



AGFIRST FARM CREDIT BANK & DISTRICT ASSOCIATIONS



**FARM
CREDIT**

2018 THIRD QUARTER REPORT

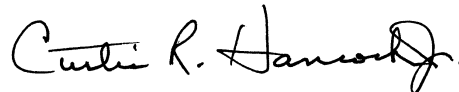
THIRD QUARTER 2018

Table of Contents

Report on Internal Control Over Financial Reporting.....	2
Management’s Discussion and Analysis of Financial Condition and Results of Operations.....	3
Combined Financial Statements:	
Combined Balance Sheets.....	13
Combined Statements of Income.....	14
Combined Statements of Comprehensive Income	15
Combined Statements of Changes in Shareholders’ Equity	16
Combined Statements of Cash Flows.....	17
Notes to the Combined Financial Statements.....	18

CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2018 quarterly report of AgFirst Farm Credit Bank and District Associations, 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.



Curtis R. Hancock, Jr.
Chairman of the Board



Leon T. Amerson
Chief Executive Officer & President



Stephen Gilbert
Chief Financial Officer

November 8, 2018

Report on Internal Control Over Financial Reporting

AgFirst Farm Credit Bank's (Bank) and each affiliated District Agricultural Credit Association's (District Association) 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 and each District Association's respective Consolidated 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 and each District Association'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 respective Consolidated 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 and each District Association, (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 each District Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's and each District Association's assets that could have a material effect on its Consolidated Financial Statements.

The Bank's and each District Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2018. 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 and each District Association's management concluded that as of September 30, 2018, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Bank's and each District Association's management determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2018.



Leon T. Amerson
Chief Executive Officer & President



Stephen Gilbert
Chief Financial Officer

November 8, 2018

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

The following discussion reviews the combined financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the District, as of and for the three and nine month periods ended September 30, 2018. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Combined Financial Statements, and the 2017 Annual Report of AgFirst Farm Credit Bank and District Associations. The accompanying combined financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

As of September 30, 2018, the District included nineteen Associations, all of which were structured as Agricultural Credit Association (ACA) holding companies, with Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries. PCAs originate and service short- and intermediate-term loans; FLCAs originate and service long-term real estate mortgage loans; and ACAs originate both long-term and short- and intermediate-term loans.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of the District. 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 the District'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 the District's expectations and predictions due to a number of risks and uncertainties, many of which are beyond the District's control. These risks and uncertainties include, but are not limited to:

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

FINANCIAL CONDITION

Loan Portfolio

The District’s aggregate loan portfolio consists primarily of direct loans made by the Associations to eligible borrowers located within their chartered territories. Bank loans to District Associations have been eliminated in the combined District presentation. Diversification of the loan volume by Farm Credit Administration (FCA) loan type is illustrated in the table below:

Loan Portfolio <i>(dollars in thousands)</i>	September 30, 2018		December 31, 2017		September 30, 2017	
Real Estate Mortgage	\$ 14,657,708	50.03%	\$ 14,092,944	49.54%	\$ 13,843,572	49.07%
Production and Intermediate-term	6,991,769	23.86	7,044,930	24.76	7,235,462	25.65
Rural Residential Real Estate	3,535,419	12.07	3,431,905	12.06	3,370,545	11.95
Processing and Marketing	1,664,153	5.68	1,442,935	5.07	1,471,204	5.21
Loans to Cooperatives	627,036	2.14	662,604	2.33	602,274	2.13
Power and Water/Waste Disposal	609,291	2.08	629,317	2.21	548,399	1.94
Communication	488,206	1.66	466,975	1.64	478,326	1.70
Farm-related Business	369,098	1.26	363,137	1.28	352,823	1.25
Loans to Other Financing Institutions (OFIs)	138,693	0.47	131,572	0.46	139,724	0.49
International	133,871	0.46	98,625	0.35	104,687	0.37
Other (including Mission Related)	72,390	0.25	74,505	0.26	53,244	0.19
Lease Receivables	10,744	0.04	12,358	0.04	12,866	0.05
Total	\$ 29,298,378	100.00%	\$ 28,451,807	100.00%	\$ 28,213,126	100.00%

Total loans outstanding were \$29.298 billion at September 30, 2018, an increase of \$846.6 million, or 2.98 percent, compared to total loans outstanding at December 31, 2017 and an increase of \$1.085 billion, or 3.85 percent, since September 30, 2017.

Compared to September 30, 2017, District loan demand increased due to positive economic conditions impacting borrowers in economically sensitive segments. Moderate demand in the poultry, field crops, rural home loans, and forestry segments contributed to the increase in loan volume compared to September 30, 2017.

Future District loan demand is difficult to predict; however, modest growth is expected.

Credit Quality

Credit quality of the District’s loans is shown below:

Classification	Total Loan Portfolio Credit Quality as of:		
	September 30, 2018	December 31, 2017	September 30, 2017
Acceptable	95.35%	95.27%	94.74%
OAEM *	2.59%	2.62%	2.93%
Adverse**	2.06%	2.11%	2.33%

* Other Assets Especially Mentioned.

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

Continued positive general economic performance has resulted in strong credit quality for the District. Credit quality is expected to slightly deteriorate given expected reduced farm income, higher interest rates, recent weather events, and uncertainty surrounding global trade issues.

In September and October 2018, hurricanes Florence and Michael caused damage in several southeastern states. While it is too early to adequately assess the full impact on District borrowers, these hurricanes are not anticipated to have a significant adverse impact on the District’s overall financial condition and results of operations.

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 combined District at September 30, 2018 were \$254.7 million compared to \$238.9 million at December 31, 2017. The increase of \$15.9 million resulted primarily from loan balances transferred to nonaccrual status of \$121.8 million, partially offset by repayments of \$81.7 million, reinstatements to accrual status of \$17.0 million and charge-offs of \$10.4 million. At September 30, 2018, total nonaccrual loans were primarily classified in the field crops (29.71 percent of the total), poultry (9.62 percent), grains (8.97 percent), cattle (7.84 percent), rural home loan (7.56 percent), and dairy (5.76 percent) segments. Nonaccrual loans were 0.87 percent and 0.84 percent of total loans outstanding at September 30, 2018 and December 31, 2017, 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 and District Associations 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 and District Associations. TDRs decreased \$343 thousand since December 31, 2017 and totaled \$195.7 million at September 30, 2018. TDRs at September 30, 2018 were comprised of \$130.2 million of accruing restructured loans and \$65.4 million of nonaccrual restructured loans. Restructured loans were primarily in the field crops (18.14 percent of the total), poultry (13.36 percent), forestry (8.67 percent), tree fruits and nuts (6.32 percent), cattle (5.33 percent), and dairy (5.26 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 District Associations (or a lender group) in satisfaction of secured loans. OPO may be comprised of real estate, equipment, and equity interests in companies or partnerships. OPO increased \$3.4 million since December 31, 2017 and totaled \$18.0 million at September 30, 2018. The increase was primarily due to transfers to OPO of \$7.4 million offset by disposals of \$4.0 million. The largest OPO holding at September 30, 2018 was in the forestry segment and totaled \$3.8 million (21.16 percent of the total).

Allowance for Loan Losses

The District 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. Although aggregated in the District's combined financial statements, the allowance for loan losses of each District entity is particular to that institution and is not available to absorb losses realized by other District entities.

The allowance for loan losses was \$202.7 million at September 30, 2018, as compared with \$193.1 million at December 31, 2017, which was an increase of \$9.7 million. Provision expense of \$14.6 million and loan recoveries of \$5.5 million increased the allowance during the nine months ended September 30, 2018, and were offset by charge-offs of \$10.5 million. Charge-offs during the first nine months of 2018 were related primarily to borrowers in the cattle (40.66 percent of the total), dairy (13.06 percent), and field crops (9.35 percent) segments. Recoveries during the nine month period were related primarily to borrowers in the forestry (39.05 percent of the total), cattle (18.35 percent), nursery/greenhouse (9.22 percent), and field crops (7.51 percent) segments. See *Provision for Loan Losses* section below for additional details regarding loan loss provision expense and reversals. The allowance at September 30, 2018 included specific reserves of \$31.1 million (15.32 percent of the total) and general reserves of \$171.7 million (84.68 percent). The largest commodity segments included in the allowance at September 30, 2018 were the field crops (19.07 percent of the total), poultry (13.23 percent), forestry (9.22 percent), cattle (7.99 percent), and grains (7.08 percent) segments. The allowance for loan losses was 0.69 percent and 0.68 percent of total loans outstanding at September 30, 2018 and December 31, 2017, respectively. See Note 2, *Loans and Allowance for Loan Losses*, in the Notes to the Combined Financial Statements for further information.

Liquidity and Funding Sources

AgFirst and the District Associations maintain adequate liquidity to satisfy the District's daily cash needs. Along with normal cash flows associated with lending operations, the District has two principle sources of liquidity: the capacity to issue Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation; and cash and investments. The Bank also maintains several securities repurchase agreement facilities. In addition, the System has established lines of credit in the event contingency funding is needed to meet obligations of System banks. Providing liquidity for the District's operations is primarily the responsibility of the Bank.

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, 2019, unless otherwise renewed. The decision whether to seek funds from the FFB is at the discretion of the FCSIC. Each funding obligation of the FFB is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by AgFirst or the System.

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

At September 30, 2018, AgFirst had \$30.165 billion in total debt outstanding compared to \$29.763 billion at December 31, 2017, an increase of \$401.5 million, or 1.35 percent. Debt increased primarily to support a higher level of loans as discussed elsewhere in this report.

