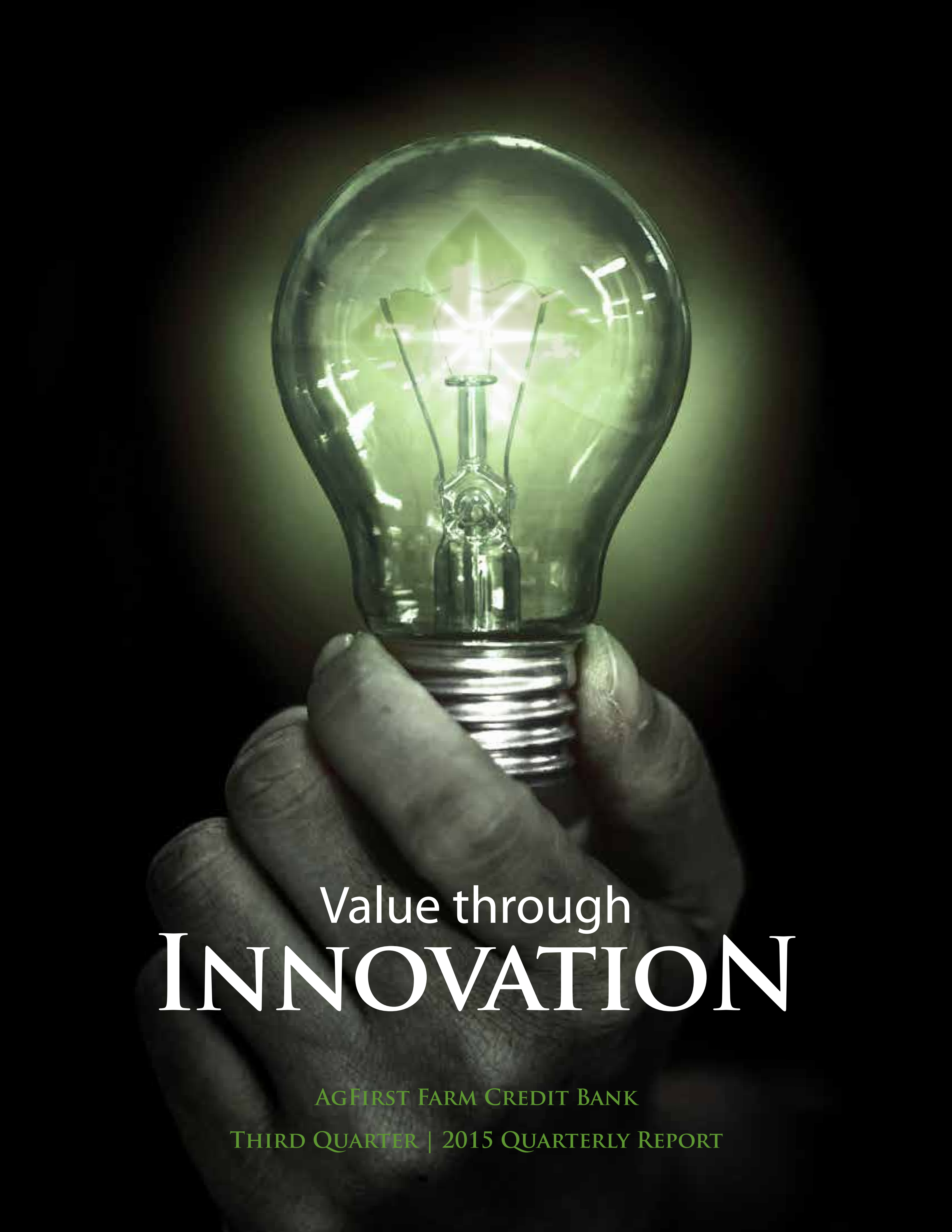

Value through INNOVATION

AgFirst Farm Credit Bank

Third Quarter | 2015 Quarterly Report

THIRD QUARTER 2015

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2015 quarterly report of AgFirst Farm Credit Bank, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Dale R. Hershey
Chairman of the Board

Leon T. Amerson
Chief Executive Officer & President

Charl L. Butler
Chief Financial Officer

November 6, 2015

Report on Internal Control Over Financial Reporting

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

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

The Bank's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2015. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Bank's management concluded that as of September 30, 2015, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Bank's management determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2015.

Leon T. Amerson
Chief Executive Officer & President

Charl L. Butler
Chief Financial Officer

November 6, 2015

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

The following discussion reviews the financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) as of and for the three and nine month periods ended September 30, 2015. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Financial Statements, and the 2014 Annual Report of AgFirst Farm Credit Bank. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the District. The accompanying financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

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

FORWARD-LOOKING INFORMATION

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

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

FINANCIAL CONDITION

Loan Portfolio

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

Loan Portfolio *(dollars in thousands)*	**September 30, 2015**		**December 31, 2014**		**September 30, 2014**	
Direct Notes*	$ 14,651,521	68.29%	$ 14,280,193	68.35%	$ 14,271,673	69.18%
Capital Markets*	4,065,403	18.95	4,015,056	19.21	3,785,734	18.35
Correspondent Lending	2,628,029	12.25	2,502,858	11.98	2,471,052	11.98
Loans to OFIs	111,120	0.51	95,512	0.46	100,712	0.49
Total	$ 21,456,073	100.00%	$ 20,893,619	100.00%	$ 20,629,171	100.00%

**Net of participations sold.*

Total loans outstanding were $21.456 billion at September 30, 2015, an increase of $562.5 million, or 2.69 percent, compared to total loans outstanding at December 31, 2014 and an increase of $826.9 million, or 4.01 percent, since September 30, 2014. Compared to 2014 year end, excluding Bank patronage payments to Associations of approximately $307.7 million which were applied to the Association Direct Notes at the beginning of 2015 and a participation interest of approximately $210.2 million in a Direct Note sold in April 2015 to another System bank, loan volume at September 30, 2015 increased 5.17 percent. The increase in loan volume compared to September 30, 2014 resulted from improved economic conditions positively 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 improved conditions in specific commodities such as the poultry, cattle, and swine sectors. Future Bank loan demand is difficult to predict; however, continued modest growth is expected.

Credit Quality

Credit quality of AgFirst's loans is shown below:

	Total Loan Portfolio Credit Quality as of:		
Classification	**September 30, 2015**	**December 31, 2014**	**September 30, 2014**
Acceptable	98.30%	95.16%	91.26%
OAEM *	1.13%	4.40%	8.29%
Adverse **	0.57%	0.44%	0.45%

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

Loan portfolio credit quality generally improved at September 30, 2015 compared to December 31, 2014 and September 30, 2014. This improvement, reflected in the table above, was primarily due to changes in credit quality of the Direct Notes which is discussed in the *Direct Notes* section below. Loan portfolio credit quality at the producer level reflected improvement primarily due to incremental improvement of economic conditions. District real estate values have also continued to improve. Grain prices have declined due to higher than expected inventory and harvest levels. This benefitted the poultry, cattle, and swine sectors but pressured margins of grain producers. Due to geographic location, District borrowers are predominately net grain consumers. Improved housing starts continue to positively impact certain housing-related segments such as forestry and nursery/greenhouse. Extensive flooding in South Carolina in early October is not expected to have a material impact on the Bank's financial condition or results of operations. The impact is still being assessed; however, crop insurance mitigates potential borrower losses. Also, the flooded areas represent a relatively small footprint within the District.

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. Credit quality is expected to stabilize given anticipated economic conditions.

Direct Notes

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

At September 30, 2015, the total Direct Note volume outstanding was $14.652 billion, an increase of $371.3 million, or 2.60 percent, compared to December 31, 2014. When compared to 2014 year end, excluding Bank patronage payments of approximately $307.7 million and the sale of a participation interest of approximately $210.2 million referenced in the *Loan Portfolio* section above, Direct Note volume increased 6.23 percent. See the *Loan Portfolio* section above for the primary reasons for the change in Direct Note volume from December 2014 to September 2015.

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					
	September 30, 2015		**December 31, 2014**		**September 30, 2014**	
Classification	**% Total**	**# Total**	**% Total**	**# Total**	**% Total**	**# Total**
Acceptable	99.25%	18	94.71%	17	88.89%	15
OAEM *	0.75%	1	5.29%	2	11.11%	4
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 Notes for three District Associations improved from OAEM to Acceptable due to sustained satisfactory financial and operational performance at these Associations.

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.

As of September 30, 2015, two District Associations with combined total assets of $1.041 billion were operating under written supervisory agreements with the FCA. The agreements require the District Associations to take corrective actions with respect to certain identified practices including, respectively, one or more of the following: asset quality, earnings and liquidity, senior management, collateral risk management, corporate governance and related items. Also, as of September 30, 2015, one District Association was operating under a special credit agreement pursuant to its GFA as a result of events of default under the GFA. Neither these enforcement actions nor GFA events of default are expected to have a significant adverse impact on the Bank's or District's financial condition or results of operations.

Capital Markets

The Capital Markets portfolio consists primarily of loan participations and syndications. As of September 30, 2015, this portfolio totaled $4.065 billion, an increase of $50.3 million, or 1.25 percent, from December 31, 2014. Borrower demand in this portfolio is anticipated to reflect modest improvement.

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

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

	Participations/Syndications Credit Quality as of:		
Classification	**September 30, 2015**	**December 31, 2014**	**September 30, 2014**
Acceptable	93.84%	93.65%	94.24%
OAEM*	3.23%	4.09%	3.31%
Adverse**	2.93%	2.26%	2.45%

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

The overall favorable credit quality of the participations/syndications portfolio reflects the incremental improvement in general economic conditions, including employment, the housing market, and real estate values.

Correspondent Lending

The Correspondent Lending portfolio consists primarily of first lien residential mortgages. As of September 30, 2015, the Correspondent Lending portfolio totaled $2.628 billion. From December 31, 2014 to September 30, 2015, this portfolio increased $125.2 million, or 5.00 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. At September 30, 2015, $1.847 billion (70.27% of the total) of loans in the Correspondent Lending portfolio were guaranteed and $781.4 million (29.73%) were unguaranteed. The discontinuation of the Fannie Mae guarantee program is reflected in the Bank's allowance for loan losses methodology related to this portfolio.

At September 30, 2015, 99.91 percent of the Correspondent Lending portfolio was classified as acceptable and 0.09 percent was classified as substandard.

Rural home loans, combined with Rural Home Mortgage-backed Securities (see Note 3, *Investments*, for further discussion of these securities), are limited to 15 percent of total loans outstanding as defined by FCA. Based on September 30, 2015 levels, the Bank has unused capacity of $229.3 million under a total limit of $3.247 billion. The Bank monitors this position and will consider options to manage the Rural Home asset level within the regulatory limit.

