DEFINING DIFFERENT

2017 FIRST QUARTER REPORT

AGFIRST
FARM CREDIT BANK

FIRST QUARTER 2017

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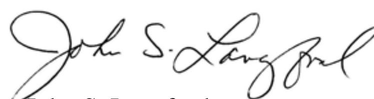
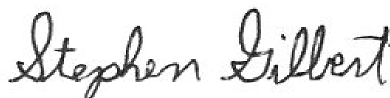
CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2017 quarterly report of AgFirst Farm Credit Bank, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



John S. Langford
Chairman of the Board

Leon T. Amerson
Chief Executive Officer & President



Stephen Gilbert
Chief Financial Officer

May 8, 2017

Report on Internal Control Over Financial Reporting

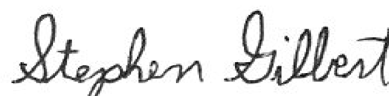
The Bank's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Bank's Financial Statements. For purposes of this report, "internal control over financial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

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

The Bank's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2017. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Bank's management concluded that as of March 31, 2017, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Bank's management determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2017.

Leon T. Amerson
Chief Executive Officer & President



Stephen Gilbert
Chief Financial Officer

May 8, 2017

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

The following discussion reviews the financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) as of and for the three month period ended March 31, 2017. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Financial Statements, and the 2016 Annual Report of AgFirst Farm Credit Bank. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the District. The accompanying financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of AgFirst. However, results of operations for the three months may not be indicative of an entire year due to the seasonal nature of a portion of AgFirst's business.

FORWARD-LOOKING INFORMATION

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

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

FINANCIAL CONDITION

Loan Portfolio

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

Loan Portfolio *(dollars in thousands)*	**March 31, 2017**		**December 31, 2016**		**March 31, 2016**	
Direct Notes*	$ 14,875,442	66.56%	$ 15,480,715	67.56%	$ 14,356,105	66.01%
Capital Markets*	4,424,870	19.80	4,442,524	19.39	4,553,566	20.93
Correspondent Lending	2,926,256	13.09	2,868,870	12.52	2,727,473	12.54
Loans to OFIs	123,023	0.55	122,573	0.53	112,632	0.52
Total	$ 22,349,591	100.00%	$ 22,914,682	100.00%	$ 21,749,776	100.00%

**Net of participations sold.*

Total loans outstanding were $22.350 billion at March 31, 2017, a decrease of $565.1 million, or 2.47 percent, compared to total loans outstanding at December 31, 2016 and an increase of $599.8 million, or 2.76 percent, since March 31, 2016. Excluding Bank patronage payments to Associations of approximately $239.2 million which were applied to the Association Direct Notes at the beginning of 2017 and a participation interest of approximately $290.5 million in a Direct Note sold in February 2017 to another System bank, loan volume at March 31, 2017 decreased 0.15 percent compared to 2016 year-end. Loan volume since year-end 2016 was negatively impacted by a decrease in Direct Notes resulting from patronage paid and the participation interest sold as discussed above and the seasonal nature of Association lending activity as borrowers typically pay down loans during the first quarter using proceeds from crop sales. The increase in loan volume compared to March 31, 2016 resulted from positive economic conditions favorably impacting borrowers in economically sensitive segments such as forestry and borrowers dependent on non-farm income. Also, 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 in 2017.

Credit Quality

Credit quality of AgFirst's loans is shown below:

	Total Loan Portfolio Credit Quality as of:		
Classification	**March 31, 2017**	**December 31, 2016**	**March 31, 2016**
Acceptable	99.02%	98.89%	98.21%
OAEM *	0.51%	0.67%	1.26%
Adverse **	0.47%	0.44%	0.53%

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

Loan portfolio credit quality at March 31, 2017 improved compared to December 31, 2016 and March 31, 2016. The improvement in credit quality at March 31, 2017 compared to March 31, 2016, 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. Improved housing starts continue to positively impact certain housing-related segments such as forestry and nursery/greenhouse. District real estate values are stable. Credit quality is expected to slightly deteriorate in 2017 given the effect of low prices to borrowers in certain commodity segments.

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 March 31, 2017, the total Direct Note volume outstanding was $14.875 billion, a decrease of $605.3 million, or 3.91 percent, compared to December 31, 2016. Excluding Bank patronage payments of approximately $239.2 million and the sale of participation interest of approximately $290.5 million referenced in the Loan Portfolio section above, Direct Note volume decreased 0.49 percent when compared to 2016 year-end. See the Loan Portfolio section above for the primary reasons for the change in the Direct Note volume from December 2016 to March 2017.

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

Direct Note Credit Quality as of

	March 31, 2017		**December 31, 2016**		**March 31, 2016**	
Classification	**% Total**	**# Total**	**% Total**	**# Total**	**% Total**	**# Total**
Acceptable	100.00%	19	100.00%	19	99.22%	18
OAEM *	–%	–	–%	–	0.78%	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 March 31, 2017 and December 31, 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.

At March 31, 2017, all District Associations were operating under normal FCA supervision. One Association, which had total assets of $164.8 million, was operating under a special credit agreement pursuant to its GFA as a result of events of default under the GFA as of March 31, 2017. This agreement expired as of April 30, 2017, and the Association now operates in compliance with its GFA.

Capital Markets

The Capital Markets portfolio consists primarily of loan participations and syndications. As of March 31, 2017, this portfolio totaled $4.425 billion, a decrease of $17.7 million, or 0.40 percent, from December 31, 2016, reflecting continued flat demand.

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

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

	Participations/Syndications Credit Quality as of:		
Classification	March 31, 2017	December 31, 2016	March 31, 2016
Acceptable	95.17%	94.34%	94.01%
OAEM*	2.57%	3.46%	3.55%
Adverse**	2.26%	2.20%	2.44%

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

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

Correspondent Lending

The Correspondent Lending portfolio consists primarily of first lien residential mortgages. As of March 31, 2017, the Correspondent Lending portfolio totaled $2.926 billion. From December 31, 2016 to March 31, 2017, this portfolio increased $57.4 million, or 2.00 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 March 31, 2017, $1.559 billion, or 53.29 percent, of loans in the Correspondent Lending portfolio were guaranteed and $1.367 billion, or 46.71 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 March 31, 2017, 99.85 percent of the Correspondent Lending portfolio was classified as acceptable and 0.15 percent was classified as substandard.

Rural home loans, combined with Rural Home Mortgage-backed Securities, are limited to 15 percent of the three-month average daily balance of total loans outstanding. Based on March 31, 2017 levels, the Bank has unused capacity of $91.8 million under a total limit of $3.437 billion. The Bank monitors this position and will consider options, should they become necessary, to manage the rural home asset level within the regulatory limit. See Note 3, *Investments*, in the Notes to the Financial Statements for further discussion of Rural Home Mortgage-backed Securities.

Nonaccrual Loans

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the Bank totaled $17.8 million at March 31, 2017, a decrease of 38.42 percent compared to $29.0 million at December 31, 2016. The decrease of $11.1 million resulted primarily from $9.4 million of repayments and $1.9 million of Correspondent Lending loans sold to two guarantors (see *Correspondent Lending* section above), partially offset by $1.7 million of loan balances transferred to nonaccrual status. At March 31, 2017, total nonaccrual loans were primarily classified in the rural home loan (40.99 percent of the total), forestry (35.19 percent), and field crops (15.12 percent) segments. Nonaccrual loans were 0.08 percent of total loans outstanding at March 31, 2017 and 0.13 percent at December 31, 2016.

Troubled Debt Restructurings

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms, rates, or amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the

loss incurred by the Bank. TDRs increased $518 thousand since December 31, 2016 and totaled $25.3 million at March 31, 2017. TDRs at March 31, 2017 were comprised of $16.8 million of accruing restructured loans and $8.5 million of nonaccrual restructured loans. Restructured loans were primarily in the nursery/greenhouse (37.79 percent of the total), forestry (24.82 percent), swine (10.45 percent), and tree fruits and nuts (4.72 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 $696 thousand since December 31, 2016 and totaled $2.7 million at March 31, 2017. The decrease was mainly due to the disposal of one property totaling $633 thousand. The remaining OPO balance at March 31, 2017 consisted primarily of a real estate holding of $2.4 million (90.33 percent of the total).

Allowance for Loan Losses

The Bank maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan portfolio as of each reported balance sheet date. The allowance for loan losses was $15.4 million at March 31, 2017, as compared with $14.8 million at December 31, 2016. The allowance at March 31, 2017 included specific reserves of $273 thousand (1.77 percent of the total) and general reserves of $15.1 million (98.23 percent). The total increase of $617 thousand resulted primarily from provision expense of $609 thousand. See *Provision for Loan Losses* section below for additional details regarding loan loss provision expense and reversals. The general reserves at March 31, 2017 included $2.8 million of allowance provided by the Bank for loans in the Correspondent Lending portfolio purchased after July 31, 2013 which are being held without a Fannie Mae guarantee. See further discussion in the *Correspondent Lending* section above. None of the allowance relates to the Direct Note portfolio. See further discussion in the *Direct Notes* section above. The total allowance at March 31, 2017 was comprised primarily of reserves for the rural home loan (18.76 percent of the total), utilities (16.95 percent), forestry (10.21 percent), processing (9.41 percent), and field crops (7.68 percent) segments. The allowance for loan losses was 0.07 percent and 0.06 percent of total loans outstanding at March 31, 2017 and December 31, 2016, respectively. See Note 2*, Loans and Allowance for Loan Losses,* in the Notes to the Financial Statements for further information.

Liquidity and Funding Sources

One of AgFirst's primary responsibilities is to maintain sufficient liquidity to fund the lending operations of the District Associations, in addition to its own needs. Along with normal cash flows associated with lending operations, AgFirst has two primary sources of liquidity: the capacity to issue Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation; and cash and investments. The Bank also maintains several 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, 2017, 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.

Ratings and outlook for AgFirst by Fitch Ratings are AA-/F1+ and stable. Ratings for the Bank by S&P are AA-/A-1+ for long- and short-term issuer credit ratings, a+ for the stand-alone credit profile, and BBB+ for preferred stock. S&P's outlook is stable.

At March 31, 2017, AgFirst had $28.612 billion in total debt outstanding compared to $29.408 billion at December 31, 2016. Debt decreased primarily due to lower balances of investment securities and loans as discussed elsewhere in this report.

Cash and cash equivalents, which decreased $315.1 million from December 31, 2016 to a total of $496.6 million at March 31, 2017, consist primarily of cash on deposit and money market securities that are short-term in nature (from overnight maturities to maturities that range up to 90 days). Incremental movements in cash balances are due primarily to changes in liquidity needs in relation to upcoming debt maturities between reporting periods.

Investment securities totaled $7.923 billion, or 25.52 percent of total assets at March 31, 2017, compared to $8.032 billion, or 25.06 percent, as of December 31, 2016. Investment securities decreased $109.3 million, or 1.36 percent, compared to December 31, 2016. Management maintains the available-for-sale liquidity investment portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines.