Cash and cash equivalents, which decreased \$283.4 million from December 31, 2017 to a total of \$488.5 million at September 30, 2018, consist primarily of cash on deposit and money market securities that are short-term in nature (from overnight maturities to maturities that range up to 90 days). Incremental movements in cash balances between reporting periods are due primarily to changes in liquidity needs in relation to upcoming debt maturities.

Investments in debt securities totaled \$8.022 billion, or 20.96 percent of total assets at September 30, 2018, compared to \$8.186 billion, or 21.65 percent, as of December 31, 2017, a decrease of \$163.4 million, or 2.00 percent. The majority of investments, \$7.558 billion as of September 30, 2018, are classified as being available for sale. Bank Management maintains the available-for-sale liquidity investment portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines which provide that a System bank may hold certain eligible available-for-sale investments in an amount not to exceed 35.00 percent of its total loans outstanding. Based upon FCA guidelines, at September 30, 2018, the Bank's eligible available-for-sale investments were 32.93 percent of the total loans outstanding.

Investments in debt securities classified as being available-for-sale totaled \$7.558 billion at September 30, 2018. Available-for-sale investments at September 30, 2018 included \$389.1 million in U.S. Treasury securities, \$4.533 billion in U.S. government guaranteed securities, \$1.926 billion in U.S. government agency guaranteed securities, and \$709.3 million in non-agency asset-backed securities. Since the majority of the portfolio is invested in U.S. government guaranteed and agency securities, the portfolio is highly liquid and potential credit loss exposure is limited.

As of September 30, 2018, AgFirst exceeded all applicable regulatory liquidity requirements. FCA regulations require that the Bank have a liquidity policy that establishes a minimum total “coverage” level of 90 days and that short-term liquidity requirements must be met by certain high quality investments or cash. “Coverage” is defined as the number of days that maturing debt could be funded with eligible cash, cash equivalents, and available-for-sale investments maintained by the Bank.

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

At September 30, 2018, AgFirst met each of the individual level criteria above and had a total of 218 days of maturing debt coverage compared to 207 days at December 31, 2017. The increase resulted from a change in the timing of upcoming debt maturities. Cash provided by the Bank’s operating activities is an additional source of liquidity for the Bank that is not reflected in the coverage calculation.

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

Capital Resources

Total shareholders’ equity increased \$306.7 million, or 4.91 percent, from December 31, 2017 to \$6.556 billion at September 30, 2018. This increase is primarily attributed to 2018 unallocated retained earnings from net income of \$448.9 million and employee benefit plans adjustments of \$24.0 million. These increases in shareholders’ equity were partially offset by an increase in net unrealized losses on investments of \$69.6 million, primarily due to an increase in interest rates lowering the fair value of existing available-for-sale fixed-rate investment securities, retained earnings retired of \$57.8 million, and cash patronage distributions declared of \$32.6 million.

RESULTS OF OPERATIONS

Net income for the three months ended September 30, 2018 was \$145.5 million compared to \$146.7 million for the three months ended September 30, 2017, a decrease of \$1.2 million, or 0.82 percent. Net income for the nine months ended September 30, 2018 was \$448.9 million compared to \$423.0 million for the corresponding period in 2017, an increase of \$25.9 million or 6.12 percent. See below for further discussion of the change in net income by major components:

Key Results of Operations Comparisons

	Annualized for the Nine Months Ended September 30, 2018	For the Year Ended December 31, 2017	Annualized for the Nine Months Ended September 30, 2017
Return on average assets	1.60%	1.92%	1.54%
Return on average shareholders’ equity	9.31%	11.39%	9.21%
Net interest margin	2.80%	2.88%	2.89%
Operating expense as a percentage of net interest income and noninterest income	44.61%	33.67%	46.72%
Net (charge-offs) recoveries to average loans	(0.02)%	(0.01)%	0.00%

Compared to year-end 2017, the annualized return on average assets and return on average shareholders’ equity ratios declined due primarily to lower annualized net income in the 2018 period. The higher net income in 2017 resulted from a reduction in postretirement benefits costs from a change in accounting estimate related to the District’s multiemployer

benefits plans. Compared to the first nine months of 2017, these ratios improved due to an increase in net income for the 2018 period primarily from a one-time insurance premium refund. Excluding the impact of one-time adjustments, the annualized return on average assets and return on average shareholders' equity would have remained relatively constant for the periods presented. The lower net interest margin ratio in 2018 compared to both prior periods was due primarily to lower net interest income, as discussed below. For the operating expense as a percentage of net interest income and noninterest income ratio, operating expense consists primarily of noninterest expenses excluding losses (gains) from other property owned. This ratio improved compared to the same period in the prior year primarily due to an increase in noninterest income from the one-time insurance premium refund discussed below. For the year ended December 31, 2017, this ratio was positively impacted by the reduction in postretirement benefits costs as discussed above. The net (charge-offs) recoveries ratio reflected slightly higher annualized charge-offs in 2018 compared to both prior periods. See *Allowance for Loan Losses, Net Interest Income, Noninterest Income, and Noninterest Expenses* sections for further discussion.

Net Interest Income

Net interest income decreased \$468 thousand, or 0.18 percent, to \$264.1 million for the three months ended September 30, 2018 compared to the three months ended September 30, 2017. For the nine months ended September 30, 2018, net interest income was \$772.1 million compared to \$778.3 million for the same period of 2017, a decrease of \$6.2 million, or 0.80 percent. The net interest margin, which is net interest income as a percentage of average earning assets, was 2.81 percent and 2.80 percent for the three and nine months ended September 30, 2018, respectively, which was a decrease of eight basis points and nine basis points compared to the corresponding periods in the prior year. The decrease in net interest income for both periods resulted from higher rates paid on interest-bearing liabilities which were partially offset by the positive impact of higher yields on interest-earning assets.

No debt was called during the nine months ended September 30, 2018. The Bank called debt totaling \$2.297 billion for the same period in the prior year, and was able to lower the cost of funds. Over time, as interest rates change and as assets prepay or reprice, the positive impact on the net interest margin that the Bank has experienced over the last several years from calling debt will continue to diminish.

The effects of changes in volume and interest rates on net interest income for the three and nine months ended September 30, 2018, as compared with the corresponding periods in 2017, 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.

<i>(dollars in thousands)</i>	For the Three Months Ended September 30, 2018 vs. September 30, 2017			For the Nine Months Ended September 30, 2018 vs. September 30, 2017		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Loans	\$ 11,906	\$ 27,318	\$ 39,224	\$ 31,769	\$ 68,480	\$ 100,249
Investments & Cash Equivalents	(267)	12,040	11,773	1,144	32,310	33,454
Total Interest Income	11,639	39,358	50,997	32,913	100,790	133,703
Interest Expense:						
Interest-Bearing Liabilities	4,103	47,362	51,465	10,211	129,717	139,928
Changes in Net Interest Income	\$ 7,536	\$ (8,004)	\$ (468)	\$ 22,702	\$ (28,927)	\$ (6,225)

Provision for Loan Losses

AgFirst and the District Associations measure risks inherent in their individual loan portfolios on an ongoing basis and, as necessary, recognize provision for loan loss expense so that appropriate allowances for loan losses are maintained. Provision for loan losses was net expense of \$10.1 million and \$14.6 million for the three and nine month periods ended September 30, 2018, respectively, compared to net expense of \$3.5 million and \$8.7 million for the three and nine months ended September 30, 2017.

For the three months ended September 30, 2018, total net provision expense consisted of \$10.7 million of provision expense for specific reserves and provision reversals of \$551 thousand for general reserves. Total net provision expense for the third quarter of 2018 primarily related to borrowers in the field crops (\$4.3 million), dairy (\$2.3 million), tree fruits and nuts (\$1.5 million), cotton (\$1.2 million), and poultry (\$1.1 million) segments. For the nine months ended

September 30, 2018, total net provision expense included provision expense of \$17.3 million for specific reserves and provision reversals of \$2.7 million for general reserves. Total net provision expense for the nine month period of 2018 primarily related to borrowers in the field crops (\$13.6 million), dairy (\$4.8 million), cotton (\$1.6 million), tree fruits and nuts (\$1.4 million), and poultry (\$1.3 million) segments, partially offset by provision reversals in the forestry (\$3.9 million) and corn (\$1.0 million) segments.

For the three months ended September 30, 2017, total net provision expense consisted of \$4.6 million of provision expense for general reserves and net provision reversals of \$1.1 million for specific reserves. Total net provision expense for the third quarter of 2017 primarily related to borrowers in the poultry (\$1.6 million), field crops (\$1.3 million), and cotton (\$1.1 million) segments, partially offset by provision reversals in the nursery/greenhouse (\$1.6 million) segment. For the nine months ended September 30, 2017, total net provision expense included provision expense of \$8.9 million for general reserves and net provision reversals of \$265 thousand for specific reserves. Total net provision expense for the nine month period of 2017 primarily related to borrowers in the field crops (\$5.8 million), poultry (\$3.0 million), cattle (\$1.8 million), and cotton (\$1.6 million) segments, partially offset by provision reversals in the nursery/greenhouse (\$2.9 million) segments.

The impact of hurricanes Florence and Michael, which is still being assessed, has not been reflected in the third quarter allowance. See the *Credit Quality* section above and Note 2, *Loans and Allowance for Loan Losses*, in the Notes to the Combined Financial Statements for further information.