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 $26.3 million at September 30, 2015, a decrease of 46.53 percent compared to $49.2 million at December 31, 2014. The decrease of $22.9 million resulted primarily from repayments of $19.9 million, $5.1 million transferred to Other Property Owned, loan balances reinstated to accrual status of $3.4 million, and Correspondent Lending loans conveyed to a guarantor (see *Correspondent Lending* section above) of $2.5 million, partially offset by $8.4 million of loan balances transferred to nonaccrual status. The ten largest nonaccrual borrower relationships at September 30, 2015 accounted for 81.40 percent of the total nonaccrual balance. At September 30, 2015, total nonaccrual loans were primarily classified in the forestry (44.18 percent of the total), nursery/greenhouse (31.67 percent), and rural home loan (12.00 percent) segments. Nonaccrual loans were 0.12 percent and 0.24 percent of total loans outstanding at September 30, 2015 and December 31, 2014, respectively.

Troubled Debt Restructurings

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms, rates, or amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by the Bank. TDRs decreased $1.1 million since December 31, 2014 and totaled $34.3 million at September 30, 2015. TDRs at September 30, 2015 were comprised of $14.4 million of accruing restructured loans and $19.9 million of nonaccrual restructured loans. Restructured loans were primarily in the forestry (26.41 percent of the total), nursery/greenhouse (25.75 percent), and tree fruits and nuts (16.14 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 is generally comprised of real estate, equipment, and equity interests in companies or partnerships. OPO increased $8.3 million since December 31, 2014 and totaled $11.1 million at September 30, 2015. The increase was primarily due to land holdings received in settlement of loans to one borrower in the forestry segment which also comprised the largest OPO holding at September 30, 2015, totaling $9.4 million (84.41 percent of the total). See discussion of OPO expense in the *Noninterest Expenses* section below.

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 $15.3 million at September 30, 2015, as compared with $15.5 million at December 31, 2014. The allowance at September 30, 2015 included specific reserves of $1.7 million (11.09 percent of the total) and general reserves of $13.6 million (88.91 percent). For the nine months ended September 30, 2015, the decrease in the allowance of $248 thousand resulted primarily from the reversal of provision expense of $2.1 million and charge-offs of $1.5 million offset by recoveries of $3.3 million. The general reserves at September 30, 2015 included $1.5 million of allowance provided by the Bank for loans in the Correspondent Lending portfolio purchased after July 31, 2013 which are being held without a Fannie Mae guarantee. See further discussion in the *Correspondent Lending* section above. None of the allowance relates to the Direct Note portfolio as mentioned in the *Direct Notes* section above. The total allowance at September 30, 2015 was comprised primarily of reserves for the processing (15.88 percent of the total), utilities (14.41 percent), tree fruits and nuts (12.26 percent), rural home loan (10.04 percent), forestry (9.85 percent), and nursery/greenhouse (9.28 percent) segments. See Note 2, *Loans and Allowance for Loan Losses,* in the Notes to the Financial Statements for further information. See *Provision for Loan Losses* section below for additional details regarding loan loss provision expense and reversals.

Liquidity and Funding Sources

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

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

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

The System does not have a guaranteed line of credit from the U.S. Treasury or the Federal Reserve. However, the Farm Credit System Insurance Corporation (FCSIC) has an agreement with the Federal Financing Bank (FFB), a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the FFB could advance funds to the FCSIC. Under its existing statutory authority, the FCSIC may use these funds to provide assistance to the System banks in exigent market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to $10 billion and terminates on September 30, 2016, unless otherwise renewed. The decision whether to seek funds from the FFB is at the discretion of the FCSIC. Each funding obligation of the FFB is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by AgFirst or the System.

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

On September 25, 2015, S&P affirmed the Bank's AA-/A-1+ long- and short-term issuer credit ratings, the stand-alone credit profile of a+ and the BBB+ preferred stock rating. S&P revised their outlook on the Bank to negative from stable, which reflects emerging trends that, if continued, could eventually lead to a ratings downgrade. S&P attributed this outlook change to their assessment of the Bank's capital position. The Bank remains capitalized well above FCA minimum requirements (see *Regulatory Capital Ratios* section below) and Bank management anticipates no impact in the Bank's ability to access funding as needed. Bank management has engaged S&P in on-going dialogue to provide information regarding the strength of the Bank's capital position. Ratings and outlook for AgFirst by Fitch Ratings remain unchanged.

At September 30, 2015, AgFirst had $27.430 billion in total debt outstanding compared to $26.847 billion at December 31, 2014. Total interest-bearing liabilities increased slightly primarily due to higher funding needs related to increases in loans as discussed elsewhere in this report.

Cash and cash equivalents, which increased $122.0 million from December 31, 2014 to a total of $969.4 million at September 30, 2015, 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 $7.313 billion, or 24.35 percent of total assets at September 30, 2015, compared to $7.414 billion, or 25.13 percent, as of December 31, 2014. Investment securities decreased $100.6 million (1.36 percent), compared to December 31, 2014. Management maintains the available-for-sale liquidity investment portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines. In March 2015, the Bank sold 204 agency mortgage-backed securities totaling $28.0 million which resulted in gains of $1.1 million. The proceeds were used to purchase one U.S. government guaranteed security. These transactions benefitted the Bank by reducing carrying costs and improving liquidity.

Investment securities classified as being available-for-sale totaled $6.725 billion at September 30, 2015. Available-for-sale investments at September 30, 2015 included $3.715 billion in U.S. government guaranteed securities, $2.193 billion in U.S. government agency guaranteed securities, $682.4 million in non-agency asset-backed securities, and $133.9 million in non-agency collateralized mortgage obligations. Since the majority of the portfolio is invested in U.S. government guaranteed and agency securities, the portfolio is highly liquid and potential credit loss exposure is limited.

As of September 30, 2015, 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 September 30, 2015, AgFirst met each of the individual level criteria above and had a total of 209 days of maturing debt coverage compared to 222 days at December 31, 2014. As previously discussed, this decrease resulted from a change in the level of upcoming maturing debt. Cash provided by the Bank's operating activities, primarily generated from net interest income in excess of operating expenses and maturities in the loan portfolio, is an additional source of liquidity for the Bank that is not reflected in the coverage calculation.

Net unrealized gains related to investment securities were $90.9 million at September 30, 2015, compared to $107.6 million at December 31, 2014. These net unrealized gains are reflected in Accumulated Other Comprehensive Income (AOCI) in the Financial Statements. The net unrealized gains stem from normal market factors such as the current interest rate environment.

The Bank performs periodic credit reviews, including other-than-temporary impairment analyses, on its entire investment securities portfolio. Based on the results of all analyses, the Bank recognized other-than-temporary credit related impairment of $1.4 million and $1.5 million for the nine months ended September 30, 2015 and 2014, respectively, which was included in Net Other-than-temporary Impairment Losses in the Statements of Income.

Investment impairment expense of $1.2 million related to re-performer bonds was recorded in September 2015. Re-performer bonds are backed by seasoned collateral, which had become delinquent loans at some point prior to securitization and had been modified in order to get the borrower current again. Each underlying loan of the bond pool has FHA, VA or RHA insurance but none of these insurances cover 100 percent which exposes the bond pool to some losses. Increased loss severities and probabilities of default have recently been noted in this particular type of legacy fixed rate mortgage bond. The Bank held eight re-performer bonds with a total par value of $64.5 million at September 30, 2015. Previous impairment of $891 thousand had been recorded for these eight re-performers and $47 thousand of actual payment losses had been incurred.

If there is a significant increase in collected or expected cash flows of a previously impaired security, the Bank accretes those additional amounts to interest income, as appropriate, over the remaining life of the security in a prospective manner, based on the difference between the amortized cost basis and the cash flows expected to be collected. The Bank recognized additional interest income of $1.6 million and $618 thousand for the nine months ended September 30, 2015 and 2014, respectively. See Note 3, *Investments*, in the Notes to the Financial Statements for further information.

Capital Resources

Total shareholders' equity increased $228.7 million (10.36 percent) from December 31, 2014 to a total of $2.436 billion at September 30, 2015. This increase is primarily attributed to 2015 unallocated retained earnings from net income of $253.5 million offset by decreases of $16.8 million in unrealized gains on investment securities.

On August 6, 2015, the Bank repurchased, through a privately negotiated transaction, and subsequently cancelled Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with a par value of $10.3 million. The effect of the repurchase on shareholders' equity was to reduce preferred stock outstanding by $10.3 million and increase additional paid-in capital by $3.4 million.

After considering the Bank's favorable earnings to date in 2015, strong capital levels, and projected capital needs, on October 19, 2015, the Bank's Board of Directors declared a special patronage distribution totaling $100.0 million to be paid January 1, 2016. See Note 11, *Subsequent Events*, in the Notes to the Financial Statements.

Regulatory Capital Ratios

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

	Regulatory Minimum	9/30/15	12/31/14	9/30/14
Permanent Capital Ratio	7.00%	21.43%	21.83%	22.72%
Total Surplus Ratio	7.00%	21.36%	21.80%	22.68%
Core Surplus Ratio	3.50%	19.12%	19.38%	20.20%
Net Collateral Ratio	103.00%	107.75%	106.79%	107.90%

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

For all periods presented, AgFirst exceeded minimum regulatory standards for all of the ratios. The Bank's permanent capital, total surplus, and core surplus ratios decreased at September 30, 2015 as compared to December 31, 2014. The decrease in these ratios was due primarily to higher average risk-weighted asset balances which resulted from both higher average balances and a shift in the composition of loans and investments, reflecting higher balances of nonguaranteed loans and non-agency asset-backed securities. See *Correspondent Lending* section above and Note 3, *Investments*, in the Notes to the Financial Statements for further information. In addition, because these three ratios are calculated using a three month average daily balance for both capital and assets, total Bank declared patronage of $315.2 million in 2014, which represented approximately 82.88 percent of 2014 net income and was primarily accrued in the fourth quarter of 2014, was fully reflected in these three ratios at September 30, 2015.

On September 4, 2014, the FCA published a proposed rule to modify the regulatory capital requirements for System banks and associations. See *Regulatory Matters* section below for further discussion on the proposed rule.

RESULTS OF OPERATIONS

Net income for the three months ended September 30, 2015 was $85.6 million compared to $98.3 million for the three months ended September 30, 2014, a decrease of $12.6 million, or12.86 percent. Net income for the nine months ended September 30, 2015 was $253.5 million compared to $281.8 million for the corresponding period in 2014, a decrease of $28.2 million, or 10.03 percent. See below for further discussion of change in net income by major components.

