensive income	84	100	168	200
Balance at end of period	\$ (3,938)	\$ (4,951)	\$ (3,938)	\$ (4,951)
Total Accumulated Other Comprehensive Income:				
Balance at beginning of period	\$ 68,903	\$ 99,355	\$ 59,922	\$ 101,948
Other comprehensive income before reclassifications	671	(11,260)	8,439	(12,647)
Amounts reclassified from AOCI	123	120	1,336	(1,086)
Net current period other comprehensive income	794	(11,140)	9,775	(13,733)
Balance at end of period	\$ 69,697	\$ 88,215	\$ 69,697	\$ 88,215

<i>(dollars in thousands)</i>	Reclassifications Out of Accumulated Other Comprehensive Income (b)				
	For the three months ended June 30,		For the six months ended June 30,		Income Statement Line Item
	2016	2015	2016	2015	
Investment Securities:					
Sales gains & losses	\$ –	\$ –	\$ 620	\$ 1,126	Gains (losses) on investments, net
Holding gains & losses	–	(106)	(1,730)	(213)	Net other-than-temporary impairment
Net amounts reclassified	–	(106)	(1,110)	913	
Cash Flow Hedges:					
Interest income	(44)	115	(63)	268	See Note 10.
Gains (losses) on other transactions	5	(29)	5	105	See Note 10.
Net amounts reclassified	(39)	86	(58)	373	
Employee Benefit Plans:					
Periodic pension costs	(84)	(100)	(168)	(200)	See Note 7.
Net amounts reclassified	(84)	(100)	(168)	(200)	
Total reclassifications for period	\$ (123)	\$ (120)	\$ (1,336)	\$ 1,086	

(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.

In 2009, the Bank began adjusting the pricing it received for the Non-Agency ABS and CMO securities from the third party pricing service with that obtained from an investment analysis consultant due to the inherent illiquidity and dislocation in the market for these bonds. At that time, these securities were also reclassified and reported as Level 3 fair value measurements because of this market unobservable pricing input. Over time, this valuation input was discontinued because of a reduction in volatilities and risk, as measured by the pricing differences and changes over time, for these bonds. Documentation from the third party pricing service indicates market observable inputs are used in their valuations of these securities. On June 30, 2015, the Non-Agency ABS and CMO bonds were transferred to Level 2 of the fair value hierarchy.

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.

<i>(dollars in thousands)</i>	Non-Agency ABSs	Non-Agency CMOs
Balance at December 31, 2014	\$ 34,783	\$ 153,011
Gains or (losses) included in earnings	-	(213)
Gains or (losses) included in OCI	(153)	1,910
Purchases	-	-
Settlements	(1,088)	(13,909)
Transfers in and/or out of Level 3	(33,542)	(140,799)
Balance at June 30, 2015	<u>\$ -</u>	<u>\$ -</u>

Fair values are estimated at each period end date for assets and liabilities measured at fair value on a recurring basis. Fair values are estimated at least annually, or when information suggests a significant change in value, for assets measured at fair value on a nonrecurring 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 Six Months Ended June 30, 2016						
(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	\$ 142,627	\$ —	\$ 142,627	\$ —	\$ 142,627		
U.S. Govt. Guaranteed	4,076,897	—	4,076,897	—	4,076,897		
U.S. Govt. Agency Guaranteed	2,254,174	—	2,254,174	—	2,254,174		
Non-Agency CMOs	111,269	—	111,269	—	111,269		
Non-Agency ABSs	685,660	—	685,660	—	685,660		
Total investments available-for-sale	7,270,627	—	7,270,627	—	7,270,627		
Federal funds sold, securities purchased under resale agreements, and other	224,514	—	224,514	—	224,514		
Interest rate swaps and other derivative instruments	1,929	—	1,929	—	1,929		
Assets held in trust funds	10,082	10,082	—	—	10,082		
Recurring Assets	\$ 7,507,152	\$ 10,082	\$ 7,497,070	\$ —	\$ 7,507,152		
Liabilities:							
Interest rate swaps and other derivative instruments	\$ —	\$ —	\$ —	\$ —	\$ —		
Collateral liabilities	—	—	—	—	—		
Recurring Liabilities	\$ —	\$ —	\$ —	\$ —	\$ —		
Nonrecurring Measurements							
Assets:							
Impaired loans	\$ 39,184	\$ —	\$ —	\$ 39,184	\$ 39,184	\$ 1,317	
Other property owned	7,956	—	—	8,923	8,923	(170)	
Nonrecurring Assets	\$ 47,140	\$ —	\$ —	\$ 48,107	\$ 48,107	\$ 1,147	
Other Financial Instruments							
Assets:							
Cash	\$ 729,481	\$ 729,481	\$ —	\$ —	\$ 729,481		
Investments held to maturity	569,483	—	494,366	102,909	597,275		
Loans	22,477,599	—	—	22,772,682	22,772,682		
Other Financial Assets	\$ 23,776,563	\$ 729,481	\$ 494,366	\$ 22,875,591	\$ 24,099,438		
Liabilities:							
Systemwide debt securities	\$ 29,068,462	\$ —	\$ —	\$ 29,183,999	\$ 29,183,999		
Other Financial Liabilities	\$ 29,068,462	\$ —	\$ —	\$ 29,183,999	\$ 29,183,999		