Noninterest Income

The following table illustrates the changes in noninterest income:

Change in Noninterest Income <i>(dollars in thousands)</i>	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2018	2017	Increase/ (Decrease)	2018	2017	Increase/ (Decrease)
Loan fees	\$ 6,873	\$ 6,699	\$ 174	\$ 23,034	\$ 22,988	\$ 46
Fees for financially related services	2,648	2,711	(63)	6,461	6,359	102
Building lease income	840	853	(13)	2,583	2,824	(241)
Gains (losses) on investments, net	13	—	13	13	(258)	271
Gains (losses) on debt extinguishment	—	(1,447)	1,447	150	(4,528)	4,678
Gains (losses) on other transactions	2,533	2,215	318	6,072	4,031	2,041
Insurance premium refund	—	—	—	21,086	—	21,086
Other noninterest income	1,909	560	1,349	6,570	4,609	1,961
Total noninterest income	\$ 14,816	\$ 11,591	\$ 3,225	\$ 65,969	\$ 36,025	\$ 29,944

Noninterest income increased \$3.2 million and \$29.9 million for the three and nine months ended September 30, 2018, respectively, compared to the corresponding periods in 2017. For the three month period, the increase resulted primarily from lower losses on debt extinguishment and higher other noninterest income. For the nine month period, the increase was due primarily to an insurance premium refund received in 2018 and lower losses on debt extinguishment. Significant line item dollar variances are discussed below.

Losses on debt extinguishment decreased \$1.4 million and \$4.7 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. No debt was called during the nine months ended September 30, 2018. The gain of \$150 thousand in the nine month period for 2018 resulted from discount notes extinguished in the second quarter of 2018 totaling \$450.0 million. For 2017, losses on called debt were \$1.4 million and \$4.5 million for the three and nine month periods, respectively. 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. Call options were exercised on bonds totaling \$672.0 million and \$2.297 billion for the three and nine month periods in 2017, respectively. Debt is called to take advantage of favorable market interest rate changes. The amount of debt issuance cost expensed is dependent upon both the volume and remaining maturity of the debt when called. Losses on called debt are more than offset by interest expense savings realized as called debt is replaced by new debt issued at a lower rate of interest.

For the nine month period ended September 30, 2018, gains on other transactions increased \$2.0 million primarily due to \$1.6 million in gains on interest rate lock and forward commitment derivatives established by the Bank in 2018 as a result of the sale of rural residential loans. A \$1.6 million loss related to a legal settlement recorded by one Association in 2017

also contributed to the increase. Lower market value gains on certain retirement plan trust assets of \$1.2 million offset a portion of these increases.

An insurance premium refund of \$21.1 million from the FCSIC which insures the System's debt obligations was recorded in the first quarter of 2018. This refund is nonrecurring and resulted from the assets of the FCSIC exceeding the secure base amount as defined by the Farm Credit Act.

For the three and nine month periods ended September 30, 2018, other noninterest income increased \$1.3 million and \$2.0 million, respectively, compared to the same periods in the prior year. The increases were primarily due to increases in patronage received from other Farm Credit institutions of \$1.2 million and \$964 thousand for the three and nine month periods, respectively. In addition, income from services provided to Farm Credit entities outside the AgFirst District increased \$261 thousand and \$899 thousand, respectively.

Noninterest Expenses

The following table illustrates the changes in noninterest expenses:

Change in Noninterest Expenses	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2018	2017	Increase/ (Decrease)	2018	2017	Increase/ (Decrease)
<i>(dollars in thousands)</i>						
Salaries and employee benefits	\$ 71,994	\$ 70,529	\$ 1,465	\$ 222,694	\$ 216,904	\$ 5,790
Occupancy and equipment	11,143	10,490	653	32,466	31,204	1,262
Insurance Fund premiums	5,670	9,238	(3,568)	16,713	27,340	(10,627)
Other operating expenses	34,087	35,106	(1,019)	101,963	105,025	(3,062)
Losses (gains) from other property owned	172	285	(113)	204	1,605	(1,401)
Total noninterest expenses	<u>\$ 123,066</u>	<u>\$ 125,648</u>	<u>\$ (2,582)</u>	<u>\$ 374,040</u>	<u>\$ 382,078</u>	<u>\$ (8,038)</u>

Noninterest expenses for the three and nine months ended September 30, 2018 decreased \$2.6 million and \$8.0 million, respectively, compared to the corresponding periods in 2017. The decreases for both the three and nine months periods resulted primarily from lower insurance fund premiums and lower other operating expenses, partially offset by higher salaries and employee benefits. Significant line item dollar variances are discussed below.

Salaries and employee benefits increased \$1.5 million and \$5.8 million for the three and nine month periods, respectively, compared to the same periods in 2017. The increases resulted primarily from \$2.5 million and \$7.7 million increases for the three and nine month periods, respectively, in salaries and incentives due to normal salary administration and an increase in headcount. Increases of \$422 thousand and \$1.3 million in pension expense for the three and nine month periods, respectively, resulted primarily from higher service costs for the 2018 periods. These increases were partially offset by decreases of \$1.5 million and \$4.0 million, respectively, in postretirement benefits expenses due to a change in the method of accounting for these expenses. See the District's 2017 Annual Report for additional information.

Occupancy and equipment expense increased \$653 thousand and \$1.3 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. The increases resulted primarily from \$345 thousand and \$673 thousand higher software and hardware maintenance costs for the three and nine month periods, respectively.

Insurance Fund premiums decreased \$3.6 million and \$10.6 million for the three and nine month periods ended September 30, 2018, respectively, compared to the same periods in 2017. These decreases resulted primarily from a decrease in the base annual premium rate to 9 basis points in 2018 from 15 basis points in 2017. The FCSIC Board makes premium rate adjustments, as necessary, to maintain their secure base amount which is based upon insured debt outstanding at System banks.

Other operating expenses decreased \$1.0 million and \$3.1 million for the three and nine month periods ended September 30, 2018, respectively, compared to the corresponding periods in 2017. The decrease resulted primarily from lower pension expenses of \$2.3 million and \$7.1 million, respectively, due mainly to a higher expected long-term rate of return on plan assets for 2018. These decreases were partially offset by increases of \$1.0 million and \$2.4 million, respectively, in consultant and professional fees primarily related to Bank technology initiatives. In addition, for the

nine month period, nonaccrual loan costs, primarily legal fees and property taxes, increased \$1.2 million due to lower recoveries of nonaccrual costs in the 2018 period.

Losses on other property owned decreased \$1.4 million for the nine months ended September 30, 2018 compared with the same periods in the prior year primarily due to lower writedowns of \$1.7 million in the 2018 period.

REGULATORY MATTERS

On May 10, 2018, the Farm Credit Administration adopted a final rule that amends the regulations governing investments of System banks and associations. The final rule strengthens eligibility criteria for the investments the banks may purchase and hold. It also implements Section 939A of the Dodd-Frank Act by removing references to and requirements for credit ratings and substitutes the eligibility requirement with other appropriate standards of credit worthiness. In addition, it grants associations greater flexibility regarding the risk management purposes for investments and limits the type and amount of investments that an association may hold. Only securities that are issued by, or are unconditionally guaranteed or insured as to the timely payment of principal and interest by, the U.S. government or its agencies are eligible for association risk management purposes. An association may purchase and hold investments not to exceed 10 percent of its 90-day average daily balance of outstanding loans on the last business day of the quarter. The final rule will become effective January 1, 2019.

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 2017 Annual Report of AgFirst Farm Credit Bank and District Associations for recently issued accounting pronouncements. Additional information is provided in the following table.

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
<i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i>	
<ul style="list-style-type: none"> • Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management’s estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to a CECL model. • The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. 	<ul style="list-style-type: none"> • The District has begun implementation efforts by establishing a cross-discipline governance structure. The District is currently identifying key interpretive issues, and assessing existing credit loss forecasting models and processes against the new guidance to determine what modifications may be required. • The District expects that the new guidance will result in an increase in its allowance for credit losses due to several factors, including: <ol style="list-style-type: none"> 1. The allowance related to loans and commitments will most likely increase to cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on any debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of the increase is under evaluation, but will depend upon the nature and characteristics of the District’s portfolio at the adoption date, and the macroeconomic conditions and forecasts at that date. • The District expects to adopt the guidance in first quarter 2021.

<i>ASU 2016-02 – Leases (Topic 842)</i>	
<ul style="list-style-type: none"> • Requires lessees to recognize leases on the balance sheet with lease liabilities and corresponding right-of-use assets based on the present value of lease payments. • Lessor accounting activities are largely unchanged from existing lease accounting. • The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification. • Also, expands qualitative and quantitative disclosures of leasing arrangements. • Requires adoption using a modified cumulative effect approach wherein the guidance is applied to all periods presented. A recent amendment provides an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. • Effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. 	<ul style="list-style-type: none"> • The practical expedients allow entities to largely account for existing leases consistent with current guidance, except for the incremental balance sheet recognition for lessees. • The District has started its implementation of the Update which has included an initial evaluation of leasing contracts and activities. • As a lessee the District is developing its methodology to estimate the right-of-use assets and lease liabilities, which is based on the present value of lease payments but does not expect a material change to the timing of expense recognition. • Given the limited changes to lessor accounting, the District does not expect material changes to recognition or measurement, but the implementation process and the impact will continue to be evaluated. • The District is evaluating existing disclosures and may need to provide additional information as a result of adopting the Update. • The District expects to adopt the guidance in first quarter 2019 using the optional modified retrospective method and practical expedients for transition.