Key Results of Operations Comparisons

	Annualized for the nine months ended September 30, 2015	For the year ended December 31, 2014	Annualized for the nine months ended September 30, 2014
Return on average assets	1.16%	1.34%	1.34%
Return on average shareholders' equity	14.54%	16.49%	16.42%
Net interest margin	1.62%	1.76%	1.77%
Operating expense as a percentage of net interest income and noninterest income	27.05%	24.83%	24.55%
Net (charge-offs) recoveries to average loans	0.01%	0.01%	0.01%

The first three ratios above have declined in 2015 primarily due to a decrease in net interest income. For the operating expense as a percentage of net interest income and noninterest income ratio, operating expense consists primarily of noninterest expense excluding losses (gains) from other property owned. This ratio also was negatively impacted by the decline in net interest income as well as an increase in operating expenses. See *Allowance for Loan Losses*, *Net Interest Income*, *Noninterest Income*, and *Noninterest Expenses* sections for further discussion.

Net Interest Income

Net interest income for the three months ended September 30, 2015 was $114.2 million compared to $122.7 million for the same period of 2014, a decrease of $8.5 million or 6.96 percent. For the nine months ended September 30, 2015, net interest income was $341.8 million compared to $360.5 million for the same period of 2014, a decrease of $18.6 million, or 5.17 percent. The net interest margin, which is net interest income as a percentage of average earning assets, was 1.58 percent and 1.62 percent, a decrease of 0.17 and 0.15 basis points, respectively, for the three and nine month periods of 2015 compared to the prior year. The decline for both periods was primarily the result of lower yields on investments and higher rates paid on interest bearing liabilities. Over time, as interest rates change and as assets prepay or reprice, the positive impact on the net interest margin that the Bank has experienced over the last several years from calling debt will continue to diminish. The positive impact of higher average balances of earning assets partially offset some of the decline in net interest income.

The effects of changes in volume and interest rates on net interest income in the three and nine months ended September 30, 2015, as compared with the same periods of 2014, are presented in the following table. The table distinguishes between the changes in interest income and interest expense related to average outstanding balances and to the levels of average interest rates. Accordingly, the benefit derived from funding earning assets with interest-free funds (principally capital) is reflected solely as a volume increase.

	For the three months ended September 30, 2015 vs. September 30, 2014			For the nine months ended September 30, 2015 vs. September 30, 2014		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
(dollars in thousands)	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Loans	$ 4,706	$ 2,268	$ 6,974	$ 12,344	$ 5,001	$ 17,345
Investments & Cash Equivalents	933	(3,559)	(2,626)	5,191	(14,925)	(9,734)
Total Interest Income	$ 5,639	$ (1,291)	$ 4,348	$ 17,535	$ (9,924)	$ 7,611
Interest Expense:						
Interest-Bearing Liabilities	$ 2,020	$ 10,867	$ 12,887	$ 5,876	$ 20,358	$ 26,234
Changes in Net Interest Income	$ 3,619	$ (12,158)	$ (8,539)	$ 11,659	$ (30,282)	$ (18,623)

Provision for Loan Losses

AgFirst measures risks inherent in its loan portfolio on an ongoing basis and, as necessary, recognizes provision for loan loss expense so that appropriate allowances for loan losses are maintained. Loan loss provision was a net reversal (recovery) of $3.1 million and $2.1 million for the three and nine months ended September 30, 2015, respectively, compared to net reversals of $2.0 million and $3.9 million for the corresponding periods in 2014. For the three months ended September 30, 2015, net reversal of provision expense, which included a reversal of $3.4 million for specific reserves (primarily resulting from a $3.1 million reversal for a borrower in the forestry segment upon acquisition of land as settlement of amounts owed) and expense of $257 thousand for general reserves. For the nine months ended September 30, 2015, net reversal of provision expense, which included a reversal of $4.1 million for specific reserves and expense of $2.0 million for general reserves, primarily related to borrowers in the forestry ($3.2 million reversal), nursery/greenhouse ($908 thousand reversal), processing ($1.4 million expense) and rural home loan ($747 thousand expense) segments. See *Other Property Owned* section above and Note 2, *Loans and Allowance for Loan Losses,* in the Notes to the Financial Statements for further information.

Noninterest Income

The following table illustrates the changes in noninterest income:

Change in Noninterest Income	**For the three months ended September 30,**			**For the nine months ended September 30,**		
(dollars in thousands)	**2015**	**2014**	**Increase/ (Decrease)**	**2015**	**2014**	**Increase/ (Decrease)**
Loan fees	$ 1,852	$ 2,082	$ (230)	$ 5,791	$ 6,492	$ (701)
Building lease income	815	846	(31)	2,607	2,469	138
Net impairment losses on investments	(1,191)	–	(1,191)	(1,404)	(1,452)	48
Gains (losses) on investments, net	–	–	–	1,126	53	1,073
Gains (losses) on called debt	(1,760)	(506)	(1,254)	(7,745)	(5,721)	(2,024)
Gains (losses) on other transactions	(497)	(228)	(269)	(577)	375	(952)
Other noninterest income	775	1,001	(226)	3,271	3,272	(1)
Total noninterest income	$ (6)	$ 3,195	$ (3,201)	$ 3,069	$ 5,488	$ (2,419)

For the three months ended September 30, 2015 compared to the corresponding period in 2014, noninterest income decreased $3.2 million. The decrease was primarily due to higher called debt and investment impairment losses. Noninterest income decreased $2.4 million for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 primarily due to higher losses on called debt and other transactions, primarily losses on retirement plan trust assets, and decreased loan fees, partially offset by higher gains on investments.

Loan fees decreased $230 thousand and $701 thousand for the three and nine month periods, respectively. The decreases were primarily due to decreases of $246 thousand and $863 thousand, respectively, in fee income from the participation loan portfolio resulting from competitive capital market conditions.

Building lease income decreased $31 thousand and increased $138 thousand for the three and nine month periods, respectively. For the nine month period, lease renegotiations in the second quarter of 2014 resulted in higher rent received in 2015 from tenants of the Bank office building.

Net impairment losses on investments were $1.2 million for the three months ended September 30, 2015 compared to none for the same period of 2014. The losses in third quarter 2015 were due to impairment losses recorded on two investment securities resulting from a deterioration in the credit quality of mortgage loans which collateralize these investments. Net impairment losses were $48 thousand lower for the nine months ended September 30, 2015 than the same period in the prior year. See the *Liquidity and Funding Sources* section above and Note 3, *Investments,* in the Notes to the Financial Statements for further information.

For the nine months ended September 30, 2015 compared to the corresponding period in 2014, gains on investments increased $1.1 million. In March 2015, the Bank sold 204 agency mortgage-backed securities totaling $28.0 million which resulted in gains of $1.1 million. The proceeds were used to purchase one U.S. government guaranteed security. These transactions benefitted the Bank by reducing carrying costs and improving liquidity. See discussion of investments in *Liquidity and Funding Sources* section above and in Note 3, *Investments*, in the Notes to the Financial Statements for further information.

Debt issuance expense is amortized over the life of the underlying debt security. When debt securities are called prior to maturity, any unamortized issuance cost is expensed. Losses on called debt increased $1.3 million and $2.0 million for the three and nine month periods ending September 30, 2015, respectively. Call options were exercised on bonds totaling $1.465 billion and $4.869 billion for the three and nine month periods, respectively, compared to $501.0 million and $5.652 billion for the same periods in 2014. 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. The called debt expense is more than offset by interest expense savings realized as called debt is replaced by new debt issued at a lower rate of interest. Over time, the favorable effect on net interest income is diminished as earning assets reprice downward.

For the three month and nine month periods, losses on other transactions increased $269 thousand and $952 thousand, respectively. Declines in the market value of certain retirement plan trust assets resulted in increased losses of $647 thousand and $773 thousand for the three and nine month periods, respectively. For the three and nine month periods, reserve expense for unfunded commitments decreased by $198 thousand and increased by $346 thousand, respectively. The reserve changes resulted from fluctuations in both the balance and composition of unfunded commitments for the 2015 periods compared to the 2014 periods.

Other noninterest income decreased $226 thousand for the three months ended September 30, 2015 compared to the same period in the prior year primarily due to a decrease in patronage received from other Farm Credit institutions.

Noninterest Expenses

The following table illustrates the changes in noninterest expense:

Change in Noninterest Expenses	**For the three months ended September 30,**			**For the nine months ended September 30,**		
(dollars in thousands)	**2015**	**2014**	**Increase/ (Decrease)**	**2015**	**2014**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 13,589	$ 13,026	$ 563	$ 42,311	$ 40,150	$ 2,161
Occupancy and equipment	5,365	5,094	271	15,546	15,510	36
Insurance Fund premiums	2,934	2,392	542	8,699	6,936	1,763
Other operating expenses	9,746	9,637	109	26,751	27,251	(500)
Losses (gains) from other property owned	55	(471)	526	160	(1,787)	1,947
Total noninterest expenses	$ 31,689	$ 29,678	$ 2,011	$ 93,467	$ 88,060	$ 5,407

Noninterest expense for the three and nine months ended September 30, 2015 increased $2.0 million and $5.4 million, respectively, compared to the corresponding periods in 2014. The increase for the three and nine month periods was primarily due to reduced gains from other property owned and increases in salaries and employee benefits and insurance fund premiums.

Salaries and employee benefits increased $563 thousand and $2.2 million for the three and nine month periods, respectively. For the three and nine month periods, the increases resulted primarily from $290 thousand and $1.2 million, respectively, in salaries and bonuses due mainly to normal salary administration and increases of $252 thousand and $795 thousand, respectively, in pension and other postretirement benefits expenses. The higher pension and other postretirement expenses in 2015 resulted primarily from a decrease in the discount rate in 2015 used to calculate net periodic pension and other postretirement benefit costs as well as from the adoption of updated mortality tables reflecting increases in life expectancy.

Occupancy and equipment expense increased $271 thousand and $36 thousand for the three and nine month periods in 2015 compared to the same periods in 2014, respectively. The increase resulted primarily from higher hardware and software costs incurred in the third quarter of 2015.

Insurance Fund premiums increased $542 thousand and $1.8 million for the three and nine month periods ended September 30, 2015, respectively, compared to the same periods in 2014. This increase resulted primarily from an increase in the base annual premium rate and a change in the composition of the Bank's investment portfolio. The base annual premium rate was increased to 13 basis points in 2015 from 12 basis points in 2014. The FCSIC Board makes premium rate adjustments, as necessary, to maintain the secure base amount which is based upon insured debt outstanding at System banks. The Bank's investment portfolio in 2015 has reflected a reduction in federally guaranteed investments and an increase in GSE guaranteed and other investments compared to 2014, resulting in less of the investment portfolio balance excluded from the insurance premium calculation.

Other operating expenses increased $109 thousand and decreased $500 thousand for the three and nine month periods, respectively. For both the three and nine month periods, the change was primarily due to consulting and service provider fees required for system enhancements which resulted in an increase of $105 thousand and a decrease of $469 thousand, respectively.

Gains on other property owned decreased $526 thousand and $1.9 million for the three and nine month periods, respectively. The decreases for both the three and nine month periods were primarily due to lower gains recorded in the 2015 periods of $492 thousand and $2.5 million, respectively. The nine months ended September 30, 2014 included a $2.4 million gain on sale of an ethanol property recognized in June 2014 that had previously been deferred.