Investment securities classified as being available-for-sale totaled $7.411 billion at March 31, 2017. Available-for-sale investments at March 31, 2017 included $341.7 million in U.S. Treasury securities, $4.330 billion in U.S. government guaranteed securities, $2.118 billion in U.S. government agency guaranteed securities, $58.0 million in privately-issued collateralized mortgage obligations (CMOs) that are collateralized by Ginnie Mae and Fannie Mae securities, and $562.8 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 March 31, 2017, AgFirst exceeded all applicable regulatory liquidity requirements. FCA regulations require that the Bank have a liquidity policy that establishes a minimum total "coverage" level of 90 days and that short-term liquidity requirements must be met by certain high quality investments or cash. "Coverage" is defined as the number of days that maturing debt could be funded with eligible cash, cash equivalents, and available-for-sale investments maintained by the Bank.

The FCA classifies eligible liquidity investments according to four liquidity quality levels with level 1 being the highest. The first 15 days of minimum liquidity coverage are met using only level 1 instruments, which include cash and cash equivalents. Days 16 through 30 of minimum liquidity coverage are met using level 1 and level 2 instruments. Level 2 consists primarily of U.S. government guaranteed securities. Days 31 through 90 are met using level 1, level 2, and level 3 securities. Level 3 consists primarily of U.S. 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 March 31, 2017, AgFirst met each of the individual level criteria above and had a total of 207 days of maturing debt coverage compared to 201 days at December 31, 2016. The increase resulted from a change in the timing of upcoming debt maturities. Cash provided by the Bank's operating activities is an additional source of liquidity for the Bank that is not reflected in the coverage calculation.

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

Capital Resources

Total shareholders' equity increased $79.5 million, or 3.57 percent, from December 31, 2016 to $2.305 billion at March 31, 2017. This increase is primarily attributed to 2017 unallocated retained earnings from net income of $82.9 million, partially offset by $4.4 million in unrealized losses on investment securities.

Regulatory Capital Ratios

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

	Regulatory Minimum, Including Buffer	3/31/17	12/31/16	3/31/16
Permanent Capital Ratio	7.00%	19.90%	21.31%	20.31%
Common Equity Tier 1 (CET1) Capital	5.125%	19.43%	*	*
Tier 1 Capital	6.625%	19.87%	*	*
Total Capital	8.625%	20.01%	*	*
Tier 1 Leverage	5.00%	7.06%	*	*
Total Surplus Ratio	7.00%	*	21.21%	20.23%
Core Surplus Ratio	3.50%	*	19.13%	18.01%
Net Collateral Ratio	103.00%	*	106.69%	107.22%

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

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

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

For all periods presented, AgFirst exceeded minimum regulatory standards for all of the ratios. The permanent capital ratio declined slightly at March 31, 2017 as a result of changes in the risk weightings of certain assets under the new regulations.

See *Regulatory Matters* section below for further discussion.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2017 was $82.9 million compared to $71.6 million for the three months ended March 31, 2016, an increase of $11.3 million, or 15.77 percent. See below for further discussion of the change in net income by major components.

Key Results of Operations Comparisons

	Annualized for the three months ended March 31, 2017	For the year ended December 31, 2016	Annualized for the three months ended March 31, 2016
Return on average assets	1.07%	1.08%	0.95%
Return on average shareholders' equity	14.82%	14.45%	12.48%
Net interest margin	1.47%	1.53%	1.48%
Operating expense as a percentage of net interest income and noninterest income	27.54%	28.56%	30.52%
Net (charge-offs) recoveries to average loans	0.00%	0.02%	0.01%

The annualized return on average assets and return on average shareholders' equity ratios improved for the first quarter of 2017 compared to the first quarter of 2016 due to an increase in net income. Lower annualized net income for the first quarter of 2017 compared to 2016 resulted in a slightly lower return on average assets while return on average shareholders' equity improved as a result of the lower average balance of shareholders' equity following the payment of 2016 patronage. Net interest margin was negatively impacted for the first quarter of 2017 by an increase in interest-earning assets. For the operating expense as a percentage of net interest income and noninterest income ratio, operating expense consists primarily of noninterest expenses excluding losses (gains) from other property owned. Compared to the year ended December 31, 2016, this ratio was positively impacted by a decline in operating expenses. The increase in income also contributed to the improvement in the ratio for the first quarter of 2017 compared to the first quarter of 2016. Net recoveries positively impacted the net (charge-offs) recoveries to average loans ratio for all periods presented. See *Allowance for Loan Losses*, *Net Interest Income*, *Noninterest Income*, and *Noninterest Expenses* sections for further discussion.

Net Interest Income

Net interest income for the three months ended March 31, 2017 was $110.7 million compared to $108.6 million for the same period of 2016, an increase of $2.1 million or 1.89 percent. The net interest margin, which is net interest income as a percentage of average earning assets, was 1.47 percent, a decrease of one basis point, for the first quarter of 2017 compared to the same period in the prior year. The increase in net interest income for the 2017 period resulted primarily from higher average volumes and yields on interest-earning assets, primarily for loans, which more than offset the negative impact of higher rates paid on interest-bearing liabilities.

During the three months ended March 31, 2017 and 2016, the Bank called debt totaling $500.0 million and $3.218 billion, respectively, and was able to lower the cost of funds. Over time, as interest rates change and as assets prepay or reprice, the positive impact on the net interest margin that the Bank has experienced over the last several years from calling debt will continue to diminish.

The effects of changes in volume and interest rates on net interest income for the three months ended March 31, 2017, as compared with the corresponding period in 2016, are presented in the following table. The table distinguishes between the changes in interest income and interest expense related to average outstanding balances and to the levels of average interest rates. Accordingly, the benefit derived from funding earning assets with interest-free funds (principally capital) is reflected solely as a volume increase.

	For the three months ended March 31, 2017 vs. March 31, 2016		
	Increase (decrease) due to changes in:		
(dollars in thousands)	**Volume**	**Rate**	**Total**
Interest Income:			
Loans	$ 5,128	$ 4,329	$ 9,457
Investments & Cash Equivalents	1,643	1,377	3,020
Total Interest Income	6,771	5,706	12,477
Interest Expense:			
Interest-Bearing Liabilities	2,732	7,693	10,425
Changes in Net Interest Income	$ 4,039	$ (1,987)	$ 2,052

Provision for Loan Losses

AgFirst measures risks inherent in its loan portfolio on an ongoing basis and, as necessary, recognizes provision for loan loss expense so that appropriate reserves for loan losses are maintained. Loan loss provision was a net expense of $609 thousand for the three months ended March 31, 2017 compared to net expense of $920 thousand for the corresponding period in 2016. For the three months ended March 31, 2017, the provision for loan losses included net provision reversals of $56 thousand for specific reserves and net provision expense of $665 thousand for general reserves. The total provision expense for 2017 related primarily to borrowers in the field crops ($499 thousand expense), rural home loan ($228 thousand expense), nursery/greenhouse ($197 thousand expense), forestry ($244 thousand reversal), and utilities ($227 thousand reversal) segments. For the three months ended March 31, 2016, the provision for loan losses, which included reversals of $531 thousand for specific reserves and provision expense of $1.5 million for general reserves, primarily related to borrowers in the tree fruits and nuts ($601 thousand expense) and rural home loan ($276 thousand expense) segments. See Note 2, *Loans and Allowance for Loan Losses,* in the Notes to the Financial Statements for further information.

Noninterest Income

The following table illustrates the changes in noninterest income:

Change in Noninterest Income	For the three months ended March 31,		
(dollars in thousands)	**2017**	**2016**	**Increase/ (Decrease)**
Loan fees	$ 2,188	$ 2,284	$ (96)
Building lease income	915	880	35
Net impairment losses on investments	–	(1,730)	1,730
Gains (losses) on investments, net	–	620	(620)
Gains (losses) on called debt	(440)	(7,208)	6,768
Gains (losses) on other transactions	220	(633)	853
Other noninterest income	1,796	1,576	220
Total noninterest income (loss)	$ 4,679	$ (4,211)	$ 8,890

For the three months ended March 31, 2017 compared to the corresponding period in 2016, noninterest income increased $8.9 million. The increase resulted primarily from lower losses on called debt and no investment impairment losses in 2017. Significant line item variances are discussed further below.

Net impairment losses on investments decreased $1.7 million for the three months ended March 31, 2017 compared to the corresponding period in the prior year. No impairment losses were recorded for the first quarter of 2017. For the first quarter of 2016, impairment losses of $1.7 million were recorded on four non-agency CMO securities. These losses reflected increased loss severities associated with foreclosures and bankruptcies for certain non-agency

CMO bonds in the portfolio. See discussion of investments in the *Liquidity and Funding Sources* section and Note 3, *Investments*, in the Notes to the Financial Statements.

For the three month period, gains on investments decreased $620 thousand compared to the same period in 2016. There were no sales of investments during the first quarter of 2017. In March, 2016, the Bank sold agency mortgage-backed securities totaling $15.0 million which resulted in gains totaling $620 thousand. 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.

Debt issuance expense is amortized over the life of the underlying debt security. When debt securities are called prior to maturity, any unamortized issuance cost is expensed. Losses on called debt decreased $6.8 million for the three month period ended March 31, 2017 compared to the same period in the prior year. Call options were exercised on bonds totaling $500.0 million for the first three months of 2017 compared to $3.218 billion for the same period in 2016. Debt is called to take advantage of favorable market interest rate changes. The amount of debt issuance cost expensed is dependent upon both the volume and remaining maturity of the debt when called. Losses on called debt are more than offset by interest expense savings realized as called debt is replaced by new debt issued at a lower rate of interest.

For the three month period ended March 31, 2017, gains on other transactions increased $853 thousand primarily due to an increase of $1.0 million in market value of certain retirement plan trust assets, partially offset by a $125 thousand increase 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.

Noninterest Expenses

The following table illustrates the changes in noninterest expenses:

Change in Noninterest Expenses	**For the three months ended March 31,**		
(dollars in thousands)	**2017**	**2016**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 14,917	$ 14,381	$ 536
Occupancy and equipment	5,425	5,148	277
Insurance Fund premiums	3,355	3,673	(318)
Other operating expenses	8,083	8,675	(592)
Losses (gains) from other property owned	60	4	56
Total noninterest expenses	$ 31,840	$ 31,881	$ (41)

Noninterest expenses for the three months ended March 31, 2017 decreased $41 thousand compared to the corresponding period in 2016. The decrease resulted primarily from an increase in salaries and employee benefits offset by a decrease in other operating expenses. Significant line item variances are discussed further below.

Salaries and employee benefits increased $536 thousand for the first three months of 2017 compared to the same period in 2016. This increase resulted primarily from an increase in salaries and incentives due to normal salary administration.

Other operating expenses decreased $592 thousand for the first quarter of 2017 compared to the first quarter of 2016. The change was primarily due to $562 thousand in lower periodic costs related to nonaccrual loans, primarily legal fees and property taxes, as the balance of nonaccrual loans decreased from the first quarter of 2016 to the first quarter of 2017.

REGULATORY MATTERS

Capital

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

SCOPE OF APPLICATION

AgFirst Farm Credit Bank (the Bank or AgFirst) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers. The Bank is chartered to serve the states of Pennsylvania, Delaware, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, the Commonwealth of Puerto Rico and portions of Ohio, Tennessee, Kentucky and Louisiana.