NOTE: Shareholder investment in a District Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst’s annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, Controller, 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.

Combined Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2018 <i>(unaudited)</i>	December 31, 2017 <i>(audited)</i>
Assets		
Cash	\$ 213,787	\$ 499,451
Cash equivalents	274,739	272,519
Investments in debt securities:		
Available-for-sale (amortized cost of \$7,647,535 and \$7,683,631, respectively)	7,557,858	7,663,605
Held-to-maturity (fair value of \$453,362 and \$528,713, respectively)	464,500	522,148
Total investments in debt securities	<u>8,022,358</u>	<u>8,185,753</u>
Loans	29,298,378	28,451,807
Allowance for loan losses	<u>(202,744)</u>	<u>(193,067)</u>
Net loans	29,095,634	28,258,740
Loans held for sale	5,963	14,046
Accrued interest receivable	298,204	227,323
Accounts receivable	41,034	49,339
Equity investments in other Farm Credit institutions	40,820	40,292
Premises and equipment, net	206,141	197,492
Other property owned	18,015	14,655
Other assets	<u>57,454</u>	<u>50,958</u>
Total assets	<u>\$ 38,274,149</u>	<u>\$ 37,810,568</u>
Liabilities		
Systemwide bonds payable	\$ 25,370,690	\$ 24,829,679
Systemwide and other notes payable	5,833,019	5,949,507
Accrued interest payable	111,945	83,221
Accounts payable	69,976	316,960
Advanced conditional payments	5,086	10,175
Other liabilities	<u>327,619</u>	<u>371,902</u>
Total liabilities	<u>31,718,335</u>	<u>31,561,444</u>
Commitments and contingencies (Note 8)		
Shareholders' Equity		
Perpetual preferred stock	49,250	49,250
Protected borrower equity	502	502
Capital stock and participation certificates	165,268	169,716
Additional paid-in-capital	82,573	82,573
Retained earnings		
Allocated	2,036,343	2,097,179
Unallocated	4,648,788	4,231,956
Accumulated other comprehensive income (loss)	<u>(426,910)</u>	<u>(382,052)</u>
Total shareholders' equity	<u>6,555,814</u>	<u>6,249,124</u>
Total liabilities and equity	<u>\$ 38,274,149</u>	<u>\$ 37,810,568</u>

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

Combined Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest Income				
Investments	\$ 51,306	\$ 39,533	\$ 145,113	\$ 111,659
Loans	377,666	338,442	1,076,584	976,335
Total interest income	428,972	377,975	1,221,697	1,087,994
Interest Expense				
	164,916	113,451	449,613	309,685
Net interest income	264,056	264,524	772,084	778,309
Provision for (reversal of allowance for) loan losses	10,130	3,467	14,630	8,655
Net interest income after provision for loan losses	253,926	261,057	757,454	769,654
Noninterest Income				
Loan fees	6,873	6,699	23,034	22,988
Fees for financially related services	2,648	2,711	6,461	6,359
Building lease income	840	853	2,583	2,824
Gains (losses) on investments, net	13	—	13	(258)
Gains (losses) on debt extinguishment	—	(1,447)	150	(4,528)
Gains (losses) on other transactions	2,533	2,215	6,072	4,031
Insurance premium refund	—	—	21,086	—
Other noninterest income	1,909	560	6,570	4,609
Total noninterest income	14,816	11,591	65,969	36,025
Noninterest Expenses				
Salaries and employee benefits	71,994	70,529	222,694	216,904
Occupancy and equipment	11,143	10,490	32,466	31,204
Insurance Fund premiums	5,670	9,238	16,713	27,340
Other operating expenses	34,087	35,106	101,963	105,025
Losses (gains) from other property owned	172	285	204	1,605
Total noninterest expenses	123,066	125,648	374,040	382,078
Income before income taxes	145,676	147,000	449,383	423,601
Provision for income taxes	221	343	528	644
Net income	\$ 145,455	\$ 146,657	\$ 448,855	\$ 422,957

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

Combined Statements of Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$ 145,455	\$ 146,657	\$ 448,855	\$ 422,957
Other comprehensive income net of tax:				
Unrealized gains (losses) on investments:				
Other-than-temporarily impaired	95	—	95	—
Not other-than-temporarily impaired	(16,961)	1,893	(69,672)	2,675
Change in value of cash flow hedges	73	191	749	464
Employee benefit plans adjustments	7,990	8,089	23,970	25,410
Other comprehensive income (Note 5)	(8,803)	10,173	(44,858)	28,549
Comprehensive income	\$ 136,652	\$ 156,830	\$ 403,997	\$ 451,506

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

Combined Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Protected Borrower Equity	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Retained Earnings		Accumulated Other Comprehensive Income	Total Shareholders' Equity
					Allocated	Unallocated		
Balance at December 31, 2016	\$ 49,250	\$ 513	\$ 174,877	\$ 82,573	\$ 1,971,423	\$ 3,976,744	\$ (374,323)	\$ 5,881,057
Comprehensive income						422,957	28,549	451,506
Protected borrower equity retired		(4)						(4)
Capital stock/participation certificates issued (retired), net			(7,137)					(7,137)
Dividends declared/paid			356			(493)		(137)
Dividends paid on perpetual preferred stock						(841)		(841)
Cash patronage distribution						(9,375)		(9,375)
Retained earnings retired					(59,917)			(59,917)
Patronage distribution adjustment			2		(1,904)	640		(1,262)
Balance at September 30, 2017	\$ 49,250	\$ 509	\$ 168,098	\$ 82,573	\$ 1,909,602	\$ 4,389,632	\$ (345,774)	\$ 6,253,890
Balance at December 31, 2017	\$ 49,250	\$ 502	\$ 169,716	\$ 82,573	\$ 2,097,179	\$ 4,231,956	\$ (382,052)	\$ 6,249,124
Comprehensive income						448,855	(44,858)	403,997
Capital stock/participation certificates issued (retired), net			(4,789)					(4,789)
Dividends declared/paid			341			(475)		(134)
Dividends paid on perpetual preferred stock						(1,191)		(1,191)
Patronage distribution								
Cash						(32,635)		(32,635)
Nonqualified retained earnings					34	(34)		—
Retained earnings retired					(57,766)			(57,766)
Patronage distribution adjustment					(3,104)	2,312		(792)
Balance at September 30, 2018	\$ 49,250	\$ 502	\$ 165,268	\$ 82,573	\$ 2,036,343	\$ 4,648,788	\$ (426,910)	\$ 6,555,814

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

Combined Statements of Cash Flows

(unaudited)

	For the Nine Months Ended September 30,	
	2018	2017
<i>(dollars in thousands)</i>		
Cash flows from operating activities:		
Net income	\$ 448,855	\$ 422,957
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	14,246	14,646
Amortization of net deferred loan (fees) costs and premium amortization (discount accretion)	(424)	(1,909)
Premium amortization (discount accretion) on investment securities	4,152	8,685
(Premium amortization) discount accretion on bonds and notes	68,303	43,153
Amortization (accretion) of yield mark resulting from merger	(1,056)	(895)
Provision for (reversal of allowance for) loan losses	14,630	8,655
(Gains) losses on other property owned	(186)	891
(Gains) losses on investments, net	(13)	258
(Gains) losses on debt extinguishment	(150)	4,528
(Gains) losses on other transactions	(6,072)	(4,031)
Net change in loans held for sale	12,997	12,405
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(70,881)	(64,363)
(Increase) decrease in accounts receivable	8,305	(2,446)
Increase (decrease) in accrued interest payable	28,724	16,792
Increase (decrease) in accounts payable	(23,463)	(18,759)
Change in other, net	(23,359)	(805)
Total adjustments	25,753	16,805
Net cash provided by (used in) operating activities	474,608	439,762
Cash flows from investing activities:		
Investment securities purchased	(1,830,217)	(2,119,266)
Proceeds from investment securities sold or matured	1,920,652	2,153,644
Net (increase) decrease in loans	(859,524)	(762,009)
(Increase) decrease in investments in other Farm Credit System institutions	(528)	(1,747)
Purchase of premises and equipment, net	(23,198)	(13,860)
Proceeds from sale of premises and equipment, net	1,465	1,038
Proceeds from sale of other property owned	2,827	6,748
Net cash provided by (used in) investing activities	(788,523)	(735,452)
Cash flows from financing activities:		
Bonds and notes issued	12,031,198	14,532,194
Bonds and notes retired	(11,674,810)	(14,185,075)
Net increase (decrease) in advanced conditional payments	(5,089)	2,730
Protected borrower equity retired	—	(4)
Capital stock and participation certificates issued/retired, net	(4,789)	(7,137)
Patronage refunds and dividends paid	(257,082)	(184,361)
Dividends paid on perpetual preferred stock	(1,191)	(841)
Retained earnings retired	(57,766)	(59,917)
Net cash provided by (used in) financing activities	30,471	97,589
Net increase (decrease) in cash and cash equivalents	(283,444)	(198,101)
Cash and cash equivalents, beginning of period	771,970	854,115
Cash and cash equivalents, end of period	\$ 488,526	\$ 656,014
Supplemental schedule of non-cash activities:		
Financed sales of other property owned	\$ 1,325	\$ 1,426
Receipt of property in settlement of loans	7,418	5,500
Change in unrealized gains (losses) on investments, net	(69,577)	2,675
Employee benefit plans adjustments	(23,970)	(25,410)
Non-cash changes related to derivatives:		
Increase (decrease) in bonds and notes	\$ —	\$ (92)
Decrease (increase) in other assets	—	92
Supplemental information:		
Interest paid	\$ 352,604	\$ 249,757
Taxes paid, net	555	116

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

Notes to the Combined Financial Statements

(unaudited)

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

Organization

The accompanying combined financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst or Bank) and its related Agricultural Credit Associations (Associations or District Associations), 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 District as of and for the year ended December 31, 2017 are contained in the 2017 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 combined 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 combined 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 District'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 year end:

- In October 2018, the FASB issued ASU 2018-16—Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes. The amendments in this Update permit use of the OIS rate based on SOFR as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815 in addition to the UST, the LIBOR swap rate, the OIS rate based on the Fed Funds Effective Rate, and the SIFMA Municipal Swap Rate. For public business entities that already have adopted the amendments in Update 2017-12, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted in any interim period upon issuance of this Update if an entity already has adopted Update 2017-12. The amendments should be adopted on a prospective basis.