At or for the Year Ended December 31, 2015

(dollars in thousands)

Recurring Measurements

Assets:

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Investments available-for-sale:						
U.S. Govt. Treasury Securities	\$ 42,405	\$ —	\$ 42,405	\$ —	\$ 42,405	
U.S. Govt. Guaranteed	3,970,590	—	3,970,590	—	3,970,590	
U.S. Govt. Agency Guaranteed	2,131,888	—	2,131,888	—	2,131,888	
Non-Agency CMOs	126,860	—	126,860	—	126,860	
Non-Agency ABSs	677,369	—	677,369	—	677,369	
Total investments available-for-sale	6,949,112	—	6,949,112	—	6,949,112	
Federal funds sold, securities purchased under resale agreements, and other	211,554	—	211,554	—	211,554	
Interest rate swaps and other derivative instruments	5,174	—	5,174	—	5,174	
Assets held in trust funds	8,697	8,697	—	—	8,697	
Recurring Assets	\$ 7,174,537	\$ 8,697	\$ 7,165,840	\$ —	\$ 7,174,537	

Liabilities:

Interest rate swaps and other derivative instruments	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Collateral liabilities	—	—	—	—	—	—
Recurring Liabilities	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

Nonrecurring Measurements

Assets:

Impaired loans	\$ 40,871	\$ —	\$ —	\$ 40,871	\$ 40,871	\$ 5,337
Other property owned	13,411	—	—	15,180	15,180	(318)
Nonrecurring Assets	\$ 54,282	\$ —	\$ —	\$ 56,051	\$ 56,051	\$ 5,019

Other Financial Instruments

Assets:

Cash	\$ 461,068	\$ 461,068	\$ —	\$ —	\$ 461,068	
Investments held to maturity	562,698	—	473,986	102,778	576,764	
Loans	22,084,774	—	—	22,029,490	22,029,490	
Other Financial Assets	\$ 23,108,540	\$ 461,068	\$ 473,986	\$ 22,132,268	\$ 23,067,322	

Liabilities:

Systemwide debt securities	\$ 27,973,107	\$ —	\$ —	\$ 27,956,673	\$ 27,956,673	
Other Financial Liabilities	\$ 27,973,107	\$ —	\$ —	\$ 27,956,673	\$ 27,956,673	

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
Forward contracts – when-issued securities	\$ –	Broker/Consensus pricing	Offered quotes	None outstanding
Impaired loans and other property owned	\$ 48,107	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
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

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:

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Pension	\$ 2,255	\$ 2,270	\$ 4,510	\$ 4,541
401k	644	607	1,244	1,217
Other postretirement benefits	357	448	713	897
Total	\$ 3,256	\$ 3,325	\$ 6,467	\$ 6,655

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, 2015.

<i>(dollars in thousands)</i>	Actual YTD Through 6/30/16	Projected Contributions for Remainder of 2016	Projected Total Contributions 2016
Pensions	\$ 289	\$ 4,621	\$ 4,910
Other postretirement benefits	474	494	968
Total	\$ 763	\$ 5,115	\$ 5,878

Contributions in the above table include allocated estimates of funding for multi-employer 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, 2016.

Further details regarding employee benefit plans are contained in the most recent Annual Report to Shareholders, including a discussion of benefit plan changes related to the termination of the AgFirst Farm Credit Cash Balance Retirement Plan.

Note 8 — Commitments and Contingencies

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

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

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

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

<i>(dollars in billions)</i>	6/30/16	12/31/15
Total System bonds and notes	\$ 254.634	\$ 243.335
AgFirst bonds and notes	\$ 29.068	\$ 27.973

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

June 30, 2016						
<i>(dollars in thousands)</i>	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets Presented in the Balance Sheets	Gross Amounts Not Offset in the Balance Sheets		
				Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	\$ 1,929	\$ —	\$ 1,929	\$ —	\$ —	\$ 1,929
Reverse repurchase and similar arrangements	224,514	—	224,514	(224,514)	—	—
Total	\$ 226,443	\$ —	\$ 226,443	\$ (224,514)	\$ —	\$ 1,929