AgFirst is a lending institution in the Farm Credit System (the System), a nationwide network of cooperatively owned banks, associations and related service organizations. It was established by Acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act). The System specializes in providing financing and related services to qualified borrowers for agricultural and rural purposes.

The nation is served by three Farm Credit Banks (FCBs) and one Agricultural Credit Bank (ACB) (collectively, the System Banks), each of which has specific lending authorities within its chartered territory. The ACB also has additional specific nationwide lending authorities. The System Banks obtain a substantial majority of the funds for their lending operations through the sale of consolidated Systemwide bonds and notes to the public, but also obtain a portion from internally generated earnings, the issuance of common and preferred stock and, to a lesser extent, the issuance of subordinated debt.

Each System Bank serves one or more Agricultural Credit Associations (ACAs) that originate long-term, short-term and intermediate-term loans, Production Credit Associations (PCAs) that originate and service short- and intermediate-term loans, and/or Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans. These associations borrow a majority of the funds for their lending activities from their related bank. System Banks are also responsible for supervising the activities of associations within their districts. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the AgFirst District. The District Associations, certain Other Financing Institutions (OFIs), other System institutions, and preferred stockholders jointly own AgFirst. As of March 31, 2017, the AgFirst District consisted of the Bank and nineteen District Associations. All nineteen were structured as ACA holding companies, with PCA and FLCA subsidiaries.

The Bank does not have any subsidiaries requiring consolidation; therefore, there are no consolidated entities for which the total capital requirement is deducted, there are no restrictions on transfer of funds or total capital with other consolidated entities and no subsidiary exists which is below the minimum total capital requirement individually or when aggregated at the Bank's consolidated level. In conjunction with other System entities, the Bank jointly owns certain service organizations: the Federal Farm Credit Banks Funding Corporation (Funding Corporation), the FCS Building Association (FCSBA), and the Farm Credit Association Captive Insurance Corporation (Captive). Certain of the Bank's investments in other System institutions, including the investment in the Funding Corporation and FCSBA, are deducted from capital as only the institution who issued the equities may count the amount as capital.

CAPITAL STRUCTURE

Descriptions of the Bank's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below:

A. **Description of Equities:** In accordance with the Farm Credit Act and the Bank's capitalization bylaws, the Bank is authorized to issue and have outstanding Classes B, C, and D Common Stock, Participation Certificates, Preferred Stock, and other classes of equity as may be provided for in the bylaws. All Common Stock and Participation Certificates have a par or face value of five dollars ($5.00) per share.

The Bank had the following shares of common equities outstanding at March 31, 2017:

		Shares Outstanding (dollars in thousands)	
Class	Protected Status	Number	Aggregate Par Value
B Common/Non-OFI	No	1,371,773	$ 6,859
C Common/Voting	No	54,027,088	270,135
D Common/Nonvoting	No	3,575,412	17,877
Participation Certificates/Nonvoting	No	1,630,804	8,154
Total Capital Stock and Participation Certificates		60,605,077	$ 303,025

B. **Perpetual Preferred Stock:** On June 8, 2007, AgFirst issued $250.0 million of Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock, Series 1. Dividends on the stock are non-cumulative and are payable semi-annually in arrears on the 15th day of June and December in each year, commencing December 15, 2007, and ending on June 15, 2012, at an annual rate equal to 6.585 percent of the par value of $1 thousand per share, and will thereafter, commencing September 15, 2012, be payable quarterly in arrears on the 15th day of March, June, September, and December in each year, at an annual rate equal to 3-Month USD LIBOR plus 1.13 percent. In the event dividends are not declared on the Class B, Series 1 Preferred Stock for payment on any dividend payment date, then such dividends shall not accumulate and shall cease to accrue and be payable. The stock may be redeemed on June 15th on any five-year anniversary of its year of issuance at a price of $1 thousand per share plus accrued and unpaid dividends for the then current dividend period to the date of redemption.

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

C. **Capital Stock:** District Associations are required to maintain ownership in the Bank in the form of Class B or Class C Common Stock as determined by the Bank. At March 31, 2017, the Associations' minimum stock requirement was 1.40 percent of Association Direct Note balances, and a stock equalization computation is made annually. The Bank may require additional capital contributions to maintain its capital levels.

Additionally, the Bank has issued Class D Common Stock in connection with participations purchased by the Bank from other System institutions. Class D Common Stock issued in connection with participations has no voting rights. Such Stock may be retired at the discretion of the Board, and if retired, shall be retired at book value not to exceed its par value.

Class D Common Stock shall also be purchased by borrowers eligible to hold it as a condition for obtaining a loan in an amount as may be determined by the Board at its discretion within a range between a minimum of two percent (2.00 percent) of the loan amount or $1 thousand, whichever is less, and a maximum not to exceed ten percent (10.00 percent) of the loan amount. The Bank currently has no such loans outstanding.

D. **Other Equity:** OFIs are required to capitalize their loans at the same level as the District Associations. See section C above.

E. **Order of Priority Upon Impairment or Liquidation:**

Impairment

Net losses, to the extent they exceed unallocated surplus, shall, except as otherwise provided in the Act, be treated as impairing Stock in the following order:

First, Class B Common Stock, Class C Common Stock, Class D Common Stock, and Participation Certificates, pro rata, in proportion to the number of shares or units of each such class of Stock then issued and outstanding, until such Stock is fully impaired; and

Second, Preferred Stock in proportion to the number of shares of each class and series thereof then issued and outstanding (applied, as among series that rank differently upon liquidation or dissolution of AgFirst, in reverse order of priority first to the most junior ranking series and then successively to each next most junior ranking series) and consistent with the terms of each such class or series until such Stock is fully impaired; and

Third, subject to the Act, as amended, and the regulations thereunder, in such manner as shall be determined by the Board.

Liquidation

In the event of liquidation or dissolution of AgFirst, any assets of AgFirst remaining after payment or retirement of all liabilities shall be distributed in the following order or priority:

First, to the holders of Preferred Stock, in proportion to the number of shares of each class and series thereof then issued and outstanding and consistent with the terms of each such series until an amount equal to the liquidation preference provided for in the terms of such series of Preferred Stock has been distributed to such holders (applied, as among series that rank differently upon liquidation or dissolution of AgFirst, in order of priority first to the most senior ranking series and then successively to each next most senior ranking series); and

Second, to the holders of Class B Common Stock, Class C Common Stock, Class D Common Stock, and Participation Certificates, pro rata, in proportion to the number of shares or units of each such class of Stock then issued and outstanding, until an amount equal to the aggregate par or face value of all such shares or units has been distributed to such holders; and

Third, in accordance with the memorandum accounting established in the Agreement and Plan of Consolidation between The Farm Credit Bank of Columbia and The Farm Credit Bank of Baltimore, dated as of October 31, 1994; and

Fourth, all remaining assets of AgFirst after such distributions shall be to the extent practicable distributed to all Stockholders and holders of Participation Certificates on a patronage basis.

The table below outlines the Bank's capital structure for the capital adequacy calculations as of March 31, 2017:

(dollars in thousands)	**3-Month Average Daily Balance**
Common Equity Tier 1 Capital (CET1)	
Common Cooperative Equities:	
Statutory minimum purchased borrower stock	$ 23
Other required member purchased stock	119,759
Allocated equities:	
Qualified allocated equities subject to retirement	182,160
Nonqualified allocated equities subject to retirement	557
Nonqualified allocated equities not subject to retirement	–
Unallocated retained earnings	1,866,214
Paid-in capital	58,883
Regulatory adjustments and deductions made to CET1	(66,695)
Total CET1	$ 2,160,901
Additional Tier 1 Capital (AT1)	
Non-cumulative perpetual preferred stock	$ 49,250
Regulatory adjustments and deductions made to AT1	–
Total AT1	$ 49,250
Total Tier 1 Capital	$ 2,210,151
Tier 2 Capital	
Allowance for Loan Losses	$ 14,790
Reserve for unfunded commitments	542
Regulatory adjustments and deductions made to total capital	–
Total Tier 2 Capital	$ 15,332
Total Capital	$ 2,225,483

CAPITAL ADEQUACY AND CAPITAL BUFFERS

In conjunction with the annual business and financial planning process, the Board of Directors reviews and approves a capital adequacy plan which includes target levels for capital and capital ratio baselines. When reviewing the capital adequacy plan and setting an appropriate target equity level, the Board considers the following: credit risk and allowance levels, quality and quantity of earnings, sufficiency of liquid funds, operational risk, interest rate risk, growth in determining optimal capital levels, the Bank’s overall risk profile; capability of management; quality of operating policies, procedures, and internal controls; capital composition; loan volume projections; anticipated future capital needs; and the Bank’s capital levels in comparison to regulatory minimum capital standards.

The Board also evaluates the amount required to properly capitalize the Bank and address the needs of each Association’s customer base with the desire to distribute a level of patronage that provides appropriate returns to our customer owners. The Board may increase or decrease these patronage levels based on its ongoing evaluation of the Bank’s business. As a result, there is no assurance that patronage will remain at current levels.

As part of our business planning process, the Bank performs stress tests to examine the Bank’s financial condition and performance, including capital levels, under a variety of market and economic environments, including unanticipated loan growth and prolonged periods of financial and loan quality stress. These stress tests illustrate the Bank’s ability to continue to maintain compliance with regulatory requirements through severe market conditions while continuing to fulfill the Bank’s mission. Results of these stress tests are reviewed with the Board of Directors and the FCA.

The table below outlines the Bank’s risk-weighted assets by exposure (including accrued interest of that exposure) as of March 31, 2017:

(dollars in thousands)		**Risk-Weighted Assets**
Exposures to:		
Sovereign entities	$	–
Supranational entities and MDBs		–
Government-sponsored entities, including Direct Notes to Associations		3,823,404
Depository institutions		19,838
Public sector entities		–
Corporate exposures		4,759,555
Residential mortgage loans		665,873
Past due > 90 days and nonaccrual loans		28,476
Cleared transactions		–
Unsettled transactions		–
Securitizations		198,149
Equity investments		–
Exposures to obligors and other assets		122,592
Off-balance sheet exposures		1,503,402
Total risk-weighted assets	$	11,121,289

As of March 31, 2017, the Bank was well-capitalized and exceeded all capital requirements to which it was subject, including applicable capital buffers. The Bank’s capital conservation buffer was a minimum of 11.38 percent in excess of its risk-adjusted asset required minimum capital ratios. Additionally, the Bank’s leverage ratio was 2.06 percent in excess of its required minimum leverage ratio, including the buffer. Since capital exceeded the buffer requirements, the Bank is not subject to payout ratio limitations on distributions or discretionary bonus payments under Basel 3 requirements. The aggregate amount of eligible retained income was $85.0 million as of March 31, 2017.