- In August 2018, the FASB issued ASU 2018-15 Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this Update. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period, for all entities. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption.
- In August 2018, the FASB issued ASU 2018-14 Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans. The amendments in this Update remove disclosures that are no longer considered cost beneficial, clarify the specific requirements of certain disclosures, and add new disclosure requirements identified as relevant. Although narrow in scope, the amendments are considered an important part of the FASB’s efforts to improve the effectiveness of disclosures in the notes to financial statements by applying concepts in the Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements. The amendments are effective for public business entities for fiscal years ending after December 15, 2020. Early adoption is permitted.
- In August 2018, the FASB issued ASU 2018-13 Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments are part of the FASB’s disclosure framework project. The project’s objective and primary focus are to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by GAAP that is most important to users of each entity’s financial statements. The amendments remove, modify or add certain disclosures contained in the financial statement footnotes related to fair value. Additionally, the guidance is intended to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Certain amendments should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Entities may early adopt the provisions in whole upon issuance or may early adopt any removed or modified disclosures upon issuance and delay adoption of the additional disclosures until their effective date.
- In July 2018, the FASB issued ASU 2018-11 Leases (Topic 842): Targeted Improvements. The amendments are intended to reduce costs and ease implementation of the leases standard for financial statement preparers. It addresses certain areas identified as possible sources of unnecessary cost or complexity in the standard. Specifically, the amendments provide an option to apply the transition provisions of the new standard at its adoption date instead of at the earliest comparative period presented in its financial statements and a practical expedient that permits lessors to not separate nonlease components from the associated lease component if certain conditions are met. For entities that have not adopted Topic 842 before the issuance of this Update, the effective date and transition requirements for the amendments related to separating components of a contract are the same as the effective date and transition requirements in ASU 2016-02.
- In July 2018, the FASB issued ASU 2018-10 Codification Improvements to Topic 842, Leases. The amendments affect narrow aspects of the guidance issued in ASU 2016-02. Specifically, the Update corrects, clarifies or changes inconsistent language to improve application of the guidance in ASU 2016-02. For entities that have not adopted Topic 842, the effective date and transition requirements will be the same as the effective date and transition requirements in ASU 2016-02.
- In July 2018, the FASB issued ASU 2018-09 Codification Improvements. The amendments affect a wide variety of Topics in the Codification. They apply to all reporting entities within the scope of the affected accounting guidance. The Board has an ongoing project on its agenda about improvements to clarify the Codification or to correct unintended application of guidance. Those items generally are not expected to have a significant effect on current accounting practice. The transition and effective date guidance is based on the facts and circumstances of each amendment.

- In February 2018, the FASB issued ASU 2018-03 Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this Update include items brought to the Board’s attention by stakeholders. The amendments clarify certain aspects of the guidance issued in ASU 2016-01. The amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. All entities may early adopt these amendments for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, as long as they have adopted ASU 2016-01.
- In February 2018, the FASB issued ASU 2018-02 Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and are intended to improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The Update also requires certain disclosures about stranded tax effects. The guidance is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted.

ASUs Pending Effective Date

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

Potential effects of ASUs issued in previous periods:

- In August 2017, the FASB issued ASU 2017-12 Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The Update is intended to improve the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements. In addition to that main objective, the amendments make certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The District is in the process of evaluating the guidance and what effects it may have on the statements of financial condition and results of operations.
- In March 2017, the FASB issued ASU 2017-08 Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The guidance relates to certain callable debt securities and shortens the amortization period for any premium to the earliest call date. The Update will be effective for interim and annual periods beginning after December 15, 2018 for public business entities. Early adoption is permitted. The District is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- In February 2017, the FASB issued ASU 2017-06 Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): Employee Benefit Plan Master Trust Reporting (a consensus of the Emerging Issues Task Force). This Update amended the guidance related to employee benefit plan master trust reporting. The new guidance provides for presentation within the plan’s financial statements of its interest in a master trust as a single line item; disclosure of the master trust’s investments by general type as well as by the dollar amount of the plan’s interest in each type; disclosure of the master trust’s other assets and liabilities and the balances related to the plan; and elimination of required disclosures for Section 401(h) accounts that are already provided by the associated defined benefit plan. The amendments are effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The District does not expect these amendments to have a material effect on its financial statements.
- In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to better estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that

are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The District is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

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

Accounting Standards Effective During the Period

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

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

- In March 2017, the FASB issued ASU 2017-07 Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. The amendments were effective January 1, 2018 for the District. Adoption in 2018 did not have a material effect on the District's financial statements, but did require reclassification of certain periodic pension costs to Other Operating Expenses.
- In February 2017, the FASB issued ASU 2017-05 Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The Update clarifies whether certain transactions are within the scope of the guidance on derecognition and the accounting for partial sales of nonfinancial assets, and defines the term in substance nonfinancial asset. The amendments conform the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue standard. The amendments were effective January 1, 2018 for the District. Adoption in 2018 had no impact on the statements of financial condition and results of operations of the District.
- In January 2017, the FASB issued ASU 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments provide a more robust framework to use in determining when a set of assets and activities is a business. They also support more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable. The ASU was effective January 1, 2018 for the District. The amendments were applied prospectively. Adoption of the guidance in 2018 had no impact on the statements of financial condition and results of operations.
- In January 2016, the FASB issued ASU 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The Update was intended to improve the recognition and measurement of financial instruments. The new guidance makes targeted improvements to existing GAAP.

Transition Information

- The District identified investment securities affected by this Update and adopted the guidance on January 1, 2018.
- The amendments related to equity securities without readily determinable fair values were applied prospectively to equity investments that existed as of the date of adoption.
- Application of the amendments did not require a cumulative effect adjustment.
- Adoption did not have an impact on the District's financial condition or results of operations.
- The new standard did result in changes to certain disclosures.

- In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers (Topic 606). This guidance changed the recognition of revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance also included expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Based on input received from stakeholders, the FASB issued several additional Updates that generally provided clarifying guidance where there was the potential for diversity in practice, or address the cost and complexity of applying Topic 606.

Transition Information

- The District identified ancillary revenues affected by this Update and adopted the guidance on January 1, 2018.
- The amendments were applied using the modified retrospective approach.
- The District elected to only apply the guidance to contracts that were not completed at the date of initial application.
- Subtopics 610-20 on gains and losses from the derecognition of nonfinancial assets, and 340-40 on other assets and deferred costs-contracts with customers were adopted using the same transition options.
- Adoption did not have an impact on the District's financial condition or results of operations.
- The new standard did result in enhanced disclosures about revenue (see Note 9, *Revenue from Contracts with Customers*).

Note 2 — Loans and Allowance for Loan Losses

The District maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the District 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 District manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Bank and each Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the boards of directors.

A summary of loans outstanding at period end follows:

<i>(dollars in thousands)</i>	September 30, 2018	December 31, 2017
Real estate mortgage	\$ 14,657,708	\$ 14,092,944
Production and intermediate-term	6,991,769	7,044,930
Loans to cooperatives	627,036	662,604
Processing and marketing	1,664,153	1,442,935
Farm-related business	369,098	363,137
Communication	488,206	466,975
Power and water/waste disposal	609,291	629,317
Rural residential real estate	3,535,419	3,431,905
International	133,871	98,625
Lease receivables	10,744	12,358
Loans to other financing institutions (OFIs)	138,693	131,572
Other (including Mission Related)	72,390	74,505
Total loans	\$ 29,298,378	\$ 28,451,807

The District may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. During 2018, the Bank purchased \$423.0 million of residential mortgage loans from various System associations and sold \$86.4 million from the portfolio. These amounts are not included in the table below. The following tables present the principal balance of participation loans at periods ended:

	September 30, 2018					
	Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
<i>(dollars in thousands)</i>						
Real estate mortgage	\$ 445,167	\$ 92,078	\$ 43,470	\$ 10,801	\$ 488,637	\$ 102,879
Production and intermediate-term	726,790	334,766	153,204	5,328	879,994	340,094
Loans to cooperatives	623,744	—	—	—	623,744	—
Processing and marketing	454,156	419,422	966,929	9	1,421,085	419,431
Farm-related business	27,634	20,735	24,138	244	51,772	20,979
Communication	489,103	—	—	—	489,103	—
Power and water/waste disposal	610,823	—	—	—	610,823	—
Rural residential real estate	—	—	43	—	43	—
International	134,109	—	—	—	134,109	—
Lease receivables	9,935	—	—	—	9,935	—
Other (including Mission Related)	—	—	46,496	—	46,496	—
Total	\$ 3,521,461	\$ 867,001	\$ 1,234,280	\$ 16,382	\$ 4,755,741	\$ 883,383