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 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 Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).
- To modernize the investment eligibility criteria for System banks.
- To revise the investment regulation for System associations to improve their investment management practices so they are more resilient to risk.

On September 4, 2014, the FCA published a proposed rule in the Federal Register to modify the regulatory capital requirements for System banks and associations. The initial public comment period ended on February 16, 2015. On June 15, 2015, the Farm Credit Administration reopened the comment period from June 26 to July 10, 2015. The stated objectives of the proposed rule are as follows:

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

FINANCIAL REGULATORY REFORM

See discussion of the Dodd-Frank Act in the *Financial Regulatory Reform* section of the 2014 Annual Report of AgFirst Farm Credit Bank.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2014 Annual Report of AgFirst Farm Credit Bank for recently issued accounting pronouncements.

NOTE: Shareholder investment in a District Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, Reporting Manager, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Combined information concerning AgFirst Farm Credit Bank and District Associations can also be obtained at the Bank's website, *www.agfirst.com*. AgFirst prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no quarterly report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Balance Sheets

(dollars in thousands)	September 30, 2015	December 31, 2014
	(unaudited)	*(audited)*
Assets		
Cash	**$ 750,669**	$ 622,503
Cash equivalents	**218,718**	224,847
Investment securities:		
Available for sale (amortized cost of $6,633,849 and $6,646,772, respectively)	**6,724,726**	6,754,419
Held to maturity (fair value of $610,154 and $686,970, respectively)	**588,623**	659,520
Total investment securities	**7,313,349**	7,413,939
Loans	**21,456,073**	20,893,619
Allowance for loan losses	**(15,287)**	(15,535)
Net loans	**21,440,786**	20,878,084
Accrued interest receivable	**65,835**	63,945
Accounts receivable	**54,373**	98,864
Investments in other Farm Credit System institutions	**69,906**	69,949
Premises and equipment, net	**63,178**	66,568
Other property owned	**11,118**	2,808
Other assets	**49,113**	61,715
Total assets	**$ 30,037,045**	$ 29,503,222
Liabilities		
Systemwide bonds payable	**$ 22,481,486**	$ 22,814,656
Systemwide notes payable	**4,948,845**	4,032,590
Accrued interest payable	**56,156**	47,375
Accounts payable	**64,309**	345,342
Other liabilities	**50,127**	55,852
Total liabilities	**27,600,923**	27,295,815
Commitments and contingencies (Note 8)		
Shareholders' Equity		
Perpetual preferred stock	**115,000**	125,250
Capital stock and participation certificates	**303,428**	303,180
Additional paid-in-capital	**39,988**	36,580
Retained earnings		
Allocated	**656**	692
Unallocated	**1,891,902**	1,639,757
Accumulated other comprehensive income (loss)	**85,148**	101,948
Total shareholders' equity	**2,436,122**	2,207,407
Total liabilities and equity	**$ 30,037,045**	$ 29,503,222

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

Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2015	2014	For the nine months ended September 30, 2015	2014
Interest Income				
Investment securities and other	**$ 27,921**	$ 30,547	**$ 86,237**	$ 95,971
Loans	**150,143**	143,169	**437,206**	419,861
Total interest income	**178,064**	173,716	**523,443**	515,832
Interest Expense	**63,856**	50,969	**181,616**	155,382
Net interest income	**114,208**	122,747	**341,827**	360,450
Provision for (reversal of allowance for) loan losses	**(3,130)**	(2,017)	**(2,085)**	(3,884)
Net interest income after provision for loan losses	**117,338**	124,764	**343,912**	364,334
Noninterest Income				
Loan fees	**1,852**	2,082	**5,791**	6,492
Building lease income	**815**	846	**2,607**	2,469
Total other-than-temporary impairment losses	**—**	—	**—**	(74)
Portion of loss recognized in other comprehensive income	**(1,191)**	—	**(1,404)**	(1,378)
Net other-than-temporary impairment losses	**(1,191)**	—	**(1,404)**	(1,452)
Gains (losses) on investments, net	**—**	—	**1,126**	53
Gains (losses) on called debt	**(1,760)**	(506)	**(7,745)**	(5,721)
Gains (losses) on other transactions	**(497)**	(228)	**(577)**	375
Other noninterest income	**775**	1,001	**3,271**	3,272
Total noninterest income	**(6)**	3,195	**3,069**	5,488
Noninterest Expenses				
Salaries and employee benefits	**13,589**	13,026	**42,311**	40,150
Occupancy and equipment	**5,365**	5,094	**15,546**	15,510
Insurance Fund premiums	**2,934**	2,392	**8,699**	6,936
Other operating expenses	**9,746**	9,637	**26,751**	27,251
Losses (gains) from other property owned	**55**	(471)	**160**	(1,787)
Total noninterest expenses	**31,689**	29,678	**93,467**	88,060
Net income	**$ 85,643**	$ 98,281	**$ 253,514**	$ 281,762

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

Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2015	For the three months ended September 30, 2014	For the nine months ended September 30, 2015	For the nine months ended September 30, 2014
Net income	**$ 85,643**	$ 98,281	**$ 253,514**	$ 281,762
Other comprehensive income:				
Unrealized gains (losses) on investments:				
Other-than-temporarily impaired	**1,242**	5,087	**2,728**	14,318
Not other-than-temporarily impaired	**(4,348)**	(3,596)	**(19,499)**	(4,015)
Change in value of cash flow hedges	**(62)**	(214)	**(330)**	(668)
Employee benefit plans adjustments	**101**	67	**301**	201
Other comprehensive income (Note 5)	**(3,067)**	1,344	**(16,800)**	9,836
Comprehensive income	**$ 82,576**	$ 99,625	**$ 236,714**	$ 291,598

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, 2013	$ 125,250	$ 308,972	$ 36,580	$ 726	$ 1,577,676	$ 97,543	$ 2,146,747
Comprehensive income					281,762	9,836	291,598
Capital stock/participation certificates issued/(retired), net		(5,996)					(5,996)
Dividends paid on perpetual preferred stock					(1,297)		(1,297)
Retained earnings retired				(34)			(34)
Patronage distribution adjustment		(5)			2		(3)
Balance at September 30, 2014	$ 125,250	$ 302,971	$ 36,580	$ 692	$ 1,858,143	$ 107,379	$ 2,431,015
Balance at December 31, 2014	**$ 125,250**	**$ 303,180**	**$ 36,580**	**$ 692**	**$ 1,639,757**	**$ 101,948**	**$ 2,207,407**
Comprehensive income					**253,514**	**(16,800)**	**236,714**
Capital stock/participation certificates issued/(retired), net		**248**					**248**
Redemption of perpetual preferred stock (Note 5)	**(10,250)**		**3,408**				**(6,842)**
Dividends paid on perpetual preferred stock					**(1,316)**		**(1,316)**
Retained earnings retired				**(36)**			**(36)**
Patronage distribution adjustment					**(53)**		**(53)**
Balance at September 30, 2015	**$ 115,000**	**$ 303,428**	**$ 39,988**	**$ 656**	**$ 1,891,902**	**$ 85,148**	**$ 2,436,122**

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the nine months ended September 30, 2015	2014
Cash flows from operating activities:		
Net income	**$ 253,514**	$ 281,762
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	**6,084**	5,876
Premium amortization (discount accretion) on investment securities	**6,207**	7,145
(Premium amortization) discount accretion on bonds and notes	**5,796**	4,881
Provision for (reversal of allowance for) loan losses	**(2,085)**	(3,884)
(Gains) losses on other property owned, net	**169**	(2,333)
Net impairment losses on investments	**1,404**	1,452
(Gains) losses on investments, net	**(1,126)**	(53)
(Gains) losses on other transactions	**577**	(375)
Net change in loans held for sale	**8,136**	7,132
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	**(1,890)**	(1,163)
(Increase) decrease in accounts receivable	**44,491**	(607)
(Increase) decrease in other assets	**4,636**	7,564
Increase (decrease) in accrued interest payable	**8,781**	(7,393)
Increase (decrease) in accounts payable	**34,151**	18,637
Increase (decrease) in other liabilities	**(5,975)**	(4,003)
Total adjustments	**109,356**	32,876
Net cash provided by (used in) operating activities	**362,870**	314,638
Cash flows from investing activities:		
Investment securities purchased	**(1,307,695)**	(1,263,679)
Investment securities sold or matured	**1,384,699**	1,058,238
Net (increase) decrease in loans	**(579,582)**	(436,189)
(Increase) decrease in investments in other Farm Credit System institutions	**43**	106
Purchase of premises and equipment, net	**(2,694)**	(19,271)
Proceeds from sale of other property owned	**2,326**	8,996
Net cash provided by (used in) investing activities	**(502,903)**	(651,799)
Cash flows from financing activities:		
Bonds and notes issued	**17,953,591**	17,334,234
Bonds and notes retired	**(17,368,338)**	(17,089,398)
Capital stock and participation certificates issued/retired, net	**248**	(5,996)
Cash distribution to shareholders	**(315,237)**	(343,596)
Redemption of perpetual preferred stock	**(6,842)**	—
Dividends paid on perpetual preferred stock	**(1,316)**	(1,297)
Retained earnings retired	**(36)**	(34)
Net cash provided by (used in) financing activities	**262,070**	(106,087)
Net increase (decrease) in cash and cash equivalents	**122,037**	(443,248)
Cash and cash equivalents, beginning of period	**847,350**	1,183,755
Cash and cash equivalents, end of period	**$ 969,387**	$ 740,507
Supplemental schedule of non-cash investing and financing activities:		
Receipt of property in settlement of loans	**$ 10,805**	$ 1,254
Change in unrealized gains (losses) on investments, net	**(16,771)**	10,303
Employee benefit plans adjustments	**(301)**	(201)
Non-cash changes related to interest rate hedging activities:		
Increase (decrease) in bonds and notes	**$ (7,966)**	$ (8,506)
Decrease (increase) in other assets	**7,966**	8,506
Supplemental information:		
Interest paid	**$ 167,039**	$ 157,894

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, 2014 are contained in the 2014 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:

- 2015-16 Business Combinations – In September, 2015, the FASB issued ASU 2015-16 Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. The amendments in this Update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this Update with earlier application permitted for financial statements that have not been issued. Application of this guidance is not expected to have an impact on the Bank's financial condition or results of operations.

- 2015-15 Interest – In August, 2015, the FASB issued ASU 2015-15 Interest—Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. The update adds Securities and Exchange Commission (SEC) paragraphs pursuant to the SEC Staff Announcement at the June 18, 2015 Emerging Issues Task Force (EITF) meeting about the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements.

- 2015-10 Technical Corrections and Improvements – In June, 2015, the FASB issued ASU 2015-10, Technical Corrections and Improvements (numerous Topics). The amendments in the Update represent changes to make minor corrections or minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments that require transition guidance are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. All other amendments were effective upon the issuance of the Update.