The following sets forth the regulatory capital ratios as of March 31, 2017:

Ratio	Regulatory Minimum Requirement	Capital Conservation Buffer	Minimum Requirement, Including Buffer	Capital Ratios as of March 31, 2017
Risk-adjusted ratios:				
CET1 Capital*	4.5%	0.625%	5.125%	19.43%
Tier 1 Capital*	6.0%	0.625%	6.625%	19.87%
Total Capital*	8.0%	0.625%	8.625%	20.01%
Permanent Capital Ratio	7.0%	0.0%	7.0%	19.90%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	7.06%
UREE Leverage Ratio	1.5%	0.0%	1.5%	6.09%

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

CREDIT RISK

System entities have specific lending authorities within their chartered territories as disclosed under the *Scope of Application* section above. The Bank is subject to credit risk by lending to the District's Federal Land Credit Associations (FLCAs), Production Credit Associations (PCAs) and Agricultural Credit Associations (ACAs). Allowance is determined at the individual entity basis based on loan or pool based on homogeneous characteristics such as PD and LGD as is further discussed in the section "Allowance for Loan Losses and Reserve for Unfunded Commitments" below. Allowance needs by geographic region are only considered in rare circumstances that may not otherwise be reflected in the PD and LGD (flooding, drought, etc.) There was no allowance attributed to a geographic area as of March 31, 2017. See Note 2, *Loans and Allowance for Loan Losses*, and Note 3, *Investments*, in the Notes to the Financial Statements for quantitative disclosures related to the Bank's credit risk.

Impaired Loans

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 and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan remains contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

Loans are generally classified as nonaccrual when principal or interest is delinquent for 90 days or more (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) and/or charged against the allowance for loan losses (if accrued in prior years).

When loans are in nonaccrual status, if collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments received in cash is generally recognized as interest income. Otherwise, loan payments are applied against the recorded investment in the loan asset. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, and the loan is not classified "doubtful" or "loss."

Loans are charged off at the time they are determined to be uncollectible.

In cases where a borrower experiences financial difficulties and the Bank makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. A restructured loan constitutes a troubled debt restructuring (TDR) if for economic or legal reasons related to the debtor's financial difficulties the Bank grants a concession to the debtor that it would not otherwise consider. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

Allowance for Loan Losses and Reserve for Unfunded Commitments

The allowance for loan losses is maintained 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. The allowance for loan losses is a valuation account used to reasonably estimate loan losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss.

Certain loan pools acquired from several of the District Associations are analyzed in accordance with the selling Association's allowance methodologies for assigning general and specific allowances.

The Bank considers the following factors, among others, when determining the allowance for loan losses:

- Credit risk classifications,
- Collateral values,
- Risk concentrations,
- Weather related conditions,
- Current production and economic conditions, and
- Prior loan loss experience.

A specific allowance may be established for impaired loans under Financial Accounting Standards Board (FASB) guidance on accounting by creditors for impairment of a loan. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or fair value of the collateral if the loan is collateral dependent.

A general allowance may also be established under FASB guidance on accounting for contingencies, to reflect estimated probable credit losses incurred in the remainder of the loan portfolio at the financial statement date, which excludes loans included under the specific allowance discussed above. A general allowance can be evaluated on a pool basis for those loans with similar characteristics. The level of the general allowance may be based on management's best estimate of the likelihood of default adjusted for other relevant factors reflecting the current environment.

The credit risk rating methodology is a key component of the Bank's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The Bank uses a two-dimensional loan rating model based on internally generated combined system risk rating guidance that incorporates a 14-point risk rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the 14 categories carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default

percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

CREDIT RISK MITIGATION

Credit Risk Mitigation Related to Loans

The most critical element in managing and controlling credit risk is the initial decision to make a loan and the resulting structure and terms of the relationship with the borrower. The Bank's approach in underwriting is to grant credit on the basis of capacity to repay rather than place primary reliance on credit risk mitigation. The Bank manages credit risk associated with lending activities through an assessment of the credit risk profile of individual obligors. The Bank sets underwriting standards and lending policies consistent with FCA regulations, which provide direction to loan officers and are approved by the Board of Directors.

The credit risk management process begins with an analysis of a potential obligor's credit history, repayment capacity and financial position. Repayment capacity focuses on the obligor's ability to repay the obligation based on cash flows from operations or other sources of income, including non-farm income. Excluding Direct Note balances, non-farm income represented 43 percent of primary income repayment sources at March 31, 2017 further mitigating credit risk. Real estate mortgage loans must be secured by first liens on the real estate collateral. As required by FCA regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures.

A substantial portion of the Bank's loan portfolio consists of notes receivable from District Associations. As described in Note 1 of the Bank's 2016 Annual Report, these notes are used by the Associations to fund their earning assets, 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.

Through their participation in loans or interests in loans to/from other institutions within the System and outside the System, the Bank and District Associations limit their exposure to both borrower and commodity concentrations. This also allows the Bank and District Associations to manage growth and capital, and to improve geographic diversification. Concentration risk is reviewed and measured by industry, product, geography and customer limits.

Although neither the Bank nor any other System institution receives any direct government support, credit quality is indirectly enhanced by government support in the form of program payments to borrowers, which improve their ability to honor their commitments. However, due to the geographic location of the District and the resulting types of agriculture, government programs account for a relatively small percentage of net farm income in the territory served by the District Associations.

An additional technique to reduce credit risk is AgFirst's monitoring for commodity and geographic concentrations. The Associations' credit portfolios are comprised of a number of segments having varying, and in some cases complementary, agricultural characteristics. Commodity and industry categories are based on the Standard Industrial Classification system published by the federal government. This system is used to assign commodity or industry categories based on the largest agricultural commodity of the customer.

The following table illustrates AgFirst's loan portfolio by geographic distribution at March 31, 2017. This table excludes the Bank's Direct Notes and loans to OFI portfolios.

(dollars in thousands)		
North Carolina	$ 1,138,364	15 %
Georgia	931,852	13
Florida	575,680	8
Virginia	557,522	8
Texas	410,606	6
Maryland	326,779	4
Pennsylvania	296,992	4
South Carolina	287,252	4
Minnesota	229,114	3
California	206,537	3
Kentucky	195,617	3
Missouri	193,551	3
Ohio	189,092	3
New York	157,610	2
Illinois	133,766	2
Louisiana	114,687	2
Washington	113,218	1
New Jersey	108,935	1
Colorado	102,830	1
Arkansas	100,549	1
North Dakota	88,415	1
Oklahoma	78,940	1
Massachusetts	76,757	1
Nebraska	73,566	1
Other	662,895	9
	$ 7,351,126	100 %

The following table shows the various major commodity groups in the portfolio based on borrower eligibility and their percentage of the outstanding portfolio volume at March 31, 2017. This table excludes the Bank's Direct Notes and loans to OFI portfolios.

(dollars in thousands)		
Other Real Estate	$ 2,985,437	41 %
Forestry	924,455	13
Processing	764,288	10
Utilities	733,929	10
Field Crops	262,220	4
Tree Fruits and Nuts	220,064	3
Nursery/Greenhouse	186,360	3
Cattle	141,113	2
Dairy	111,007	1
Swine	102,659	1
Tobacco	88,882	1
Grain	72,601	1
Other	758,111	10
	$ 7,351,126	100 %

The following table segregates loans based upon repayment dependency by commodity at March 31, 2017. This table excludes the Bank's Direct Notes and loans to OFI portfolios.

(dollars in thousands)		
Non-Farm Income	$ 3,145,818	43 %
Timber	795,359	11
Rural Utilities	733,896	10
Processing and Marketing	395,207	5
Fruit & Vegetables	379,982	5
Grains	342,149	5
Swine	225,731	3
Farm-Related Business	215,698	3
Dairy	194,991	3
Nursery	148,103	2
Beef	147,400	2
Wine	123,629	2
Tobacco	92,775	1
Fisheries	90,129	1
Poultry	86,602	1
Other	233,657	3
	$ 7,351,126	100 %

The Bank also has guarantees in the corresponding loan portfolio from the Federal National Mortgage Association (Fannie Mae) and/or 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 March 31, 2017, $1.559 billion, or 53.29 percent, of loans in the Correspondent Lending portfolio were guaranteed and $1.367 billion, or 46.71 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.

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

Credit Risk Mitigation Related to Investments

Credit risk in our investment portfolio is largely mitigated by investing primarily in securities issued or guaranteed by the U.S. government or one of its agencies. As of March 31, 2017, 58.97 percent of the $7.923 billion investment portfolio consisted of securities that carry a full faith and credit guarantee of the U.S. government. Such securities include MBS issued by the Government National Mortgage Association (Ginnie Mae), Export-Import Bank of the United States securities and U.S. Treasury and other debt securities. These securities that carry a full faith and credit guarantee are risk-weighted at 0 percent for capital purposes. Approximately 32.34 percent of the investment portfolio consisted of securities issued by government agencies that carry the implicit backing of the U.S. government, including MBS issued by the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) and Farmer Mac. These securities that carry the implicit backing of U.S. government are risk-weighted at 20 percent for capital purposes.

Credit risk in our investment portfolio primarily relates to the 9 percent of the portfolio composed of collateralized mortgage obligations (CMOs), asset-backed securities (ABS), Rural Housing MBS (RHMS) and Rural America Bonds (RABs). The CMO and ABS 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 RHMS portfolio 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.

Credit risk in our investment portfolio also arises from the inability of guarantors and third-party providers of other credit enhancements, such as bond insurers or Farmer Mac, to meet their contractual obligations to us.

COUNTERPARTY CREDIT RISK

Counterparty credit risk exposures consist primarily of derivative instruments and repurchase-style transactions. By using derivative instruments, the Bank exposes itself to credit and market risk. The amount of this exposure depends on the value of underlying market factors (e.g. interest rates and foreign exchange rates), which can be volatile and uncertain in nature. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Bank's credit risk will equal the fair value gain in the derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the 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.

See Note 10, *Derivative Financial Instruments and Hedging Activities*, in the Notes to the Financial Statements for further information on counterparty exposures related to derivatives as of March 31, 2017.

SECURITIZATION

Securitizations are transactions in which:

- The credit risk of the underlying exposure is transferred to third parties, and has been separated into two or more tranches;
- The performance of the securitization depends upon the performance of the underlying exposures or reference assets; and
- All or substantially all of the underlying exposures or reference assets are financial exposures.

Securitizations include on- or off-balance sheet exposures (including credit enhancements) that arise from a securitization or re-securitization transaction; or an exposure that directly or indirectly references a securitization (e.g., credit derivative). A re-securitization is a securitization transaction in which one or more of the underlying exposures that have been securitized is itself a securitization. There are currently no re-securitization investments.

The Bank currently only participates in securitizations as investors through the purchase of mortgage-backed securities (MBS) and asset-backed securities (ABS) as included in its investment portfolio. As of March 31, 2017, the Bank did not retain any re-securitization exposures.

The Bank is subject to liquidity risk with respect to our securitization exposures. In volatile market conditions, it could be difficult to sell such investments, if the need arises, and the discounts from face value would likely be significant. In addition, because of the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for the investments.

For securitization exposures, the Bank has elected to utilize the simplified supervisory formula approach (SSFA) risk-based capital approach. As such, the Bank's ABS portfolio is risk weighted on an individual security level. As of March 31, 2017, the ABS risk-weights ranged from 20.0 percent to 105.6 percent, with a weighted average risk-weight of 29.06 percent.