	December 31, 2015					
	Gross Amounts Not Offset in the Balance Sheets					
	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
<i>(dollars in thousands)</i>						
Derivatives	\$ 5,174	\$ –	\$ 5,174	\$ –	\$ –	\$ 5,174
Reverse repurchase and similar arrangements	211,554	–	211,554	(211,554)	–	–
Total	\$ 216,728	\$ –	\$ 216,728	\$ (211,554)	\$ –	\$ 5,174

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' Second Quarter 2016 Report and 2015 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 <i>(dollars in thousands)</i>	June 30,	December 31
	2016	2015
Cash and investment securities	\$ 126,801	\$ 155,625
Loans	19,521,059	18,934,719
Allowance for loan losses	(165,926)	(163,504)
Net loans	19,355,133	18,771,215
Other assets	799,374	979,153
Total assets	\$ 20,281,308	\$ 19,905,993
Direct note	\$ 15,752,345	\$ 15,340,972
Other liabilities	340,487	511,010
Total liabilities	16,092,832	15,851,982
Capital stock and participation certificates	198,866	192,467
Additional paid-in-capital	23,691	23,691
Retained earnings	3,994,731	3,868,053
Accumulated other comprehensive income (loss)	(28,812)	(30,200)
Total shareholders' equity	4,188,476	4,054,011
Total liabilities and shareholders' equity	\$ 20,281,308	\$ 19,905,993

Statements of Income (dollars in thousands)	For the six months ended June 30,	
	2016	2015
Interest income	\$ 470,405	\$ 437,536
Interest expense	190,991	168,678
Net interest income	279,414	268,858
Provision for (reversal of allowance for) loan losses	1,972	4,060
Net interest income after provision for (reversal of allowance for) loan losses	277,442	264,798
Noninterest income	91,523	85,615
Noninterest expenses		
Salaries and employee benefits	133,285	131,608
Occupancy and equipment	9,621	9,559
Insurance Fund premiums	11,116	8,395
Other operating expenses	38,568	38,491
Losses (gains) from other property owned	1,549	35
Total noninterest expenses	194,139	188,088
Income (loss) before taxes	174,826	162,325
Provision for income taxes	266	937
Net income	\$ 174,560	\$ 161,388

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:

Notional Amounts (dollars in millions)	For the Six Months Ended June 30,			
	2016		2015	
	Receive- Fixed Swaps	Forward Contracts	Receive- Fixed Swaps	Forward Contracts
Balance at beginning of period	\$ 150	\$ —	\$ 250	\$ 1
Additions	—	1	—	3
Maturities/amortization	—	—	—	(4)
Terminations	—	—	—	—
Balance at end of period	\$ 150	\$ 1	\$ 250	\$ —

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. A number of swaps are supported by collateral arrangements with counterparties.

Counterparty exposure related to derivatives at:

<i>(dollars in millions)</i>	June 30, 2016	December 31, 2015
Estimated Gross Credit Risk	\$1.9	\$5.2
Percent of Notional	1.29%	3.45%
Cash Collateral Held <i>(on balance sheet)</i>	\$-	\$-
Securities Collateral Held <i>(off balance sheet)</i>	\$-	\$-
Cash Collateral Posted <i>(off balance sheet)</i>	\$-	\$-
Securities Collateral Posted <i>(on balance sheet)</i>	\$-	\$-

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. The amount of the loss on interest rate swaps recognized in interest expense for the six months ended June 30, 2016 was \$3.2 million, while the amount of the gain on the Systemwide Debt Securities was \$3.2 million. The amount of the loss on interest rate swaps recognized in interest expense for the six months ended June 30, 2015 was \$5.2 million, while the amount of the gain on the Systemwide Debt Securities was \$5.2 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 Other Comprehensive Income, 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:

<i>(dollars in thousands)</i>	Balance Sheet	6/30/16	Balance Sheet	6/30/16
	Classification – Assets	Fair Value	Classification – Liabilities	Fair Value
Receive-fixed swaps	Other Assets	\$ 1,929	Other Liabilities	\$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		\$ 1,929		\$ –

<i>(dollars in thousands)</i>	Balance Sheet	12/31/15	Balance Sheet	12/31/15
	Classification – Assets	Fair Value	Classification – Liabilities	Fair Value
Receive-fixed swaps	Other Assets	\$ 5,174	Other Liabilities	\$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		\$ 5,174		\$ –

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*.

<i>(dollars in thousands)</i>	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)	
		2016	2015	2016	2015	2016	2015
		Fair Value Hedges:					
Receive-fixed swaps	Noninterest income	\$ –	\$ –				
Cash Flow Hedges:							
Firm Commitments	Interest Income	\$ (63)	\$ 268	\$ –	\$ –	\$ –	\$ –
Forward Contracts	Gains (Losses) on Other Transactions	5	105	–	–	5	105

* 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 there were none requiring disclosure through August 8, 2016, which was the date the financial statements were issued.