- 2015-07 Fair Value Measurement – In May, 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). Topic 820 permits a reporting entity, as a practical expedient, to measure the fair value of certain investments using the net asset value per share of the investment. Currently, investments valued using the practical expedient are categorized within the fair value hierarchy on the basis of whether the investment is redeemable with the investee at net asset value on the measurement date, never redeemable with the investee at net asset value, or redeemable with the investee at net asset value at a future date. To address diversity in practice related to how certain investments measured at net asset value with future redemption dates are categorized, the amendments in this Update remove the requirement to categorize investments for which fair values are measured using the net asset value per share practical expedient. It also limits disclosures to investments for which the entity has elected to measure the fair value using the practical expedient. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Earlier application is permitted. The guidance is to be applied retrospectively to all periods presented. Application of this guidance is not expected to have an impact on the Bank's financial condition or results of operations, but will require modifications to footnote disclosures.

- 2015-03 Imputation of Interest – In April, 2015, the FASB issued ASU 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. To simplify presentation of debt issuance costs, the amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Prior to the Update, debt issuance costs were required to be presented in the balance sheet as a deferred charge (asset). The recognition and measurement guidance for debt issuance costs are not affected by the amendments. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Based on the balance at September 30, 2015, this guidance would result in a reclassification of approximately $20.0 million from Other Assets to Systemwide Bonds Payable.

- Accounting Standards Update 2015-02 Consolidation (Topic 810): Amendments to the Consolidation Analysis. The amendments in this Update affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments: 1. Modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities, 2. Eliminate the presumption that a general partner should consolidate a limited partnership, 3. Affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships, 4. Provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The amendments in this Update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. Application of this guidance is not expected to have an 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 to Shareholders.

Potential effects of ASUs issued in previous periods:

- ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date – In August, 2015, the FASB issued an update that defers by one year the effective date of ASU 2014-09, Revenue from Contracts with Customers. The new ASU reflects decisions reached by the FASB at its meeting on July 9, 2015.

ASUs 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 ASUs below.

Impact of ASUs which became effective during the period:

- 2014-14 Classification of Certain Government-Guaranteed Mortgage Loans – The Bank did not have a significant amount of loans that met the criteria of the guidance.

- 2014-11 Repurchase-to-Maturity Transactions – The criteria of the standard were not significantly different from the Bank's policy in place at adoption.

- 2014-08 Discontinued Operations – The Bank has not had and does not anticipate any significant disposals.

- 2014-04 Reclassification of Consumer Mortgage Loans – The criteria of the standard were not significantly different from the Bank's policy in place at adoption. The amendment was adopted prospectively. See Note 2, *Loans and Allowance for Loan Losses*, for the additional disclosures required by this guidance.

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)	September 30, 2015	December 31, 2014
Direct notes	$ 14,651,521	$ 14,280,193
Real estate mortgage	1,022,988	1,024,693
Production and intermediate-term	1,044,490	1,193,281
Loans to cooperatives	239,487	223,074
Processing and marketing	975,767	846,318
Farm-related business	202,449	177,453
Communication	222,204	184,405
Energy and water/waste disposal	433,960	433,738
Rural residential real estate	2,539,404	2,424,554
International	2,715	–
Loans to other financing institutions (OFIs)	111,120	95,512
Other (including Mission Related)	9,968	10,398
Total Loans	$ 21,456,073	$ 20,893,619

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 Farm Credit Administration (FCA) regulations. The following tables present the principal balance of participation loans at periods ended:

	September 30, 2015							
	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	$ –	$ –	$ –	$ 444,332	$ –	$ –	$ –	$ 444,332
Real estate mortgage	772,846	40,544	238,878	34,284	–	–	1,011,724	74,828
Production and intermediate-term	764,667	210,232	480,678	118,492	134,187	–	1,379,532	328,724
Loans to cooperatives	10,390	9,171	232,794	–	6,000	–	249,184	9,171
Processing and marketing	92,634	386,144	683,070	180,641	780,170	11,700	1,555,874	578,485
Farm-related business	35,101	52,665	83,009	–	137,440	–	255,550	52,665
Communication	–	75,052	297,936	–	–	–	297,936	75,052
Energy and water/waste disposal	–	12,200	441,580	–	6,234	–	447,814	12,200
Rural residential real estate	183	–	–	–	–	–	183	–
International	–	1,078	3,795	–	–	–	3,795	1,078
Other (including Mission Related)	10,112	–	–	–	–	–	10,112	–
Total	$ 1,685,933	$ 787,086	$ 2,461,740	$ 777,749	$1,064,031	$ 11,700	$ 5,211,704	$ 1,576,535

	December 31, 2014							
	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	$ –	$ –	$ –	$ 210,159	$ –	$ –	$ –	$ 210,159
Real estate mortgage	747,721	35,858	242,481	17,238	14,141	–	1,004,343	53,096
Production and intermediate-term	1,004,778	212,776	468,083	200,639	143,883	7,500	1,616,744	420,915
Loans to cooperatives	15,847	2,231	204,054	–	6,000	–	225,901	2,231
Processing and marketing	99,595	352,606	536,859	166,120	739,839	5,000	1,376,293	523,726
Farm-related business	37,134	37,677	96,366	–	82,193	–	215,693	37,677
Communication	–	67,861	252,729	–	–	–	252,729	67,861
Energy and water/waste disposal	–	14,622	443,627	–	6,525	–	450,152	14,622
Rural residential real estate	191	–	–	–	–	–	191	–
Other (including Mission Related)	10,545	–	–	–	–	–	10,545	–
Total	$ 1,915,811	$ 723,631	$ 2,244,199	$ 594,156	$ 992,581	$ 12,500	$ 5,152,591	$ 1,330,287

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

	September 30, 2015			
(dollars in thousands)	Due less than 1 year	Due 1 through 5 years	Due after 5 years	Total
Direct notes	$ 644,594	$ 2,997,758	$ 11,009,169	$ 14,651,521
Real estate mortgage	63,114	250,541	709,333	1,022,988
Production and intermediate-term	189,056	631,272	224,162	1,044,490
Loans to cooperatives	80,274	95,052	64,161	239,487
Processing and marketing	58,281	449,548	467,938	975,767
Farm-related business	22,991	146,695	32,763	202,449
Communication	–	167,079	55,125	222,204
Energy and water/waste disposal	850	139,771	293,339	433,960
Rural residential real estate	20,957	7,529	2,510,918	2,539,404
International	–	2,715	–	2,715
Loans to OFIs	101,120	10,000	–	111,120
Other (including Mission Related)	41	66	9,861	9,968
Total Loans	$ 1,181,278	$ 4,898,026	$ 15,376,769	$ 21,456,073
Percentage	5.50%	22.83%	71.67%	100.00%

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

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

	September 30, 2015	December 31, 2014
Direct notes:		
Acceptable	99.25%	94.71%
OAEM	0.75	5.29
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Real estate mortgage:		
Acceptable	92.71%	88.72%
OAEM	4.50	5.61
Substandard/doubtful/loss	2.79	5.67
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	90.78%	92.93%
OAEM	2.73	4.88
Substandard/doubtful/loss	6.49	2.19
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	99.68%	99.41%
OAEM	–	0.59
Substandard/doubtful/loss	0.32	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	97.98%	99.24%
OAEM	–	–
Substandard/doubtful/loss	2.02	0.76
	100.00%	100.00%
Farm-related business:		
Acceptable	98.69%	98.72%
OAEM	–	1.28
Substandard/doubtful/loss	1.31	–
	100.00%	100.00%

	September 30, 2015	December 31, 2014
Communication:		
Acceptable	97.10%	96.93%
OAEM	2.90	3.07
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Energy and water/waste disposal:		
Acceptable	88.44%	90.96%
OAEM	11.56	9.04
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	99.92%	99.92%
OAEM	–	–
Substandard/doubtful/loss	0.08	0.08
	100.00%	100.00%
International:		
Acceptable	100.00%	–%
OAEM	–	–
Substandard/doubtful/loss	–	–
	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	98.30%	95.16%
OAEM	1.13	4.40
Substandard/doubtful/loss	0.57	0.44
	100.00%	100.00%

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

	September 30, 2015					
(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	$ –	$ –	$ –	$ 14,681,467	$ 14,681,467	$ –
Real estate mortgage	1,322	5,032	6,354	1,024,273	1,030,627	416
Production and intermediate-term	164	7,471	7,635	1,041,977	1,049,612	–
Loans to cooperatives	–	–	–	240,188	240,188	–
Processing and marketing	–	–	–	977,724	977,724	–
Farm-related business	–	–	–	203,001	203,001	–
Communication	–	–	–	222,522	222,522	–
Energy and water/waste disposal	–	–	–	435,769	435,769	–
Rural residential real estate	4,083	2,790	6,873	2,541,331	2,548,204	1,290
International	–	–	–	2,716	2,716	–
Loans to OFIs	–	–	–	111,278	111,278	–
Other (including Mission Related)	–	–	–	10,122	10,122	–
Total	$ 5,569	$ 15,293	$ 20,862	$ 21,492,368	$ 21,513,230	$ 1,706

	December 31, 2014					
(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	$ –	$ –	$ –	$ 14,308,680	$ 14,308,680	$ –
Real estate mortgage	2,783	18,041	20,824	1,010,656	1,031,480	306
Production and intermediate-term	3,350	2,647	5,997	1,192,281	1,198,278	–
Loans to cooperatives	–	–	–	223,476	223,476	–
Processing and marketing	–	1,229	1,229	846,933	848,162	–
Farm-related business	–	–	–	177,912	177,912	–
Communication	–	–	–	184,566	184,566	–
Energy and water/waste disposal	–	–	–	435,673	435,673	–
Rural residential real estate	34,973	4,155	39,128	2,393,986	2,433,114	2,382
Loans to OFIs	–	–	–	95,646	95,646	–
Other (including Mission Related)	–	–	–	10,516	10,516	–
Total	$ 41,106	$ 26,072	$ 67,178	$ 20,880,325	$ 20,947,503	$ 2,688

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

(dollars in thousands)	September 30, 2015	December 31, 2014
Nonaccrual loans:		
Real estate mortgage	$ 12,294	$ 40,257
Production and intermediate-term	8,545	6,123
Farm-related business	2,660	–
Rural residential real estate	2,789	2,786
Total	$ 26,288	$ 49,166
Accruing restructured loans:		
Real estate mortgage	$ 3,474	$ 3,594
Production and intermediate-term	5,537	6,522
Rural residential real estate	963	975
Other (including Mission Related)	4,474	4,497
Total	$ 14,448	$ 15,588
Accruing loans 90 days or more past due:		
Real estate mortgage	$ 416	$ 306
Rural residential real estate	1,290	2,382
Total	$ 1,706	$ 2,688
Total nonperforming loans	$ 42,442	$ 67,442
Other property owned	11,118	2,808
Total nonperforming assets	$ 53,560	$ 70,250
Nonaccrual loans as a percentage of total loans	0.12%	0.24%
Nonperforming assets as a percentage of total loans and other property owned	0.25%	0.34%
Nonperforming assets as a percentage of capital	2.20%	3.18%