As of March 31, 2017, the Bank did not hold any off-balance sheet securitization exposures nor were any securitization exposures deducted from capital.

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

EQUITIES

The Bank does not have any equity investment risk within its portfolio.

INTEREST RATE RISK

Interest rate risk is the risk of loss of future earnings or long-term market value of equity that may result from changes in interest rates. The objective of interest rate risk management is to generate a reliable level of net interest income in any interest rate environment. AgFirst uses a variety of analytical techniques to manage the complexities associated with offering numerous loan options. Interest rate sensitivity gap analysis is used to monitor the repricing characteristics of AgFirst's interest-earning assets and interest-bearing liabilities. Simulation analysis is used to determine the potential change in net interest income and in the market value of equity under various possible future market interest rate environments.

AgFirst and the District Associations adhere to a philosophy that loans should be priced competitively in the market and that loan rates and spreads should be contractually established at loan closing such that a borrower is not subject to rate changes at the discretion of management or Boards of Directors. Therefore, District Association variable rate and adjustable rate loans are generally indexed to market rates, and fixed rate loans are priced based on market rates. Loan products offered by the Associations include prime-indexed variable rate loans; LIBOR indexed variable rate loans, one-, three-, and five-year Treasury-indexed adjustable rate loans, and fixed rate loans. Variable rate and adjustable rate loans are offered with or without caps. Terms are available for up to 30 years. A variety of repayment options are offered, with the ability to pay on a monthly, quarterly, semi-annual or annual frequency. In addition, customized repayment schedules may be negotiated to fit a borrower's unique circumstances.

The following tables represent AgFirst's market value of equity and projected change over the next twelve months in net interest income for various rate movements as of March 31, 2017:

Net Interest Income
(dollars in thousands)

Scenarios	Net Interest Income	% Change
+4.0% Shock	$415,994	-5.02%
+2.0% Shock	$436,335	-0.37%
Base line **	$437,969	
-50% of 3M Tbill ***	$441,111	0.72%

Market Value of Equity
(dollars in thousands)

Scenarios	Assets	Liabilities*	Equity*	% Change
Book Value	$31,046,688	$28,791,153	$2,255,535	
+4.0% Shock	$28,192,230	$26,622,037	$1,570,193	-34.32%
+2.0% Shock	$29,589,051	$27,607,616	$1,981,435	-17.12%
Base line **	$31,070,173	$28,679,321	$2,390,852	
-50% of 3M Tbill ***	$31,334,925	$28,872,022	$2,462,903	3.01%

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

Other Regulatory Matters

On July 25, 2014, the 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 2017. The stated objectives of the proposed rule are as follows:

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Balance Sheets

(dollars in thousands)	March 31, 2017	December 31, 2016
	(unaudited)	*(audited)*
Assets		
Cash	**$ 272,674**	$ 549,124
Cash equivalents	**223,961**	262,624
Investment securities:		
Available for sale (amortized cost of $7,412,897 and $7,488,279, respectively)	**7,411,046**	7,490,841
Held to maturity (fair value of $515,596 and $545,926, respectively)	**511,814**	541,354
Total investment securities	**7,922,860**	8,032,195
Loans	**22,349,591**	22,914,682
Allowance for loan losses	**(15,400)**	(14,783)
Net loans	**22,334,191**	22,899,899
Accrued interest receivable	**67,168**	66,120
Accounts receivable	**63,992**	89,466
Investments in other Farm Credit System institutions	**70,542**	70,255
Premises and equipment, net	**60,060**	60,046
Other property owned	**2,650**	3,346
Other assets	**28,590**	24,522
Total assets	**$ 31,046,688**	$ 32,057,597
Liabilities		
Systemwide bonds payable	**$ 22,321,331**	$ 22,660,317
Systemwide notes payable	**6,290,287**	6,748,166
Accrued interest payable	**65,824**	58,524
Accounts payable	**13,390**	302,720
Other liabilities	**51,071**	62,622
Total liabilities	**28,741,903**	29,832,349
Commitments and contingencies (Note 8)		
Shareholders' Equity		
Perpetual preferred stock	**49,250**	49,250
Capital stock and participation certificates	**303,025**	301,905
Additional paid-in-capital	**58,883**	58,883
Retained earnings		
Allocated	**555**	559
Unallocated	**1,899,663**	1,817,004
Accumulated other comprehensive income (loss)	**(6,591)**	(2,353)
Total shareholders' equity	**2,304,785**	2,225,248
Total liabilities and equity	**$ 31,046,688**	$ 32,057,597

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

Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2017	2016
Interest Income		
Investment securities and other	**$ 33,852**	$ 30,832
Loans	**166,936**	157,479
Total interest income	**200,788**	188,311
Interest Expense	**90,093**	79,668
Net interest income	**110,695**	108,643
Provision for loan losses	**609**	920
Net interest income after provision for loan losses	**110,086**	107,723
Noninterest Income		
Loan fees	**2,188**	2,284
Building lease income	**915**	880
Total other-than-temporary impairment losses	**—**	—
Portion of loss recognized in other comprehensive income	**—**	(1,730)
Net other-than-temporary impairment losses	**—**	(1,730)
Gains (losses) on investments, net	**—**	620
Gains (losses) on called debt	**(440)**	(7,208)
Gains (losses) on other transactions	**220**	(633)
Other noninterest income	**1,796**	1,576
Total noninterest income (loss)	**4,679**	(4,211)
Noninterest Expenses		
Salaries and employee benefits	**14,917**	14,381
Occupancy and equipment	**5,425**	5,148
Insurance Fund premiums	**3,355**	3,673
Other operating expenses	**8,083**	8,675
Losses (gains) from other property owned	**60**	4
Total noninterest expenses	**31,840**	31,881
Net income	**$ 82,925**	$ 71,631

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

Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2017	2016
Net income	**$ 82,925**	$ 71,631
Other comprehensive income:		
Unrealized gains (losses) on investments:		
Other-than-temporarily impaired	**—**	(1,039)
Not other-than-temporarily impaired	**(4,413)**	9,917
Change in value of cash flow hedges	**83**	19
Employee benefit plans adjustments	**92**	84
Other comprehensive income (Note 5)	**(4,238)**	8,981
Comprehensive income	**$ 78,687**	$ 80,612

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

Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Additional Paid-In-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2015	$ 115,000	$ 307,483	$ 39,988	$ 656	$ 1,731,972	$ 59,922	$ 2,255,021
Comprehensive income					71,631	8,981	80,612
Capital stock/participation certificates issued/(retired), net		510					510
Redemption of perpetual preferred stock (Note 5)	(4,000)		1,180				(2,820)
Dividends paid on perpetual preferred stock					(478)		(478)
Patronage distribution adjustment					(9)		(9)
Balance at March 31, 2016	$ 111,000	$ 307,993	$ 41,168	$ 656	$ 1,803,116	$ 68,903	$ 2,332,836
Balance at December 31, 2016	**$ 49,250**	**$ 301,905**	**$ 58,883**	**$ 559**	**$ 1,817,004**	**$ (2,353)**	**$ 2,225,248**
Comprehensive income					**82,925**	**(4,238)**	**78,687**
Capital stock/participation certificates issued/(retired), net		**1,118**					**1,118**
Dividends paid on perpetual preferred stock					**(258)**		**(258)**
Retained earnings retired				**(4)**			**(4)**
Patronage distribution adjustment		**2**			**(8)**		**(6)**
Balance at March 31, 2017	**$ 49,250**	**$ 303,025**	**$ 58,883**	**$ 555**	**$ 1,899,663**	**$ (6,591)**	**$ 2,304,785**

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2017	2016
Cash flows from operating activities:		
Net income	**$ 82,925**	$ 71,631
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	**1,991**	2,210
Amortization of net deferred loan (fees) costs and premium amortization (discount accretion)	**146**	210
Premium amortization (discount accretion) on investment securities	**3,320**	1,437
(Premium amortization) discount accretion on bonds and notes	**12,179**	6,869
Provision for loan losses	**609**	920
(Gains) losses on other property owned, net	**64**	(11)
Net impairment losses on investments	**—**	1,730
(Gains) losses on investments, net	**—**	(620)
(Gains) losses on called debt	**440**	7,208
(Gains) losses on other transactions	**(220)**	633
Net change in loans held for sale	**2,393**	1,953
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	**(1,048)**	(2,351)
(Increase) decrease in accounts receivable	**25,474**	5,140
Increase (decrease) in accrued interest payable	**7,300**	(227)
Increase (decrease) in accounts payable	**(37,520)**	(20,583)
Change in other, net	**(15,256)**	(8,535)
Total adjustments	**(128)**	(4,017)
Net cash provided by (used in) operating activities	**82,797**	67,614
Cash flows from investing activities:		
Investment securities purchased	**(591,208)**	(580,043)
Investment securities sold or matured	**692,893**	445,455
Net (increase) decrease in loans	**562,416**	388,932
(Increase) decrease in investments in other Farm Credit System institutions	**(287)**	(305)
Purchase of premises and equipment, net	**(2,005)**	(1,829)
Proceeds from sale of other property owned	**632**	11
Net cash provided by (used in) investing activities	**662,441**	252,221
Cash flows from financing activities:		
Bonds and notes issued	**4,421,609**	7,915,439
Bonds and notes retired	**(5,231,000)**	(7,409,050)
Capital stock and participation certificates issued/retired, net	**1,118**	510
Cash distribution to shareholders	**(251,816)**	(240,333)
Redemption of perpetual preferred stock	**—**	(2,820)
Dividends paid on perpetual preferred stock	**(258)**	(478)
Retained earnings retired	**(4)**	—
Net cash provided by (used in) financing activities	**(1,060,351)**	263,268
Net increase (decrease) in cash and cash equivalents	**(315,113)**	583,103
Cash and cash equivalents, beginning of period	**811,748**	672,622
Cash and cash equivalents, end of period	**$ 496,635**	$ 1,255,725
Supplemental schedule of non-cash activities:		
Receipt of property in settlement of loans	**$ —**	$ 193
Change in unrealized gains (losses) on investments, net	**(4,413)**	8,878
Employee benefit plans adjustments	**(92)**	(84)
Non-cash changes related to interest rate hedging activities:		
Increase (decrease) in bonds and notes	**$ (92)**	$ (1,574)
Decrease (increase) in other assets	**92**	1,574
Supplemental information:		
Interest paid	**$ 70,614**	$ 73,026

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

Notes to the Financial Statements

(unaudited)

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

Organization

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

Basis of Presentation

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

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

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

Significant Accounting Policies

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

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

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

Accounting Standards Updates (ASUs) Issued During the Period

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

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

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

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

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

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

Potential effects of ASUs issued in previous periods:

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

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

- 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments: In June, 2016, the FASB issued this Update to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit

losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to better estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Bank is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

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

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

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

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

Accounting Standards Effective During the Period

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

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

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

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

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

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

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

Note 2 — Loans and Allowance for Loan Losses

The Bank maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of 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:

(dollars in thousands)	March 31, 2017	December 31, 2016
Direct notes	$ 14,875,442	$ 15,480,715
Real estate mortgage	1,049,786	1,056,241
Production and intermediate-term	1,124,301	1,247,467
Loans to cooperatives	571,785	480,944
Processing and marketing	882,061	848,750
Farm-related business	65,709	68,903
Communication	238,278	239,580
Power and water/waste disposal	549,510	543,052
Rural residential real estate	2,800,087	2,754,273
International	52,696	54,837
Lease receivables	7,732	8,054
Loans to other financing institutions (OFIs)	123,023	122,573
Other (including Mission Related)	9,181	9,293
Total Loans	$ 22,349,591	$ 22,914,682

A substantial portion of the Bank's loan portfolio consists of notes receivable from District Associations (Direct Notes). These notes are used by the Associations to fund their loan portfolios, which collateralize the notes. Therefore, the Bank's concentration of credit risk in various agricultural commodities associated with these notes approximates that of the District as a whole. Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities, which would cause them to be similarly impacted by economic or other conditions. A substantial portion of the Associations' lending activities is collateralized, and their exposure to credit loss associated with lending activities is reduced accordingly, 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. During the first quarter of 2017, two Associations canceled their participation in the Capitalized Participation Pool program with the Bank. As a result, the Associations repurchased $16.7 million of participations previously sold to AgFirst. The following tables present the principal balance of participation loans at periods ended:

	March 31, 2017							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Direct note	$ –	$ –	$ –	$ 993,720	$ –	$ –	$ –	$ 993,720
Real estate mortgage	748,797	88,220	321,901	53,322	–	–	1,070,698	141,542
Production and intermediate-term	678,048	323,486	735,567	186,325	224,566	–	1,638,181	509,811
Loans to cooperatives	187	104,983	675,371	–	2,000	–	677,558	104,983
Processing and marketing	212,400	320,413	456,074	302,756	843,210	4,500	1,511,684	627,669
Farm-related business	66,157	9,516	–	–	33,253	–	99,410	9,516
Communication	–	124,404	363,428	–	–	–	363,428	124,404
Power and water/waste disposal	–	14,333	546,733	–	18,628	–	565,361	14,333
Rural residential real estate	166	–	–	–	–	–	166	–
International	–	34,127	86,919	–	–	–	86,919	34,127
Lease receivables	7,732	–	–	–	–	–	7,732	–
Other (including Mission Related)	9,322	–	–	–	–	–	9,322	–
Total	$ 1,722,809	$1,019,482	$ 3,185,993	$ 1,536,123	$ 1,121,657	$ 4,500	$ 6,030,459	$ 2,560,105

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

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

	March 31, 2017			
(dollars in thousands)	Due less than 1 year	Due 1 through 5 years	Due after 5 years	Total
Direct notes	$ 503,625	$ 2,675,966	$ 11,695,851	$ 14,875,442
Real estate mortgage	34,046	304,309	711,431	1,049,786
Production and intermediate-term	125,683	634,001	364,617	1,124,301
Loans to cooperatives	29,764	286,905	255,116	571,785
Processing and marketing	64,906	566,260	250,895	882,061
Farm-related business	9,169	29,975	26,565	65,709
Communication	–	187,509	50,769	238,278
Power and water/waste disposal	4,799	176,556	368,155	549,510
Rural residential real estate	56,718	11,540	2,731,829	2,800,087
International	–	42,122	10,574	52,696
Lease receivables	–	7,732	–	7,732
Loans to OFIs	5,903	117,120	–	123,023
Other (including Mission Related)	–	51	9,130	9,181
Total Loans	$ 834,613	$ 5,040,046	$ 16,474,932	$ 22,349,591
Percentage	3.73%	22.55%	73.72%	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:

	March 31, 2017	December 31, 2016
Direct notes:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Real estate mortgage:		
Acceptable	92.83%	91.79%
OAEM	1.44	2.19
Substandard/doubtful/loss	5.73	6.02
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	93.36%	93.48%
OAEM	5.21	5.30
Substandard/doubtful/loss	1.43	1.22
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	98.15%	98.02%
OAEM	–	1.81
Substandard/doubtful/loss	1.85	0.17
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	99.27%
OAEM	–	0.73
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	79.48%	73.60%
OAEM	–	–
Substandard/doubtful/loss	20.52	26.40
	100.00%	100.00%
Communication:		
Acceptable	100.00%	97.16%
OAEM	–	2.84
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Power and water/waste disposal:		
Acceptable	92.71%	92.10%
OAEM	7.29	7.90
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	99.86%	99.88%
OAEM	–	–
Substandard/doubtful/loss	0.14	0.12
	100.00%	100.00%
International:		
Acceptable	100.00%	100.00%
-OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Lease receivables:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Loans to OFIs:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Other (including Mission Related):		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total Loans:		
Acceptable	99.02%	98.89%
OAEM	0.51	0.67
Substandard/doubtful/loss	0.47	0.44
	100.00%	100.00%

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

	March 31, 2017					
(dollars in thousands)	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Direct notes	$ –	$ –	$ –	$ 14,908,920	$ 14,908,920	$ –
Real estate mortgage	2,679	3,167	5,846	1,049,683	1,055,529	–
Production and intermediate-term	153	2,014	2,167	1,126,452	1,128,619	–
Loans to cooperatives	–	–	–	572,919	572,919	–
Processing and marketing	–	–	–	884,025	884,025	–
Farm-related business	–	–	–	66,413	66,413	–
Communication	–	–	–	238,369	238,369	–
Power and water/waste disposal	–	–	–	552,122	552,122	–
Rural residential real estate	29,856	2,391	32,247	2,774,259	2,806,506	–
International	–	–	–	52,982	52,982	–
Lease receivables	–	–	–	7,749	7,749	–
Loans to OFIs	–	–	–	123,227	123,227	–
Other (including Mission Related)	–	–	–	9,328	9,328	–
Total	$ 32,688	$ 7,572	$ 40,260	$ 22,366,448	$ 22,406,708	$ –

(dollars in thousands)	December 31, 2016 30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Direct notes	$ –	$ –	$ –	$ 15,514,031	$ 15,514,031	$ –
Real estate mortgage	699	3,787	4,486	1,057,779	1,062,265	–
Production and intermediate-term	11,266	1,700	12,966	1,238,016	1,250,982	–
Loans to cooperatives	–	–	–	481,767	481,767	–
Processing and marketing	–	–	–	850,996	850,996	–
Farm-related business	–	–	–	69,340	69,340	–
Communication	–	–	–	239,743	239,743	–
Power and water/waste disposal	–	–	–	545,489	545,489	–
Rural residential real estate	41,475	4,201	45,676	2,715,087	2,760,763	–
International	–	–	–	55,383	55,383	–
Lease receivables	–	–	–	8,071	8,071	–
Loans to OFIs	–	–	–	122,772	122,772	–
Other (including Mission Related)	–	–	–	9,402	9,402	–
Total	$ 53,440	$ 9,688	$ 63,128	$ 22,907,876	$ 22,971,004	$ –

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

(dollars in thousands)	March 31, 2017	December 31, 2016
Nonaccrual loans:		
Real estate mortgage	$ 7,867	$ 9,153
Production and intermediate-term	4,050	13,135
Rural residential real estate	5,929	6,690
Total	$ 17,846	$ 28,978
Accruing restructured loans:		
Real estate mortgage	$ 1,194	$ 406
Production and intermediate-term	9,563	9,445
Rural residential real estate	1,549	1,558
Other (including Mission Related)	4,464	4,262
Total	$ 16,770	$ 15,671
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 34,616	$ 44,649
Other property owned	2,650	3,346
Total nonperforming assets	$ 37,266	$ 47,995
Nonaccrual loans as a percentage of total loans	0.08%	0.13%
Nonperforming assets as a percentage of total loans and other property owned	0.17%	0.21%
Nonperforming assets as a percentage of capital	1.62%	2.16%

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

(dollars in thousands)	March 31, 2017	December 31, 2016
Impaired nonaccrual loans:		
Current as to principal and interest	$ 7,352	$ 6,113
Past due	10,494	22,865
Total	$ 17,846	$ 28,978
Impaired accrual loans:		
Restructured	$ 16,770	$ 15,671
90 days or more past due	–	–
Total	$ 16,770	$ 15,671
Total impaired loans	$ 34,616	$ 44,649
Additional commitments to lend	$ 2,050	$ –

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

(dollars in thousands)	March 31, 2017			Quarter Ended March 31, 2017	
Impaired Loans	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 788	$ 1,005	$ 23	$ 295	$ –
Production and intermediate-term	169	170	33	82	–
Rural residential real estate	546	545	63	71	–
Other (including Mission Related)	4,331	4,267	154	4,405	7
Total	$ 5,834	$ 5,987	$ 273	$ 4,853	$ 7
With no related allowance for credit losses:					
Real estate mortgage	$ 8,273	$ 11,331	$ –	$ 8,969	$ 184
Production and intermediate-term	13,444	21,832	–	16,432	985
Rural residential real estate	6,932	6,914	–	7,951	111
Other (including Mission Related)	133	136	–	–	66
Total	$ 28,782	$ 40,213	$ –	$ 33,352	$ 1,346
Total:					
Real estate mortgage	$ 9,061	$ 12,336	$ 23	$ 9,264	$ 184
Production and intermediate-term	13,613	22,002	33	16,514	985
Rural residential real estate	7,478	7,459	63	8,022	111
Other (including Mission Related)	4,464	4,403	154	4,405	73
Total	$ 34,616	$ 46,200	$ 273	$ 38,205	$ 1,353

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

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

(dollars in thousands)	Direct Note	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Other**	Total
Activity related to the allowance for credit losses:										
Balance at December 31, 2016	$ –	$ 2,569	$ 3,039	$ 3,287	$ 899	$ 1,997	$ 2,688	$ 58	$ 246	$ 14,783
Charge-offs	–	–	–	–	–	–	(25)	–	–	(25)
Recoveries	–	33	–	–	–	–	–	–	–	33
Provision for loan losses	–	(295)	281	644	37	(263)	227	(17)	(5)	609
Loan type reclassification	–	(33)	33	–	–	–	–	–	–	–
Balance at March 31, 2017	$ –	$ 2,274	$ 3,353	$ 3,931	$ 936	$ 1,734	$ 2,890	$ 41	$ 241	$ 15,400
Balance at December 31, 2015	$ –	$ 3,615	$ 4,779	$ 2,243	$ 777	$ 1,646	$ 1,770	$ 79	$ 204	$ 15,113
Charge-offs	–	(55)	–	–	–	–	(73)	–	–	(128)
Recoveries	–	–	194	313	–	–	–	–	–	507
Provision for loan losses	–	518	2	61	62	(16)	276	7	10	920
Balance at March 31, 2016	$ –	$ 4,078	$ 4,975	$ 2,617	$ 839	$ 1,630	$ 1,973	$ 86	$ 214	$ 16,412
Allowance on loans evaluated for impairment:										
Individually	$ –	$ 23	$ 33	$ –	$ –	$ –	$ 63	$ –	$ 154	$ 273
Collectively	–	2,251	3,320	3,931	936	1,734	2,827	41	87	15,127
Balance at March 31, 2017	$ –	$ 2,274	$ 3,353	$ 3,931	$ 936	$ 1,734	$ 2,890	$ 41	$ 241	$ 15,400
Individually	$ –	$ 97	$ –	$ –	$ –	$ –	$ 71	$ –	$ 153	$ 321
Collectively	–	2,472	3,039	3,287	899	1,997	2,617	58	93	14,462
Balance at December 31, 2016	$ –	$ 2,569	$ 3,039	$ 3,287	$ 899	$ 1,997	$ 2,688	$ 58	$ 246	$ 14,783
Recorded investment in loans evaluated for impairment:										
Individually	$ 14,908,920	$ 134,303	$ 13,613	$ –	$ –	$ –	$ 1,525,871	$ –	$ 4,464	$ 16,587,171
Collectively	–	921,226	1,115,006	1,523,357	238,369	552,122	1,280,635	52,982	135,840	5,819,537
Balance at March 31, 2017	$ 14,908,920	$ 1,055,529	$ 1,128,619	$ 1,523,357	$ 238,369	$ 552,122	$ 2,806,506	$ 52,982	$ 140,304	$ 22,406,708
Individually	$ 15,514,031	$ 121,444	$ 22,580	$ 1,788	$ –	$ –	$ 1,664,394	$ –	$ 4,262	$ 17,328,499
Collectively	–	940,821	1,228,402	1,400,315	239,743	545,489	1,096,369	55,383	135,983	5,642,505
Balance at December 31, 2016	$ 15,514,031	$ 1,062,265	$ 1,250,982	$ 1,402,103	$ 239,743	$ 545,489	$ 2,760,763	$ 55,383	$ 140,245	$ 22,971,004