	December 31, 2017					
	Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
<i>(dollars in thousands)</i>						
Real estate mortgage	\$ 365,353	\$ 100,833	\$ 46,148	\$ 12,054	\$ 411,501	\$ 112,887
Production and intermediate-term	767,110	409,738	237,238	4,484	1,004,348	414,222
Loans to cooperatives	659,531	—	—	—	659,531	—
Processing and marketing	377,296	408,032	836,351	16	1,213,647	408,048
Farm-related business	27,063	2,354	27,734	249	54,797	2,603
Communication	468,444	—	—	—	468,444	—
Power and water/waste disposal	613,164	—	18,026	—	631,190	—
Rural residential real estate	—	—	123	—	123	—
International	98,919	—	—	—	98,919	—
Lease receivables	4,539	—	—	—	4,539	—
Other (including Mission Related)	—	—	46,924	—	46,924	—
Total	\$ 3,381,419	\$ 920,957	\$ 1,212,544	\$ 16,803	\$ 4,593,963	\$ 937,760

A significant source of liquidity for the District 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, 2018			
	Due Less Than 1 Year	Due 1 Through 5 Years	Due After 5 Years	Total
<i>(dollars in thousands)</i>				
Real estate mortgage	\$ 315,908	\$ 2,535,600	\$ 11,806,200	\$ 14,657,708
Production and intermediate-term	2,334,224	3,185,447	1,472,098	6,991,769
Loans to cooperatives	30,038	459,989	137,009	627,036
Processing and marketing	154,003	1,007,347	502,803	1,664,153
Farm-related business	70,834	175,303	122,961	369,098
Communication	38,544	357,084	92,578	488,206
Power and water/waste disposal	11,987	213,159	384,145	609,291
Rural residential real estate	120,645	53,070	3,361,704	3,535,419
International	—	98,319	35,552	133,871
Lease receivables	73	2,188	8,483	10,744
Loans to OFIs	116,011	6,485	16,197	138,693
Other (including Mission Related)	1,066	9,280	62,044	72,390
Total loans	\$ 3,193,333	\$ 8,103,271	\$ 18,001,774	\$ 29,298,378
Percentage	10.90%	27.66%	61.44%	100.00%

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

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

	September 30, 2018	December 31, 2017		September 30, 2018	December 31, 2017
Real estate mortgage:			Power and water/waste disposal:		
Acceptable	95.09%	95.09%	Acceptable	100.00%	99.65%
OAEM	2.86	2.65	OAEM	—	—
Substandard/doubtful/loss	2.05	2.26	Substandard/doubtful/loss	—	0.35
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Production and intermediate-term:			Rural residential real estate:		
Acceptable	92.09%	91.67%	Acceptable	99.17%	99.21%
OAEM	4.11	4.94	OAEM	0.34	0.32
Substandard/doubtful/loss	3.80	3.39	Substandard/doubtful/loss	0.49	0.47
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Loans to cooperatives:			International:		
Acceptable	98.69%	98.75%	Acceptable	100.00%	100.00%
OAEM	—	—	OAEM	—	—
Substandard/doubtful/loss	1.31	1.25	Substandard/doubtful/loss	—	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Processing and marketing:			Lease receivables:		
Acceptable	99.29%	99.60%	Acceptable	96.94%	99.49%
OAEM	0.39	0.21	OAEM	0.13	0.11
Substandard/doubtful/loss	0.32	0.19	Substandard/doubtful/loss	2.93	0.40
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Farm-related business:			Loans to OFIs:		
Acceptable	96.21%	94.02%	Acceptable	100.00%	100.00%
OAEM	2.48	2.11	OAEM	—	—
Substandard/doubtful/loss	1.31	3.87	Substandard/doubtful/loss	—	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Communication:			Other (including Mission Related):		
Acceptable	95.29%	100.00%	Acceptable	99.98%	99.97%
OAEM	4.71	—	OAEM	—	—
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	0.02	0.03
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
			Total loans:		
			Acceptable	95.35%	95.27%
			OAEM	2.59	2.62
			Substandard/doubtful/loss	2.06	2.11
				<u>100.00%</u>	<u>100.00%</u>

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

	September 30, 2018				
	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
<i>(dollars in thousands)</i>					
Real estate mortgage	\$ 66,789	\$ 52,000	\$ 118,789	\$ 14,699,786	\$ 14,818,575
Production and intermediate-term	45,312	49,467	94,779	6,991,780	7,086,559
Loans to cooperatives	—	8	8	628,359	628,367
Processing and marketing	993	2,643	3,636	1,666,497	1,670,133
Farm-related business	3,678	955	4,633	366,745	371,378
Communication	—	—	—	488,447	488,447
Power and water/waste disposal	—	—	—	612,810	612,810
Rural residential real estate	13,263	7,279	20,542	3,525,192	3,545,734
International	—	—	—	134,378	134,378
Lease receivables	14	—	14	10,768	10,782
Loans to OFIs	—	—	—	139,018	139,018
Other (including Mission Related)	—	387	387	72,755	73,142
Total	<u>\$ 130,049</u>	<u>\$ 112,739</u>	<u>\$ 242,788</u>	<u>\$ 29,336,535</u>	<u>\$ 29,579,323</u>

<i>(dollars in thousands)</i>	December 31, 2017				
	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
Real estate mortgage	\$ 57,790	\$ 42,995	\$ 100,785	\$ 14,116,210	\$ 14,216,995
Production and intermediate-term	36,022	56,464	92,486	7,022,256	7,114,742
Loans to cooperatives	—	—	—	663,838	663,838
Processing and marketing	459	2,761	3,220	1,444,785	1,448,005
Farm-related business	2,348	247	2,595	362,268	364,863
Communication	—	—	—	467,502	467,502
Power and water/waste disposal	—	—	—	631,817	631,817
Rural residential real estate	55,025	6,266	61,291	3,379,607	3,440,898
International	—	—	—	98,952	98,952
Lease receivables	—	—	—	12,390	12,390
Loans to OFIs	—	—	—	131,818	131,818
Other (including Mission Related)	367	546	913	74,352	75,265
Total	\$ 152,011	\$ 109,279	\$ 261,290	\$ 28,405,795	\$ 28,667,085

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

<i>(dollars in thousands)</i>	September 30, 2018	December 31, 2017
Nonaccrual loans:		
Real estate mortgage	\$ 112,960	\$ 118,073
Production and intermediate-term	110,009	99,646
Loans to cooperatives	8,216	—
Processing and marketing	2,704	2,827
Farm-related business	2,928	3,224
Rural residential real estate	17,725	15,037
Lease receivables	185	50
Total	\$ 254,727	\$ 238,857
Accruing restructured loans:		
Real estate mortgage	\$ 66,290	\$ 64,234
Production and intermediate-term	50,148	47,100
Processing and marketing	550	—
Farm-related business	410	439
Rural residential real estate	4,038	3,011
Other (including Mission Related)	8,784	8,958
Total	\$ 130,220	\$ 123,742
Accruing loans 90 days or more past due:		
Real estate mortgage	\$ 970	\$ —
Production and intermediate-term	3,660	75
Other (including Mission Related)	388	—
Total	\$ 5,018	\$ 75
Total nonperforming loans	\$ 389,965	\$ 362,674
Other property owned	18,015	14,655
Total nonperforming assets	\$ 407,980	\$ 377,329
Nonaccrual loans as a percentage of total loans	0.87%	0.84%
Nonperforming assets as a percentage of total loans and other property owned	1.39%	1.33%
Nonperforming assets as a percentage of capital	6.22%	6.04%

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

<i>(dollars in thousands)</i>	September 30, 2018	December 31, 2017
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 123,099	\$ 104,285
Past due	131,628	134,572
Total	<u>\$ 254,727</u>	<u>\$ 238,857</u>
Impaired accrual loans:		
Restructured	\$ 130,220	\$ 123,742
90 days or more past due	5,018	75
Total	<u>\$ 135,238</u>	<u>\$ 123,817</u>
Total impaired loans	<u>\$ 389,965</u>	<u>\$ 362,674</u>
Additional commitments to lend	<u>\$ 2,919</u>	<u>\$ 1,109</u>