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

(dollars in thousands)	September 30, 2015	December 31, 2014
Impaired nonaccrual loans:		
Current as to principal and interest	$ 12,513	$ 21,376
Past due	13,775	27,790
Total	26,288	49,166
Impaired accrual loans:		
Restructured	14,448	15,588
90 days or more past due	1,706	2,688
Total	16,154	18,276
Total impaired loans	$ 42,442	$ 67,442
Additional commitments to lend	$ 3,835	$ 3,359

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

(dollars in thousands)	September 30, 2015			Quarter Ended September 30, 2015		Nine Months Ended September 30, 2015	
Impaired Loans	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:							
Real estate mortgage	$ 3,418	$ 3,776	$ 401	$ 3,487	$ (41)	$ 8,014	$ (41)
Production and intermediate-term	6,837	16,683	1,116	6,974	(2)	8,708	(2)
Processing and marketing	–	–	–	–	–	–	–
Farm-related business	–	–	–	–	–	1,110	–
Rural residential real estate	205	205	26	–	–	188	–
Other (including Mission Related)	4,421	4,361	153	4,361	137	4,292	206
Total	$ 14,881	$ 25,025	$ 1,696	$ 14,822	$ 94	$ 22,312	$ 163
With no related allowance for credit losses:							
Real estate mortgage	$ 12,766	$ 16,043	$ –	$ 13,177	$ 1,604	$ 17,002	$ 1,769
Production and intermediate-term	7,245	8,909	–	7,639	184	8,330	277
Processing and marketing	–	1,228	–	–	–	–	–
Farm-related business	2,660	3,334	–	3,328	–	1,109	–
Rural residential real estate	4,837	4,815	–	3,344	73	3,513	118
Other (including Mission Related)	53	–	–	–	–	180	1
Total	$ 27,561	$ 34,329	$ –	$ 27,488	$ 1,861	$ 30,134	$ 2,165
Total:							
Real estate mortgage	$ 16,184	$ 19,819	$ 401	$ 16,664	$ 1,563	$ 25,016	$ 1,728
Production and intermediate-term	14,082	25,592	1,116	14,613	182	17,038	275
Processing and marketing	–	1,228	–	–	–	–	–
Farm-related business	2,660	3,334	–	3,328	–	2,219	–
Rural residential real estate	5,042	5,020	26	3,344	73	3,701	118
Other (including Mission Related)	4,474	4,361	153	4,361	137	4,472	207
Total	$ 42,442	$ 59,354	$ 1,696	$ 42,310	$ 1,955	$ 52,446	$ 2,328

(dollars in thousands)	December 31, 2014			Year Ended December 31, 2014	
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	$ 13,911	$ 22,264	$ 2,605	$ 14,714	$ 52
Production and intermediate-term	4,921	6,441	1,165	6,546	2
Processing and marketing	–	–	–	–	–
Rural residential real estate	89	89	15	123	–
Other (including Mission Related)	4,438	4,451	153	4,074	279
Total	$ 23,359	$ 33,245	$ 3,938	$ 25,457	$ 333
With no related allowance for credit losses:					
Real estate mortgage	$ 30,246	$ 50,087	$ –	$ 30,368	$ 205
Production and intermediate-term	7,724	8,343	–	3,765	698
Processing and marketing	–	1,229	–	7	–
Rural residential real estate	6,054	6,003	–	6,341	209
Other (including Mission Related)	59	–	–	503	–
Total	$ 44,083	$ 65,662	$ –	$ 40,984	$ 1,112
Total:					
Real estate mortgage	$ 44,157	$ 72,351	$ 2,605	$ 45,082	$ 257
Production and intermediate-term	12,645	14,784	1,165	10,311	700
Processing and marketing	–	1,229	–	7	–
Rural residential real estate	6,143	6,092	15	6,464	209
Other (including Mission Related)	4,497	4,451	153	4,577	279
Total	$ 67,442	$ 98,907	$ 3,938	$ 66,441	$ 1,445

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	Energy and Water/Waste Disposal	Rural Residential Real Estate	Other**	Total
Activity related to the allowance for credit losses:									
Balance at June 30, 2015	$ –	$ 3,330	$ 4,900	$ 4,295	$ 612	$ 1,417	$ 1,311	$ 202	$ 16,067
Charge-offs	–	–	(285)	(668)	–	–	(26)	–	(979)
Recoveries	–	3,329	–	–	–	–	–	–	3,329
Provision for loan losses	–	(3,754)	470	(251)	139	10	250	6	(3,130)
Loan type reclassification	–	–	–	–	–	–	–	–	–
Balance at September 30, 2015	$ –	$ 2,905	$ 5,085	$ 3,376	$ 751	$ 1,427	$ 1,535	$ 208	$ 15,287
Balance at December 31, 2014	$ –	$ 5,109	$ 4,526	$ 2,779	$ 579	$ 1,332	$ 918	$ 292	$ 15,535
Charge-offs	–	(254)	(452)	(668)	–	–	(131)	–	(1,505)
Recoveries	–	3,342	–	–	–	–	–	–	3,342
Provision for loan losses	–	(3,539)	(73)	596	172	95	748	(84)	(2,085)
Loan type reclassification	–	(1,753)	1,084	669	–	–	–	–	–
Balance at September 30, 2015	$ –	2,905	5,085	3,376	751	1,427	1,535	208	15,287
Balance at June 30, 2014	$ –	$ 8,783	$ 6,621	$ 2,230	$ 625	$ 744	$ 2,921	$ 175	$ 22,099
Charge-offs	–	(46)	–	–	–	–	(60)	–	(106)
Recoveries	–	202	3	–	–	–	–	–	205
Provision for loan losses	–	(2,257)	(870)	19	5	55	1,031	–	(2,017)
Balance at September 30, 2014	$ –	$ 6,682	$ 5,754	$ 2,249	$ 630	$ 799	$ 3,892	$ 175	$ 20,181
Balance at December 31, 2013	$ –	$ 9,681	$ 8,763	$ 1,933	$ 497	$ 823	$ 1,052	$ 159	$ 22,908
Charge-offs	–	(46)	–	–	–	–	(164)	–	(210)
Recoveries	–	223	906	–	–	–	–	238	1,367
Provision for loan losses	–	(3,176)	(3,915)	316	133	(24)	3,004	(222)	(3,884)
Balance at September 30, 2014	$ –	$ 6,682	$ 5,754	$ 2,249	$ 630	$ 799	$ 3,892	$ 175	$ 20,181
Allowance on loans evaluated for impairment:									
Individually	$ –	$ 401	$ 1,116	$ –	$ –	$ –	$ 26	$ 153	$ 1,696
Collectively	–	2,504	3,969	3,376	751	1,427	1,509	55	13,591
Balance at September 30, 2015	$ –	$ 2,905	$ 5,085	$ 3,376	$ 751	$ 1,427	$ 1,535	$ 208	$ 15,287
Individually	$ –	$ 2,605	$ 1,165	$ –	$ –	$ –	$ 15	$ 153	$ 3,938
Collectively	–	2,504	3,361	2,779	579	1,332	903	139	11,597
Balance at December 31, 2014	$ –	$ 5,109	$ 4,526	$ 2,779	$ 579	$ 1,332	$ 918	$ 292	$ 15,535
Recorded investment in loans evaluated for impairment:									
Individually	$ 14,681,467	$ 103,489	$ 14,070	$ 2,660	$ –	$ –	$ 1,820,591	$ 4,421	$ 16,626,698
Collectively	–	927,138	1,035,542	1,418,253	222,522	435,769	727,613	119,695	4,886,532
Balance at September 30, 2015	$ 14,681,467	$ 1,030,627	$ 1,049,612	$ 1,420,913	$ 222,522	$ 435,769	$ 2,548,204	$ 124,116	$ 21,513,230
Individually	$ 14,308,680	$ 120,357	$ 12,625	$ –	$ –	$ –	$ 1,976,124	$ 4,438	$ 16,422,224
Collectively	–	911,123	1,185,653	1,249,550	184,566	435,673	456,990	101,724	4,525,279
Balance at December 31, 2014	$ 14,308,680	$ 1,031,480	$ 1,198,278	$ 1,249,550	$ 184,566	$ 435,673	$ 2,433,114	$ 106,162	$ 20,947,503

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

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

(dollars in thousands)	Three months ended September 30, 2015				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Rural residential real estate	$ –	$ 89	$ –	$ 89	
Total	$ –	$ 89	$ –	$ 89	
Post-modification:					
Rural residential real estate	$ –	$ 104	$ –	$ 104	$ –
Total	$ –	$ 104	$ –	$ 104	$ –

(dollars in thousands)	Nine months ended September 30, 2015				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Production and intermediate-term	$ –	$ 3,339	$ –	$ 3,339	
Rural residential real estate	–	507	–	507	
Total	$ –	$ 3,846	$ –	$ 3,846	
Post-modification:					
Production and intermediate-term	$ –	$ 3,339	$ –	$ 3,339	$ –
Rural residential real estate	–	527	–	527	–
Total	$ –	$ 3,866	$ –	$ 3,866	$ –

(dollars in thousands)	Three months ended September 30, 2014				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Production and intermediate-term	$ –	$ 6,112	$ –	$ 6,112	
Total	$ –	$ 6,112	$ –	$ 6,112	
Post-modification:					
Production and intermediate-term	$ –	$ 6,112	$ –	$ 6,112	$ –
Total	$ –	$ 6,112	$ –	$ 6,112	$ –

(dollars in thousands)	Nine months ended September 30, 2014				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 293	$ –	$ 293	
Production and intermediate-term	–	6,652	–	6,652	
Total	$ –	$ 6,945	$ –	$ 6,945	
Post-modification:					
Real estate mortgage	$ –	$ 293	$ –	$ 293	$ –
Production and intermediate-term	–	6,652	–	6,652	–
Total	$ –	$ 6,945	$ –	$ 6,945	$ –

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	**2014**	**2015**	**2014**
Defaulted troubled debt restructurings:				
Real estate mortgage	$ –	$ 253	$ –	$ 253
Rural residential real estate	419	–	419	–
Total	$ 419	$ 253	$ 419	$ 253

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

	Total TDRs		Nonaccrual TDRs	
(dollars in thousands)	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Real estate mortgage	$ 11,594	$ 21,096	$ 8,120	$ 17,502
Production and intermediate-term	13,417	8,039	7,880	1,517
Farm-related business	2,660	–	2,660	–
Rural residential real estate	2,155	1,726	1,192	751
Other (including Mission Related)	4,474	4,497	–	–
Total Loans	$ 34,300	$ 35,358	$ 19,852	$ 19,770
Additional commitments to lend	$ 3,263	$ 2,893		

The following table presents foreclosure information as of period end:

(dollars in thousands)	September 30, 2015
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	$ 740
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ 235

Note 3 — Investments

Investment Securities

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

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

The FCA considers a non-agency security ineligible if it falls below AAA/Aaa credit rating criteria and requires Farm Credit System (System) institutions to provide notification to the FCA when a security becomes ineligible. Non-agency CMO and ABS securities not rated in the top category by at least one of the NRSROs at September 30, 2015 had a fair value of $132.8 million and $32.8 million, respectively.