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

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

(dollars in thousands)	Three months ended March 31, 2017				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification					
Rural residential real estate	$ 194	$ –	$ –	$ 194	
Total	$ 194	$ –	$ –	$ 194	
Post-modification					
Rural residential real estate	$ 228	$ –	$ –	$ 228	$ –
Total	$ 228	$ –	$ –	$ 228	$ –

(dollars in thousands)	Three months ended March 31, 2016				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification					
Production and intermediate-term	$ –	$ 1,627	$ –	$ 1,627	
Total	$ –	$ 1,627	$ –	$ 1,627	
Post-modification					
Production and intermediate-term	$ –	$ 1,627	$ –	$ 1,627	$ –
Total	$ –	$ 1,627	$ –	$ 1,627	$ –

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

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

	Three months ended March 31,	
	2017	2016
Defaulted troubled debt restructurings:		
Rural residential real estate	$ 433	$ –
Total	$ 433	$ –

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

	Total TDRs		Nonaccrual TDRs	
(dollars in thousands)	March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016
Real estate mortgage	$ 7,675	$ 7,693	$ 6,481	$ 7,287
Production and intermediate-term	10,524	10,407	961	962
Rural residential real estate	2,644	2,427	1,095	869
Other (including Mission Related)	4,464	4,262	–	–
Total Loans	$ 25,307	$ 24,789	$ 8,537	$ 9,118
Additional commitments to lend	$ 2,050	$ –		

The following table presents foreclosure information as of period end:

	March 31, 2017
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	$ 256
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ 442

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 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. In August, 2016, the Bank disposed of its non-agency CMO and ABS securities not rated in the top category by at least one of the NRSROs.

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

In its Conditions of Approval for the program, the FCA considers an RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9. The FCA requires System institutions to provide notification when a security becomes ineligible. At March 31, 2017, the Bank held one RAB whose credit quality had deteriorated beyond the program limits.

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

An agreement with a commercial bank requires AgFirst to maintain $50.0 million as a compensating balance. The Bank holds $42.4 million in U.S. Treasury securities 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.

The Bank did not sell any investments during the first three months of 2017. During the first three months of 2016, proceeds from sales of investments were $16.0 million and realized gains were $620 thousand.

Available-for-sale

During the quarter ended March 31, 2017, the Bank modified the presentation of certain investment securities in order to better describe the security classification. The reclassified securities are collateralized by Ginnie Mae (GNMA) and Fannie Mae (FNMA) securities, but were securitized and sold as private placement securities by non-government entities. The Bank has reclassified these securities as privately-issued agency collateralized CMOs from previously reported U.S. government guaranteed and U.S. government agency guaranteed securities.

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

	March 31, 2017				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. Treasury Securities	$ 341,933	$ 4	$ (287)	$ 341,650	0.68%
U.S. Govt. Guaranteed	4,315,187	38,228	(23,166)	4,330,249	1.79
U.S. Govt. Agency Guaranteed	2,132,309	10,512	(24,543)	2,118,278	1.56
Agency Collateralized CMOs	59,709	–	(1,681)	58,028	1.14
Non-Agency ABSs	563,759	244	(1,162)	562,841	1.30
Total	$ 7,412,897	$ 48,988	$ (50,839)	$ 7,411,046	1.63%

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

(a) Includes privately-issued agency collateralized CMOs with a fair value totaling $62.4 million.

Held-to-maturity

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

	March 31, 2017				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	$ 444,326	$ 9,703	$ (8,965)	$ 445,064	3.29%
RABs and Other	67,488	3,653	(609)	70,532	6.04
Total	$ 511,814	$ 13,356	$ (9,574)	$ 515,596	3.65%

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

A summary of the contractual maturity, estimated fair value and amortized cost of investment securities at March 31, 2017 follows:

Available-for-sale

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Treasury Securities	$ 314,373	0.66 %	$ 27,277	0.94 %	$ –	– %	$ –	– %	$ 341,650	0.68 %
U.S. Govt. Guaranteed	–	–	–	–	95,927	1.52	4,234,322	1.79	4,330,249	1.79
U.S. Govt. Agency Guaranteed	8,277	0.96	168,212	1.61	114,747	1.73	1,827,042	1.55	2,118,278	1.56
Agency Collateralized CMOs	–	–	–	–	–	–	58,028	1.14	58,028	1.14
Non-Agency ABSs	–	–	498,390	1.23	64,451	1.78	–	–	562,841	1.30
Total fair value	$ 322,650	0.66 %	$ 693,879	1.31 %	$ 275,125	1.67 %	$ 6,119,392	1.71 %	$ 7,411,046	1.63 %
Total amortized cost	$ 322,750		$ 694,651		$ 274,784		$ 6,120,712		$ 7,412,897	

Held-to-maturity

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Agency Guaranteed	$ –	– %	$ 87	4.40 %	$ –	– %	$ 444,239	3.29 %	$ 444,326	3.29 %
RABs and Other	3,038	5.00	18,838	6.38	14,417	6.12	31,195	5.91	67,488	6.04
Total amortized cost	$ 3,038	5.00 %	$ 18,925	6.37 %	$ 14,417	6.12 %	$ 475,434	3.46 %	$ 511,814	3.65 %
Total fair value	$ 3,032		$ 19,549		$ 15,259		$ 477,756		$ 515,596	

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.

	March 31, 2017					
	Less than 12 Months		12 Months or Greater		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Treasury Securities	$ 291,870	$ (287)	$ –	$ –	$ 291,870	$ (287)
U.S. Govt. Guaranteed	2,099,870	(20,050)	375,030	(3,116)	2,474,900	(23,166)
U.S. Govt. Agency Guaranteed	1,202,093	(26,166)	618,672	(7,342)	1,820,765	(33,508)
Agency Collateralized CMOs	–	–	58,028	(1,681)	58,028	(1,681)
Non-Agency ABSs	387,965	(1,162)	–	–	387,965	(1,162)
RABs and Other	5,671	(189)	3,930	(420)	9,601	(609)
Total	$ 3,987,469	$ (47,854)	$ 1,055,660	$ (12,559)	$ 5,043,129	$ (60,413)

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

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

The Bank performs periodic credit reviews, including other-than-temporary impairment (OTTI) analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others: (1) the length of time and the extent to which the fair value is less than cost, (2) adverse conditions specifically related to the industry, (3) geographic area and the condition of the underlying collateral, (4) payment structure of the security, (5) ratings by rating agencies, (6) the creditworthiness of bond insurers, and (7) volatility of the fair value changes.

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

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

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

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

For the three months ended March 31, 2017, net unrealized losses of $4.4 million were recognized in OCI on available-for-sale investments that are not other-than-temporarily impaired.

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

	For the three months ended March 31,	
(dollars in thousands)	**2017**	**2016**
Amount related to credit loss-beginning balance	$ –	$ 56,692
Additions for initial credit impairments	–	–
Additions for subsequent credit impairments	–	1,730
Reductions for increases in expected cash flows	–	(555)
Reductions for securities sold/settled/matured	–	–
Amount related to credit loss-ending balance	–	57,867
Life to date incurred credit losses	–	(21,458)
Remaining unrealized credit losses	$ –	$ 36,409

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.

	March 31, 2017					
(dollars in thousands)	**Bonds**		**Discount Notes**		**Total**	
Maturities	**Amortized Cost**	**Weighted Average Interest Rate**	**Amortized Cost**	**Weighted Average Interest Rate**	**Amortized Cost**	**Weighted Average Interest Rate**
One year or less	$ 6,435,927	1.00%	$ 6,290,287	0.75%	$ 12,726,214	0.88%
Greater than one year to two years	5,508,859	1.05	–	–	5,508,859	1.05
Greater than two years to three years	2,775,075	1.28	–	–	2,775,075	1.28
Greater than three years to four years	1,890,398	1.52	–	–	1,890,398	1.52
Greater than four years to five years	1,393,803	1.81	–	–	1,393,803	1.81
Greater than five years	4,317,269	2.36	–	–	4,317,269	2.36
Total	$ 22,321,331	1.40%	$ 6,290,287	0.75%	$ 28,611,618	1.26%

Discount notes are issued with maturities ranging from 1 to 365 days. The average maturity of discount notes at March 31, 2017 was 137 days.

Note 5 — Shareholders' Equity

Perpetual Preferred Stock

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

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

Accumulated Other Comprehensive Income

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

	Changes in Accumulated Other Comprehensive Income by Component *(a)*	
	For the three months ended March 31,	
(dollars in thousands)	2017	2016
Investment Securities:		
Balance at beginning of period	$ 2,561	$ 64,985
Other comprehensive income before reclassifications	(4,413)	7,768
Amounts reclassified from AOCI	–	1,110
Net current period OCI	(4,413)	8,878
Balance at end of period	$ (1,852)	$ 73,863
Cash Flow Hedges:		
Balance at beginning of period	$ (838)	$ (957)
Other comprehensive income before reclassifications	(12)	–
Amounts reclassified from AOCI	95	19
Net current period OCI	83	19
Balance at end of period	$ (755)	$ (938)
Employee Benefit Plans:		
Balance at beginning of period	$ (4,076)	$ (4,106)
Other comprehensive income before reclassifications	–	–
Amounts reclassified from AOCI	92	84
Net current period OCI	92	84
Balance at end of period	$ (3,984)	$ (4,022)
Total Accumulated Other Comprehensive Income:		
Balance at beginning of period	$ (2,353)	$ 59,922
Other comprehensive income before reclassifications	(4,425)	7,768
Amounts reclassified from AOCI	187	1,213
Net current period OCI	(4,238)	8,981
Balance at end of period	$ (6,591)	$ 68,903

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*		
	For the three months ended March 31,		
(dollars in thousands)	2017	2016	Income Statement Line Item
Investment Securities:			
Sales gains & losses	$ –	$ 620	Gains (losses) on investments, net
Holding gains & losses	–	(1,730)	Net other-than-temporary impairment
Net amounts reclassified	–	(1,110)	
Cash Flow Hedges:			
Interest income	(83)	(19)	See Note 10.
Gains (losses) on other transactions	(12)	–	See Note 10.
Net amounts reclassified	(95)	(19)	
Employee Benefit Plans:			
Periodic pension costs	(92)	(84)	See Note 7.
Net amounts reclassified	(92)	(84)	
Total reclassifications for period	$ (187)	$ (1,213)	

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

Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

As disclosed in Note 3, *Investments*, the Bank's Level 3 investment securities, which were previously reported as U.S. government guaranteed and U.S. government agency guaranteed securities, were reclassified to privately-issued agency collateralized CMOs. The following table presents the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the periods presented. Except as described above, the Bank had no transfers of assets or liabilities measured on a recurring basis into or out of Level 1 or Level 2 during the reporting period.