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

<i>(dollars in thousands)</i>	September 30, 2018			Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
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	\$ 23,242	\$ 25,196	\$ 3,992	\$ 22,762	\$ 383	\$ 23,842	\$ 971
Production and intermediate-term	63,624	68,781	22,034	61,284	1,447	53,261	2,726
Loans to cooperatives	8,208	8,478	3,638	8,080	47	7,892	45
Processing and marketing	—	—	—	—	—	—	—
Farm-related business	94	108	32	89	—	152	4
Power and water/waste disposal	—	—	—	—	—	709	—
Rural residential real estate	4,939	5,195	830	4,814	33	3,078	78
Lease receivables	185	186	108	171	2	187	9
Other (including Mission Related)	8,757	8,576	422	8,929	114	8,798	334
Total	<u>\$ 109,049</u>	<u>\$ 116,520</u>	<u>\$ 31,056</u>	<u>\$ 106,129</u>	<u>\$ 2,026</u>	<u>\$ 97,919</u>	<u>\$ 4,167</u>
With no related allowance for credit losses:							
Real estate mortgage	\$ 156,978	\$ 186,841	\$ —	\$ 156,303	\$ 5,113	\$ 153,194	\$ 8,950
Production and intermediate-term	100,193	142,781	—	96,790	1,452	99,260	4,562
Loans to cooperatives	8	7	—	7	1	8	1
Processing and marketing	3,254	3,743	—	3,094	53	3,073	147
Farm-related business	3,244	5,483	—	3,062	57	3,761	149
Power and water/waste disposal	—	—	—	—	—	3	—
Rural residential real estate	16,824	17,912	—	15,925	224	16,436	639
Lease receivables	—	—	—	—	—	31	—
Other (including Mission Related)	415	743	—	436	6	364	13
Total	<u>\$ 280,916</u>	<u>\$ 357,510</u>	<u>\$ —</u>	<u>\$ 275,617</u>	<u>\$ 6,906</u>	<u>\$ 276,130</u>	<u>\$ 14,461</u>
Total:							
Real estate mortgage	\$ 180,220	\$ 212,037	\$ 3,992	\$ 179,065	\$ 5,496	\$ 177,036	\$ 9,921
Production and intermediate-term	163,817	211,562	22,034	158,074	2,899	152,521	7,288
Loans to cooperatives	8,216	8,485	3,638	8,087	48	7,900	46
Processing and marketing	3,254	3,743	—	3,094	53	3,073	147
Farm-related business	3,338	5,591	32	3,151	57	3,913	153
Power and water/waste disposal	—	—	—	—	—	712	—
Rural residential real estate	21,763	23,107	830	20,739	257	19,514	717
Lease receivables	185	186	108	171	2	218	9
Other (including Mission Related)	9,172	9,319	422	9,365	120	9,162	347
Total	<u>\$ 389,965</u>	<u>\$ 474,030</u>	<u>\$ 31,056</u>	<u>\$ 381,746</u>	<u>\$ 8,932</u>	<u>\$ 374,049</u>	<u>\$ 18,628</u>

AgFirst Farm Credit Bank and District Associations

<i>(dollars in thousands)</i>	December 31, 2017			Year Ended December 31, 2017	
Impaired Loans	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	\$ 21,823	\$ 25,664	\$ 3,942	\$ 21,524	\$ 1,065
Production and intermediate-term	45,877	51,572	13,291	44,172	2,295
Processing and marketing	—	—	—	—	—
Farm-related business	86	91	17	1,557	4
Rural residential real estate	4,456	4,628	844	1,810	82
Lease receivables	50	50	—	43	3
Other (including Mission Related)	8,918	8,857	624	9,132	477
Total	\$ 81,210	\$ 90,862	\$ 18,718	\$ 78,238	\$ 3,926
With no related allowance for credit losses:					
Real estate mortgage	\$ 160,484	\$ 194,843	\$ —	\$ 160,040	\$ 7,774
Production and intermediate-term	100,944	145,749	—	107,672	6,481
Processing and marketing	2,827	3,201	—	4,089	145
Farm-related business	3,577	5,420	—	2,997	181
Rural residential real estate	13,592	14,917	—	12,819	564
Lease receivables	—	—	—	18	—
Other (including Mission Related)	40	891	—	92	2
Total	\$ 281,464	\$ 365,021	\$ —	\$ 287,727	\$ 15,147
Total:					
Real estate mortgage	\$ 182,307	\$ 220,507	\$ 3,942	\$ 181,564	\$ 8,839
Production and intermediate-term	146,821	197,321	13,291	151,844	8,776
Processing and marketing	2,827	3,201	—	4,089	145
Farm-related business	3,663	5,511	17	4,554	185
Rural residential real estate	18,048	19,545	844	14,629	646
Lease receivables	50	50	—	61	3
Other (including Mission Related)	8,958	9,748	624	9,224	479
Total	\$ 362,674	\$ 455,883	\$ 18,718	\$ 365,965	\$ 19,073

AgFirst Farm Credit Bank and District Associations

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

<i>(dollars in thousands)</i>	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivables	Other Loans**	Total
Activity related to allowance for credit losses:										
Balance at June 30, 2018	\$ 79,847	\$ 87,218	\$ 13,400	\$ 2,270	\$ 1,438	\$ 7,426	\$ 152	\$ 543	\$ 752	\$ 193,046
Charge-offs	(401)	(3,081)	(99)	—	11	(61)	—	(16)	—	(3,647)
Recoveries	167	2,970	2	—	1	75	—	—	—	3,215
Provision for loan losses	2,917	3,487	3,018	210	(44)	156	304	95	(13)	10,130
Loan type reclassifications	—	—	—	—	—	—	—	—	—	—
Balance at September 30, 2018	\$ 82,530	\$ 90,594	\$ 16,321	\$ 2,480	\$ 1,406	\$ 7,596	\$ 456	\$ 622	\$ 739	\$ 202,744
Balance at December 31, 2017	\$ 82,686	\$ 86,037	\$ 10,977	\$ 2,237	\$ 2,935	\$ 7,262	\$ 151	\$ 54	\$ 728	\$ 193,067
Charge-offs	(865)	(8,273)	(696)	—	(304)	(325)	—	(16)	—	(10,479)
Recoveries	986	4,332	20	—	3	185	—	—	—	5,526
Provision for loan losses	(378)	8,494	6,020	243	(1,228)	474	305	520	180	14,630
Loan type reclassifications	101	4	—	—	—	—	—	64	(169)	—
Balance at September 30, 2018	\$ 82,530	\$ 90,594	\$ 16,321	\$ 2,480	\$ 1,406	\$ 7,596	\$ 456	\$ 622	\$ 739	\$ 202,744
Balance at June 30, 2017	\$ 80,465	\$ 81,873	\$ 10,958	\$ 2,400	\$ 3,627	\$ 6,193	\$ 160	\$ 54	\$ 694	\$ 186,424
Charge-offs	(144)	(932)	—	—	—	(60)	—	—	—	(1,136)
Recoveries	985	713	83	—	—	49	—	9	10	1,849
Provision for loan losses	(183)	3,724	(234)	(77)	(175)	377	1	(45)	79	3,467
Loan type reclassifications	49	—	—	—	—	—	—	25	(74)	—
Balance at September 30, 2017	\$ 81,172	\$ 85,378	\$ 10,807	\$ 2,323	\$ 3,452	\$ 6,559	\$ 161	\$ 43	\$ 709	\$ 190,604
Balance at December 31, 2016	\$ 77,629	\$ 81,548	\$ 10,342	\$ 2,987	\$ 3,040	\$ 6,008	\$ 186	\$ 38	\$ 822	\$ 182,600
Charge-offs	(2,089)	(3,264)	(2)	—	—	(313)	—	—	—	(5,668)
Recoveries	2,831	1,829	194	—	—	121	—	21	21	5,017
Provision for loan losses	2,699	5,089	273	(664)	412	743	(25)	(41)	169	8,655
Loan type reclassifications	102	176	—	—	—	—	—	25	(303)	—
Balance at September 30, 2017	\$ 81,172	\$ 85,378	\$ 10,807	\$ 2,323	\$ 3,452	\$ 6,559	\$ 161	\$ 43	\$ 709	\$ 190,604
Allowance on loans evaluated for impairment:										
Individually	\$ 3,992	\$ 22,034	\$ 3,670	\$ —	\$ —	\$ 830	\$ —	\$ 108	\$ 422	\$ 31,056
Collectively	78,538	68,560	12,651	2,480	1,406	6,766	456	514	317	171,688
PCI***	—	—	—	—	—	—	—	—	—	—
Balance at September 30, 2018	\$ 82,530	\$ 90,594	\$ 16,321	\$ 2,480	\$ 1,406	\$ 7,596	\$ 456	\$ 622	\$ 739	\$ 202,744
Individually	\$ 3,942	\$ 13,291	\$ 17	\$ —	\$ —	\$ 844	\$ —	\$ —	\$ 624	\$ 18,718
Collectively	78,744	72,746	10,960	2,237	2,935	6,418	151	54	104	174,349
PCI***	—	—	—	—	—	—	—	—	—	—
Balance at December 31, 2017	\$ 82,686	\$ 86,037	\$ 10,977	\$ 2,237	\$ 2,935	\$ 7,262	\$ 151	\$ 54	\$ 728	\$ 193,067
Recorded investment in loans evaluated for impairment:										
Individually	\$ 327,258	\$ 164,428	\$ 11,897	\$ —	\$ —	\$ 1,311,471	\$ —	\$ 332	\$ 8,757	\$ 1,824,143
Collectively	14,489,250	6,922,131	2,657,981	488,447	612,810	2,234,212	134,378	10,450	203,403	27,753,062
PCI***	2,067	—	—	—	—	51	—	—	—	2,118
Balance at September 30, 2018	\$ 14,818,575	\$ 7,086,559	\$ 2,669,878	\$ 488,447	\$ 612,810	\$ 3,545,734	\$ 134,378	\$ 10,782	\$ 212,160	\$ 29,579,323
Individually	\$ 320,369	\$ 144,163	\$ 6,062	\$ —	\$ —	\$ 1,414,184	\$ —	\$ 229	\$ 8,918	\$ 1,893,925
Collectively	13,894,608	6,970,579	2,470,644	467,502	631,817	2,026,655	98,952	12,161	198,165	26,771,083
PCI***	2,018	—	—	—	—	59	—	—	—	2,077
Balance at December 31, 2017	\$ 14,216,995	\$ 7,114,742	\$ 2,476,706	\$ 467,502	\$ 631,817	\$ 3,440,898	\$ 98,952	\$ 12,390	\$ 207,083	\$ 28,667,085

* Includes the loan types: Loans to Cooperatives, Processing and Marketing, and Farm-related Business.