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

In its Conditions of Approval for the program, the FCA considers an RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9. The FCA requires System institutions to provide notification when a security becomes ineligible. At September 30, 2015, the Bank held three RABs whose credit quality had deteriorated beyond the program limits.

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

During the first nine months of 2015, proceeds from sales of investments were $29.1 million and realized gains were $1.1 million. During the first nine months of 2014, proceeds from sales of investments were $2.7 million and realized gains were $53 thousand.

Available-for-sale

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

	September 30, 2015				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Guaranteed	$ 3,649,749	$ 68,505	$ (2,932)	$ 3,715,322	1.68%
U.S. Govt. Agency Guaranteed	2,179,177	19,891	(5,920)	2,193,148	0.86
Non-Agency CMOs (a)	148,481	8	(14,625)	133,864	0.69
Non-Agency ABSs	656,442	26,567	(617)	682,392	1.20
Total	$ 6,633,849	$ 114,971	$ (24,094)	$ 6,724,726	1.34%

	December 31, 2014				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Guaranteed	$ 3,774,428	$ 91,316	$ (6,538)	$ 3,859,206	1.85%
U.S. Govt. Agency Guaranteed	2,400,460	21,608	(6,537)	2,415,531	0.84
Non-Agency CMOs (b)	171,290	23	(18,302)	153,011	0.64
Non-Agency ABSs	300,594	26,523	(446)	326,671	0.87
Total	$ 6,646,772	$ 139,470	$ (31,823)	$ 6,754,419	1.41%

(a) Gross unrealized losses included non-credit related other-than-temporary impairment included in Accumulated Other Comprehensive Income (AOCI) of $9.9 million for Non-Agency CMOs.

(b) Gross unrealized losses included non-credit related other-than temporary impairment included in AOCI of $13.1 million for Non-Agency CMOs.

Held-to-maturity

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

	September 30, 2015				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	$ 481,762	$ 17,557	$ (3,291)	$ 496,028	3.53%
RABs and Other	106,861	7,814	(549)	114,126	6.06
Total	$ 588,623	$ 25,371	$ (3,840)	$ 610,154	3.99%

	December 31, 2014				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	$ 535,299	$ 22,151	$ (4,164)	$ 553,286	3.63%
RABs and Other	124,221	9,828	(365)	133,684	6.01
Total	$ 659,520	$ 31,979	$ (4,529)	$ 686,970	4.07%

A summary of the contractual maturity, estimated fair value and amortized cost of investment securities at September 30, 2015 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. Guaranteed	$ –	– %	$ 10	0.41 %	$ 81,157	0.65 %	$ 3,634,155	1.70 %	$ 3,715,322	1.68 %
U.S. Govt. Agency Guaranteed	5,492	0.95	224,695	1.01	126,706	0.93	1,836,255	0.83	2,193,148	0.86
Non-Agency CMOs	–	–	–	–	1,026	0.92	132,838	0.69	133,864	0.69
Non-Agency ABSs	5,688	0.59	643,890	0.75	–	–	32,814	42.23	682,392	1.20
Total fair value	$ 11,180	0.76 %	$ 868,595	0.82 %	$ 208,889	0.82 %	$ 5,636,062	1.44 %	$ 6,724,726	1.34 %
Total amortized cost	$ 11,182		$ 867,242		$ 208,130		$ 5,547,295		$ 6,633,849	

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	$ –	– %	$ 169	4.47 %	$ –	– %	$ 481,593	3.53 %	$ 481,762	3.53 %
RABs and Other	–	–	16,546	5.81	42,221	6.25	48,094	5.97	106,861	6.06
Total amortized cost	$ –	– %	$ 16,715	5.80 %	$ 42,221	6.25 %	$ 529,687	3.75 %	$ 588,623	3.99 %
Total fair value	$ –		$ 17,676		$ 45,367		$ 547,111		$ 610,154	

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

	September 30, 2015					
	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. Guaranteed	$ 381,712	$ (696)	$ 406,548	$ (2,236)	$ 788,260	$ (2,932)
U.S. Govt. Agency Guaranteed	658,604	(2,970)	554,620	(6,241)	1,213,224	(9,211)
Non-Agency CMOs	1,799	(5)	131,908	(14,620)	133,707	(14,625)
Non-Agency ABSs	388,440	(230)	8,106	(387)	396,546	(617)
RABs and Other	8,221	(409)	3,721	(140)	11,942	(549)
Total	$ 1,438,776	$ (4,310)	$ 1,104,903	$ (23,624)	$ 2,543,679	$ (27,934)

	December 31, 2014					
	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. Guaranteed	$ 679,802	$ (2,094)	$ 504,943	$ (4,444)	$ 1,184,745	$ (6,538)
U.S. Govt. Agency Guaranteed	504,898	(1,306)	816,972	(9,395)	1,321,870	(10,701)
Non-Agency CMOs	14,324	(647)	137,670	(17,655)	151,994	(18,302)
Non-Agency ABSs	181,809	(178)	2,068	(268)	183,877	(446)
RABs and Other	–	–	21,084	(365)	21,084	(365)
Total	$ 1,380,833	$ (4,225)	$ 1,482,737	$ (32,127)	$ 2,863,570	$ (36,352)

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

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

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

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

Following are the assumptions used for the periods ended:

Assumptions Used	MBSs	ABSs
September 30, 2015		
Default rate by range	0.23% to 23.43%	22.71% to 40.16%
Prepayment rate by range	2.96% to 15.43%	2.26% to 10.68 %
Loss severity by range	20.18% to 67.02%	92.67% to 100.61%
December 31, 2014		
Default rate by range	0.83% to 31.49%	6.72% to 52.16%
Prepayment rate by range	6.17% to 16.72%	5.36% to 12.04%
Loss severity by range	4.37% to 68.03%	64.72% to 100.00%

Based on the results of all analyses, the Bank has recognized $1.4 million of credit-related OTTI for 2015, which is included in Net Other-than-temporary Impairment Losses in the Statements of Income. Since the Bank does not intend to sell these other-than-temporarily impaired debt securities and is not more likely than not to be required to sell before recovery, the total OTTI is reflected in the Statements of Income with: (1) a net other-than-temporary impairment amount related to estimated credit loss, and (2) an amount relating to all other factors, recognized as a reclassification to or from Other Comprehensive Income (OCI).

For the nine months ended September 30, 2015, net unrealized losses of $19.5 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 other comprehensive income:

(dollars in thousands)	For the three months ended September 30, 2015	For the three months ended September 30, 2014	For the nine months ended September 30, 2015	For the nine months ended September 30, 2014
Amount related to credit loss-beginning balance	$ 56,839	$ 58,164	$ 57,459	$ 57,131
Additions for initial credit impairments	–	–	–	–
Additions for subsequent credit impairments	1,191	–	1,404	1,452
Reductions for increases in expected cash flows	(756)	(199)	(1,589)	(618)
Reductions for securities sold/settled/matured	–	–	–	–
Amount related to credit loss-ending balance	57,274	57,965	57,274	57,965
Life to date incurred credit losses	(20,553)	(21,012)	(20,553)	(21,012)
Remaining unrealized credit losses	$ 36,721	$ 36,953	$ 36,721	$ 36,953

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.

(dollars in thousands)	September 30, 2015					
	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	$ 5,588,323	0.58%	$ 4,948,845	0.25%	$ 10,537,168	0.43%
Greater than one year to two years	5,396,549	0.60	–	–	5,396,549	0.60
Greater than two years to three years	4,022,035	0.79	–	–	4,022,035	0.79
Greater than three years to four years	1,988,899	1.39	–	–	1,988,899	1.39
Greater than four years to five years	1,538,009	1.80	–	–	1,538,009	1.80
Greater than five years	3,947,671	2.53	–	–	3,947,671	2.53
Total	$ 22,481,486	1.12%	$ 4,948,845	0.25%	$ 27,430,331	0.96%

Discount notes are issued with maturities ranging from 1 to 365 days. The average maturity of discount notes at September 30, 2015 was 122 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.

On August 6, 2015, the Bank repurchased, through a privately negotiated transaction, and subsequently cancelled Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with a par value of $10.3 million. The effect of the repurchase on shareholders' equity was to reduce preferred stock outstanding by $10.3 million and increase additional paid-in capital by $3.4 million.

Accumulated Other Comprehensive Income

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

	Changes in Accumulated Other Comprehensive Income by Component *(a)*			
	For the three months ended September 30,		For the nine months ended September 30,	
(dollars in thousands)	2015	2014	2015	2014
Investment Securities:				
Balance at beginning of period	$ 93,982	$ 109,510	$ 107,647	$ 100,698
Other comprehensive income before reclassifications	(4,297)	1,491	(17,049)	8,904
Amounts reclassified from AOCI	1,191	–	278	1,399
Net current period other comprehensive income	(3,106)	1,491	(16,771)	10,303
Balance at end of period	$ 90,876	$ 111,001	$ 90,876	$ 111,001
Cash Flow Hedges:				
Balance at beginning of period	$ (816)	$ (165)	$ (548)	$ 289
Other comprehensive income before reclassifications	(3)	65	102	157
Amounts reclassified from AOCI	(59)	(279)	(432)	(825)
Net current period other comprehensive income	(62)	(214)	(330)	(668)
Balance at end of period	$ (878)	$ (379)	$ (878)	$ (379)
Employee Benefit Plans:				
Balance at beginning of period	$ (4,951)	$ (3,310)	$ (5,151)	$ (3,444)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	101	67	301	201
Net current period other comprehensive income	101	67	301	201
Balance at end of period	$ (4,850)	$ (3,243)	$ (4,850)	$ (3,243)
Total Accumulated Other Comprehensive Income:				
Balance at beginning of period	$ 88,215	$ 106,035	$ 101,948	$ 97,543
Other comprehensive income before reclassifications	(4,300)	1,556	(16,947)	9,061
Amounts reclassified from AOCI	1,233	(212)	147	775
Net current period other comprehensive income	(3,067)	1,344	(16,800)	9,836
Balance at end of period	$ 85,148	$ 107,379	$ 85,148	$ 107,379

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*				
	For the three months ended September 30,		**For the nine months ended September 30,**		
(dollars in thousands)	**2015**	**2014**	**2015**	**2014**	**Income Statement Line Item**
Investment Securities:					
Sales gains & losses	$ –	$ –	$ 1,126	$ 53	Gains (losses) on investments, net
Holding gains & losses	(1,191)	–	(1,404)	(1,452)	Net other-than-temporary impairment
Net amounts reclassified	(1,191)	–	(278)	(1,399)	
Cash Flow Hedges:					
Interest income	62	214	330	668	See Note 10.
Gains (losses) on other transactions	(3)	65	102	157	See Note 10.
Net amounts reclassified	59	279	432	825	
Employee Benefit Plans:					
Periodic pension costs	(101)	(67)	(301)	(201)	See Note 7.
Net amounts reclassified	(101)	(67)	(301)	(201)	
Total reclassifications for period	$ (1,233)	$ 212	$ (147)	$ (775)	

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

Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

In 2009, the Bank began adjusting the pricing it received for the Non-Agency ABS and CMO securities from the third party pricing service with that obtained from an investment analysis consultant due to the inherent illiquidity and dislocation in the market for these bonds. At that time, these securities were also reclassified and reported as Level 3 fair value measurements because of this market unobservable pricing input. In 2012, this valuation input was discontinued because of a reduction in volatilities and risk, as measured by the pricing differences and changes over time, for these bonds.