(dollars in thousands)		**Agency Collateralized CMOs**
Balance at December 31, 2016	$	27,582
Gains or (losses) included in earnings		–
Gains or (losses) included in OCI		59
Purchases		–
Settlements		(2,065)
Transfers in and/or out of Level 3		–
Balance at March 31, 2017	$	25,576

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 Three Months Ended March 31, 2017					
(dollars in thousands)	**Total Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**	**Fair Value Effects On Earnings**
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. Treasury Securities	$ 341,650	$ –	$ 341,650	$ –	$ 341,650	
U.S. Govt. Guaranteed	4,330,249	–	4,330,249	–	4,330,249	
U.S. Govt. Agency Guaranteed	2,118,278	–	2,118,278	–	2,118,278	
Agency Collateralized CMOs	58,028	–	32,452	25,576	58,028	
Non-Agency ABSs	562,841	–	562,841	–	562,841	
Total investments available-for-sale	7,411,046	–	7,385,470	25,576	7,411,046	
Federal funds sold, securities purchased under resale agreements, and other	223,961	–	223,961	–	223,961	
Interest rate swaps and other derivative instruments	–	–	–	–	–	
Assets held in trust funds	12,146	12,146	–	–	12,146	
Recurring Assets	$ 7,647,153	$ 12,146	$ 7,609,431	$ 25,576	$ 7,647,153	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	–	–	–	–	–	
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 34,343	$ –	$ –	$ 34,343	$ 34,343	$ 56
Other property owned	2,650	–	–	2,862	2,862	(64)
Nonrecurring Assets	$ 36,993	$ –	$ –	$ 37,205	$ 37,205	$ (8)
Other Financial Instruments						
Assets:						
Cash	$ 272,674	$ 272,674	$ –	$ –	$ 272,674	
Investments held to maturity	511,814	–	445,064	70,532	515,596	
Loans	22,299,848	–	–	22,167,521	22,167,521	
Other Financial Assets	$ 23,084,336	$ 272,674	$ 445,064	$ 22,238,053	$ 22,955,791	
Liabilities:						
Systemwide debt securities	$ 28,611,618	$ –	$ –	$ 28,523,747	$ 28,523,747	
Other Financial Liabilities	$ 28,611,618	$ –	$ –	$ 28,523,747	$ 28,523,747	

	At or for the Year Ended December 31, 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	$ 341,948	$ –	$ 341,948	$ –	$ 341,948	
U.S. Govt. Guaranteed	4,274,286	–	4,249,239	25,047	4,274,286	
U.S. Govt. Agency Guaranteed	2,250,623	–	2,248,088	2,535	2,250,623	
Non-Agency ABSs	623,984	–	623,984	–	623,984	
Total investments available-for-sale	7,490,841	–	7,463,259	27,582	7,490,841	
Federal funds sold, securities purchased under resale agreements, and other	262,624	–	262,624	–	262,624	
Interest rate swaps and other derivative instruments	92	–	92	–	92	
Assets held in trust funds	10,147	10,147	–	–	10,147	
Recurring Assets	$ 7,763,704	$ 10,147	$ 7,725,975	$ 27,582	$ 7,763,704	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	–	–	–	–	–	
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 44,328	$ –	$ –	$ 44,328	$ 44,328	$ 5,968
Other property owned	3,346	–	–	3,625	3,625	2,183
Nonrecurring Assets	$ 47,674	$ –	$ –	$ 47,953	$ 47,953	$ 8,151
Other Financial Instruments						
Assets:						
Cash	$ 549,124	$ 549,124	$ –	$ –	$ 549,124	
Investments held to maturity	541,354	–	464,936	80,990	545,926	
Loans	22,855,571	–	–	22,691,411	22,691,411	
Other Financial Assets	$ 23,946,049	$ 549,124	$ 464,936	$ 22,772,401	$ 23,786,461	
Liabilities:						
Systemwide debt securities	$ 29,408,483	$ –	$ –	$ 29,285,303	$ 29,285,303	
Other Financial Liabilities	$ 29,408,483	$ –	$ –	$ 29,285,303	$ 29,285,303	

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

Investment Securities

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

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

Derivative Instruments

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

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

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

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Investments available-for-sale	$ 25,576	Vendor priced	Price adjustment	-1.000
Impaired loans and other property owned	$ 37,205	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

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

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

Information about Other Financial Instrument Fair Value Measurements

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

Note 7 — Employee Benefit Plans

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

	For the three months ended March 31,	
(dollars in thousands)	**2017**	**2016**
Pension	$ 1,477	$ 2,255
401k	681	600
Other postretirement benefits	257	356
Total	$ 2,415	$ 3,211

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

(dollars in thousands)	Actual YTD Through 3/31/17	Projected Contributions for Remainder of 2017	Projected Total Contributions 2017
Pensions	$ 139	$ 4,708	$ 4,847
Other postretirement benefits	257	744	1,001
Total	$ 396	$ 5,452	$ 5,848

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, 2017.

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

Note 8 — Commitments and Contingencies

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

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

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

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

(dollars in billions)	**3/31/17**	**12/31/16**
Total System bonds and notes	$ 258.905	$ 257.782
AgFirst bonds and notes	$ 28.612	$ 29.408

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

Note 9 — Additional Financial Information

Offsetting of Financial and Derivative Assets

	March 31, 2017					
				Gross Amounts Not Offset in the Balance Sheets		
(dollars in thousands)	**Gross Amounts of Recognized Assets**	**Gross Amounts Offset in the Balance Sheets**	**Net Amounts of Assets Presented in the Balance Sheets**	**Financial Instruments**	**Cash Collateral Received**	**Net Amount**
Derivatives	$ –	$ –	$ –	$ –	$ –	$ –
Reverse repurchase and similar arrangements	223,961	–	223,961	(223,961)	–	–
Total	$ 223,961	$ –	$ 223,961	$ (223,961)	$ –	$ –

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

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

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

The reverse repurchase agreements are accounted for as collateralized lending.

Combined ACA Only Financial Data (Unaudited)

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

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

Balance Sheet *(dollars in thousands)*	**March 31, 2017**	**December 31 2016**
Cash and investment securities	$ 94,686	$ 121,948
Loans	20,010,151	20,059,952
Allowance for loan losses	(168,995)	(167,817)
Net loans	19,841,156	19,892,135
Other assets	748,467	971,468
Total assets	$ 20,684,309	$ 20,985,551
Direct note	$ 15,869,519	$ 16,175,477
Other liabilities	501,674	553,179
Total liabilities	16,371,193	16,728,656
Capital stock and participation certificates	193,564	199,453
Additional paid-in-capital	23,691	23,691
Retained earnings	4,128,086	4,066,721
Accumulated other comprehensive income (loss)	(32,225)	(32,970)
Total shareholders' equity	4,313,116	4,256,895
Total liabilities and shareholders' equity	$ 20,684,309	$ 20,985,551

Statements of Income	For the three months ended March 31,	
(dollars in thousands)	2017	2016
Interest income	$ 245,428	$ 232,819
Interest expense	102,279	93,919
Net interest income	143,149	138,900
Provision for (reversal of allowance for) loan losses	1,023	373
Net interest income after provision for (reversal of allowance for) loan losses	142,126	138,527
Noninterest income	44,291	46,426
Noninterest expenses		
Salaries and employee benefits	65,738	66,536
Occupancy and equipment	4,794	4,889
Insurance Fund premiums	5,397	5,461
Other operating expenses	20,081	19,628
Losses (gains) from other property owned	321	374
Total noninterest expenses	96,331	96,888
Income (loss) before taxes	90,086	88,065
Provision for income taxes	119	261
Net income	$ 89,967	$ 87,804

Note 10 — Derivative Financial Instruments and Hedging Activities

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

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

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

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

	For the Three Months Ended March 31,			
	2017		2016	
Notional Amounts *(dollars in millions)*	Receive-Fixed Swaps	Forward Contracts	Receive-Fixed Swaps	Forward Contracts
Balance at beginning of period	$ 50	$ 1	$ 150	$ –
Additions	–	2	–	–
Maturities/amortization	(50)	(2)	–	–
Terminations	–	–	–	–
Balance at end of period	$ –	$ 1	$ 150	$ –

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

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

Counterparty exposure related to derivatives at:

(dollars in millions)	**March 31, 2017**	**December 31, 2016**
Estimated Gross Credit Risk	$–	$0.1
Percent of Notional	%–	0.18%
Cash Collateral Held *(on balance sheet)*	$–	$–
Securities Collateral Held *(off balance sheet)*	$–	$–
Cash Collateral Posted *(off balance sheet)*	$–	$–
Securities Collateral Posted *(on balance sheet)*	$–	$–

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. For the three months ended March 31, 2017, there was no loss on interest rate swaps recognized in interest expense, and there was no gain on the Systemwide Debt Securities. The amount of the loss on interest rate swaps recognized in interest expense for the three months ended March 31, 2016 was $1.6 million, while the amount of the gain on the Systemwide Debt Securities was $1.6 million. Gains and losses on each derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Cash Flow Hedges

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

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

Fair Values of Derivative Instruments

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

(dollars in thousands)	Balance Sheet Classification – Assets	3/31/17 Fair Value	Balance Sheet Classification – Liabilities	3/31/17 Fair Value
Receive-fixed swaps	Other Assets	$ –	Other Liabilities	$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		$ –		$ –

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

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

(dollars in thousands)	Location of Gain or (Loss) Recognized in, or Reclassified from AOCI into, Income	Amount of Gain or (Loss) Recognized in, or Reclassified from AOCI into, Income *		Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)		Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	
		2017	2016	2017	2016	2017	2016
Fair Value Hedges:							
Receive-fixed swaps	Noninterest income	$ –	$ –				
Cash Flow Hedges:							
Firm Commitments	Interest Income	$ (83)	$ (19)	$ –	$ –	$ –	$ –
Forward Contracts	Gains (Losses) on Other Transactions	(12)	–	–	–	(12)	–

** 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 May 8, 2017, which was the date the financial statements were issued.