Price discovery for these two portfolio segments has not presented a problem for a number of years and has been quite transparent. Valuations have been corroborated by various information providers, brokers, and dealers. Documentation from the third party pricing service indicates market observable inputs are used in their valuations of these securities. On June 30, 2015, the Non-Agency ABS and CMO bonds were transferred to Level 2 of the fair value hierarchy.

The Bank had no other transfers of assets or liabilities measured on a recurring basis into or out of Level 1 or Level 2 during the reporting period. For Level 3 assets and liabilities measured at fair value on a recurring basis, the tables below present a reconciliation from the opening balances to the closing balances, and any transfers into or out of Level 3.

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

(dollars in thousands)	**Non-Agency ABSs**	**Non-Agency CMOs**
Balance at December 31, 2013	$ 38,798	$ 173,486
Gains or (losses) included in earnings	–	(1,322)
Gains or (losses) included in OCI	7,674	8,475
Purchases	–	–
Settlements	(7,788)	(20,354)
Transfers in and/or out of Level 3	–	–
Balance at September 30, 2014	$ 38,684	$ 160,285

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 Nine Months Ended September 30, 2015					
(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. Guaranteed	$ 3,715,322	$ –	$ 3,715,322	$ –	$ 3,715,322	
U.S. Govt. Agency Guaranteed	2,193,148	–	2,193,148	–	2,193,148	
Non-Agency CMOs	133,864	–	133,864	–	133,864	
Non-Agency ABSs	682,392	–	682,392	–	682,392	
Total investments available-for-sale	6,724,726	–	6,724,726	–	6,724,726	
Federal funds sold, securities purchased under resale agreements, and other	218,718	–	218,718	–	218,718	
Interest rate swaps and other derivative instruments	8,301	–	8,301	–	8,301	
Assets held in trust funds	8,589	8,589	–	–	8,589	
Recurring Assets	$ 6,960,334	$ 8,589	$ 6,951,745	$ –	$ 6,960,334	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	–	–	–	–	–	
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 40,746	$ –	$ –	$ 40,746	$ 40,746	$ 4,079
Other property owned	11,118	–	–	12,684	12,684	(170)
Nonrecurring Assets	$ 51,864	$ –	$ –	$ 53,430	$ 53,430	$ 3,909
Other Financial Instruments						
Assets:						
Cash	$ 750,669	$ 750,669	$ –	$ –	$ 750,669	
Investments held to maturity	588,623	–	496,028	114,126	610,154	
Loans	21,400,040	–	–	21,487,867	21,487,867	
Other Financial Assets	$ 22,739,332	$ 750,669	$ 496,028	$ 21,601,993	$ 22,848,690	
Liabilities:						
Systemwide debt securities	$ 27,430,331	$ –	$ –	$ 27,478,482	$ 27,478,482	
Other Financial Liabilities	$ 27,430,331	$ –	$ –	$ 27,478,482	$ 27,478,482	

(dollars in thousands)	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
	At or for the Year Ended December 31, 2014					
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. Guaranteed	$ 3,859,206	$ –	$ 3,859,206	$ –	$ 3,859,206	
U.S. Govt. Agency Guaranteed	2,415,531	–	2,415,531	–	2,415,531	
Non-Agency CMOs	153,011	–	–	153,011	153,011	
Non-Agency ABSs	326,671	–	291,888	34,783	326,671	
Total investments available-for-sale	6,754,419	–	6,566,625	187,794	6,754,419	
Federal funds sold, securities purchased under resale agreements, and other	224,847	–	224,847	–	224,847	
Interest rate swaps and other derivative instruments	16,267	–	16,267	–	16,267	
Assets held in trust funds	7,689	7,689	–	–	7,689	
Recurring Assets	$ 7,003,222	$ 7,689	$ 6,807,739	$ 187,794	$ 7,003,222	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	–	–	–	–	–	
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 63,504	$ –	$ –	$ 63,504	$ 63,504	$ 5,668
Other property owned	2,808	–	–	3,071	3,071	939
Nonrecurring Assets	$ 66,312	$ –	$ –	$ 66,575	$ 66,575	$ 6,607
Other Financial Instruments						
Assets:						
Cash	$ 622,503	$ 622,503	$ –	$ –	$ 622,503	
Investments held to maturity	659,520	–	553,286	133,684	686,970	
Loans	20,814,580	–	–	20,768,834	20,768,834	
Other Financial Assets	$ 22,096,603	$ 622,503	$ 553,286	$ 20,902,518	$ 22,078,307	
Liabilities:						
Systemwide debt securities	$ 26,847,246	$ –	$ –	$ 26,799,032	$ 26,799,032	
Other Financial Liabilities	$ 26,847,246	$ –	$ –	$ 26,799,032	$ 26,799,032	

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

Investment Securities

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

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

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

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

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

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

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Forward contracts – when-issued securities	$ –	Broker/Consensus pricing	Offered quotes	None outstanding
Impaired loans and other property owned	$ 53,430	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

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

Information about Other Financial Instrument Fair Value Measurements

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

Note 7 — Employee Benefit Plans

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

	For the three months ended September 30,		For the nine months ended September 30,	
(dollars in thousands)	**2015**	**2014**	**2015**	**2014**
Pension	$ 2,270	$ 2,403	$ 6,811	$ 7,208
401k	581	374	1,798	1,138
Other postretirement benefits	450	272	1,347	816
Total	$ 3,301	$ 3,049	$ 9,956	$ 9,162

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, 2014.

(dollars in thousands)	Actual YTD Through 9/30/15	Projected Contributions for Remainder of 2015	Projected Total Contributions 2015
Pensions	$ 433	$ 8,364	$ 8,797
Other postretirement benefits	778	275	1,053
Total	$ 1,211	$ 8,639	$ 9,850

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, 2015.

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

Note 8 — Commitments and Contingencies

Under the Farm Credit Act of 1971, each System bank is primarily liable for its portion of Systemwide bond and discount note obligations. Additionally, the four banks are jointly and severally liable for the bonds and notes of the other System banks under the terms of the Joint and Several Liability Reallocation 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 is 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.

During the periods presented, AgFirst did not make any payments, and as of the report date does not anticipate making any payments, on behalf of its co-obligors under the Joint and Several Liability Reallocation Agreement.

(dollars in billions)	9/30/15	12/31/14
Total System bonds and notes	$ 231.334	$ 225.437
AgFirst bonds and notes	$ 27.430	$ 26.847

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

Note 9 — Additional Financial Information

Offsetting of Financial and Derivative Assets

	September 30, 2015					
				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	$ 8,301	$ –	$ 8,301	$ –	$ –	$ 8,301
Reverse repurchase and similar arrangements	218,718	–	218,718	(218,718)	–	–
Total	$ 227,019	$ –	$ 227,019	$ (218,718)	$ –	$ 8,301

(dollars in thousands)	December 31, 2014 Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets Presented in the Balance Sheets	Gross Amounts Not Offset in the Balance Sheets Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	$ 16,267	$ –	$ 16,267	$ –	$ –	$ 16,267
Reverse repurchase and similar arrangements	224,847	–	224,847	(224,847)	–	–
Total	$ 241,114	$ –	$ 241,114	$ (224,847)	$ –	$ 16,267

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.

Note 10 — Derivative Financial Instruments and Hedging Activities

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

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

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

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

Notional Amounts *(dollars in millions)*	For the Nine Months Ended September 30, 2015 Receive-Fixed Swaps	 2015 Forward Contracts	 2014 Receive-Fixed Swaps	 2014 Forward Contracts
Balance at beginning of period	$ 250	$ 1	$ 250	$ –
Additions	–	4	–	8
Maturities/amortization	–	(5)	–	(8)
Terminations	–	–	–	–
Balance at end of period	$ 250	$ –	$ 250	$ –

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

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

Counterparty exposure related to derivatives at:

(dollars in millions)	**September 30, 2015**	**December 31, 2014**
Estimated Gross Credit Risk	$8.3	$16.3
Percent of Notional	3.32%	6.51%
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. The amount of the loss on interest rate swaps recognized in interest expense for the nine months ended September 30, 2015 was $8.0 million, while the amount of the gain on the Systemwide Debt Securities was $8.0 million. The amount of the loss on interest rate swaps recognized in interest expense for the nine months ended September 30, 2014 was $8.5 million, while the amount of the gain on the Systemwide Debt Securities was $8.5 million. Gains and losses on each derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Cash Flow Hedges

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

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

Fair Values of Derivative Instruments

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

(dollars in thousands)	Balance Sheet Classification – Assets	9/30/15 Fair Value	Balance Sheet Classification – Liabilities	9/30/15 Fair Value
Receive-fixed swaps	Other Assets	$ 8,301	Other Liabilities	$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		$ 8,301		$ –

(dollars in thousands)	Balance Sheet Classification – Assets	12/31/14 Fair Value	Balance Sheet Classification – Liabilities	12/31/14 Fair Value
Receive-fixed swaps	Other Assets	$ 16,267	Other Liabilities	$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		$ 16,267		$ –

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)	
		2015	2014	2015	2014	2015	2014
Fair Value Hedges:							
Receive-fixed swaps	Noninterest income	$ –	$ –				
Cash Flow Hedges:							
Firm Commitments	Interest Income	$ 330	$ 668	$ –	$ –	$ –	$ –
Forward Contracts	Gains (Losses) on Other Transactions	102	157	–	–	102	157

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

Note 11 — Subsequent Events

The Bank evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through November 6, 2015, which was the date the financial statements were issued.

On October 19, 2015, the Bank's Board of Directors declared a special patronage distribution totaling $100.0 million to be paid on January 1, 2016.