** Includes the loan types: Mission Related Loans and Loans to OFIs.

*** Purchased credit impaired loans.

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 (PCI) loans.

<i>(dollars in thousands)</i>					
Three Months Ended September 30, 2018					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification					
Real estate mortgage	\$ 742	\$ 1,313	\$ —	\$ 2,055	
Production and intermediate-term	179	7,177	3	7,359	
Rural residential real estate	113	167	—	280	
Total	\$ 1,034	\$ 8,657	\$ 3	\$ 9,694	
Post-modification					
Real estate mortgage	\$ 744	\$ 1,277	\$ —	\$ 2,021	\$ —
Production and intermediate-term	429	6,225	4	6,658	(4)
Rural residential real estate	112	174	—	286	—
Total	\$ 1,285	\$ 7,676	\$ 4	\$ 8,965	\$ (4)

AgFirst Farm Credit Bank and District Associations

(dollars in thousands)

Nine Months Ended September 30, 2018

Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification					
Real estate mortgage	\$ 3,477	\$ 16,577	\$ –	\$ 20,054	
Production and intermediate-term	1,175	25,442	3	26,620	
Loans to cooperatives	–	3,229	–	3,229	
Processing and marketing	–	663	–	663	
Rural residential real estate	454	1,007	8	1,469	
Total	\$ 5,106	\$ 46,918	\$ 11	\$ 52,035	
Post-modification					
Real estate mortgage	\$ 3,488	\$ 16,768	\$ –	\$ 20,256	\$ (43)
Production and intermediate-term	1,438	23,963	4	25,405	(53)
Loans to cooperatives	–	3,229	–	3,229	–
Processing and marketing	–	663	–	663	–
Rural residential real estate	464	1,035	8	1,507	–
Total	\$ 5,390	\$ 45,658	\$ 12	\$ 51,060	\$ (96)

(dollars in thousands)

Three months ended September 30, 2017

Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification					
Real estate mortgage	\$ 1,162	\$ 3,061	\$ –	\$ 4,223	
Production and intermediate-term	1,140	4,668	–	5,808	
Processing and marketing	–	72	–	72	
Rural residential real estate	387	–	–	387	
Total	\$ 2,689	\$ 7,801	\$ –	\$ 10,490	
Post-modification					
Real estate mortgage	\$ 1,175	\$ 2,900	\$ –	\$ 4,075	\$ –
Production and intermediate-term	1,284	3,973	–	5,257	(10)
Processing and marketing	–	71	–	71	–
Rural residential real estate	405	–	–	405	–
Total	\$ 2,864	\$ 6,944	\$ –	\$ 9,808	\$ (10)

(dollars in thousands)

Nine months ended September 30, 2017

Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification					
Real estate mortgage	\$ 2,041	\$ 13,471	\$ –	\$ 15,512	
Production and intermediate-term	3,091	20,451	198	23,740	
Processing and marketing	–	2,030	–	2,030	
Rural residential real estate	617	225	–	842	
Total	\$ 5,749	\$ 36,177	\$ 198	\$ 42,124	
Post-modification					
Real estate mortgage	\$ 2,054	\$ 13,434	\$ –	\$ 15,488	\$ (1)
Production and intermediate-term	3,370	19,697	198	23,265	(405)
Processing and marketing	–	2,029	–	2,029	–
Rural residential real estate	670	228	–	898	–
Total	\$ 6,094	\$ 35,388	\$ 198	\$ 41,680	\$ (406)

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

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

<i>(dollars in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Defaulted troubled debt restructurings:				
Real estate mortgage	\$ 114	\$ 143	\$ 607	\$ 179
Production and intermediate-term	1,365	738	2,712	4,729
Rural residential real estate	263	176	649	422
Total	\$ 1,742	\$ 1,057	\$ 3,968	\$ 5,330

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:

<i>(dollars in thousands)</i>	Total TDRs		Nonaccrual TDRs	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Real estate mortgage	\$ 91,501	\$ 101,252	\$ 25,211	\$ 37,018
Production and intermediate-term	80,782	75,951	30,634	28,851
Loans to cooperatives	3,461	—	3,461	—
Processing and marketing	2,030	1,600	1,480	1,600
Farm-related business	2,172	2,461	1,762	2,022
Rural residential real estate	6,933	5,785	2,895	2,774
Other (including Mission Related)	8,784	8,958	—	—
Total	\$ 195,663	\$ 196,007	\$ 65,443	\$ 72,265
Additional commitments to lend	\$ 1,115	\$ 880		

The following table presents foreclosure information as of period end:

<i>(dollars in thousands)</i>	September 30, 2018
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ 1,316
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ 1,818

PCI Loans

For further discussion of the District's accounting for PCI loans, see Note 2, *Summary of Significant Accounting Policies*, of the District's most recent Annual Report.

In connection with past mergers, certain Associations purchased impaired loans that are not accounted for as debt securities. The carrying amounts of those loans included in the balance sheet amounts of loans receivable at September 30, 2018, were as follows.

<i>(dollars in thousands)</i>	
Real estate mortgage	\$ 2,067
Rural residential real estate	51
Total loans	\$ 2,118

At both September 30, 2018 and December 31, 2017, there was no allowance for loan losses related to these loans. During the three and nine months ended September 30, 2018, provision for loan losses on these loans was an expense reversal of \$1.5 million and an expense reversal of \$1.6 million, respectively, compared with an expense reversal of \$34 thousand and an expense reversal of \$68 thousand for the three and nine month periods ended September 30, 2017. See above for a summary of changes in the total allowance for loan losses for the period ended September 30, 2018. There were no loans acquired for 2018 or 2017 for which it was probable at acquisition that all contractually required payments would not be collected.

Certain loans that are within the scope of purchased impaired loan guidance are accounted for using a cash basis method of income recognition because the acquiring Associations could not reasonably estimate cash flows expected to be collected. Substantially all of the loans acquired were real estate collateral dependent loans. At the time of purchase, the real estate markets were very unpredictable, making estimation of the amount and timing of a sale of loan collateral in essentially the same condition as received upon foreclosure indeterminate. As such, the acquiring Associations did not have the information necessary to reasonably estimate cash flows expected to be collected to compute their yield. Management determined a nonaccrual classification would be the most appropriate and that no income would be recognized on these loans as is allowed under accounting guidance.

Note 3 — Investments

Equity Investments in Other Farm Credit System Institutions

Equity investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. These investments are carried at cost and evaluated for impairment based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

Investments in Debt Securities

District investments in debt securities 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.

Non-agency asset-backed securities (ABSs) are included in the available-for-sale investments in debt securities. 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. At September 30, 2018, the District held no ineligible available-for-sale investments in debt securities.

Held-to-maturity investments in debt securities consist of Mission Related Investments (MRIs) 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.

Held-to-maturity investments in debt securities also include ABSs issued through the Small Business Administration and guaranteed by the full faith and credit of the United States government. They are held for managing short-term surplus funds and reducing interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

In its Conditions of Approval for the program, the FCA generally 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. Any other bonds purchased under the MRI program, approved on a case-by-case basis by the FCA, may have different eligibility requirements. The FCA requires System institutions to provide notification when a security becomes ineligible. At September 30, 2018, the District held three RABs totaling \$4.6 million whose credit quality had deteriorated beyond the program limits.

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

An agreement with a commercial bank requires AgFirst to maintain \$50.0 million as a compensating balance. At September 30, 2018, the Bank held \$41.9 million in U.S. Treasury securities for that purpose. The remainder of the compensating balance was held in cash in a demand deposit account. These securities are excluded when calculating the amount of eligible liquidity investments.

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

During the first nine months of 2018, proceeds from sales of investments were \$11.7 million and realized losses were \$13 thousand. During the first nine months of 2017, proceeds from sales of investments were \$77.2 million and realized losses were \$258 thousand.

Available-for-sale

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

September 30, 2018					
<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Treasury Securities	\$ 390,082	\$ 1	\$ (966)	\$ 389,117	2.10%
U.S. Govt. Guaranteed	4,586,352	28,229	(81,179)	4,533,402	2.54
U.S. Govt. Agency Guaranteed	1,954,627	5,191	(33,759)	1,926,059	2.46
Non-Agency ABSs	716,474	80	(7,274)	709,280	2.05
Total	\$ 7,647,535	\$ 33,501	\$ (123,178)	\$ 7,557,858	2.45%

December 31, 2017					
<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Treasury Securities	\$ 490,570	\$ 2	\$ (475)	\$ 490,097	1.31%
U.S. Govt. Guaranteed	4,536,232	35,601	(36,620)	4,535,213	2.06
U.S. Govt. Agency Guaranteed	2,022,077	6,618	(21,852)	2,006,843	1.90
Non-Agency ABSs	634,752	84	(3,384)	631,452	1.60
Total	\$ 7,683,631	\$ 42,305	\$ (62,331)	\$ 7,663,605	1.93%

Held-to-maturity

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

September 30, 2018					
<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Guaranteed	\$ 10,807	\$ 38	\$ (145)	\$ 10,700	4.01%
U.S. Govt. Agency Guaranteed RABs and Other	362,541	4,631	(16,753)	350,419	3.04
	91,152	2,330	(1,239)	92,243	5.90
Total	\$ 464,500	\$ 6,999	\$ (18,137)	\$ 453,362	3.62%

December 31, 2017					
<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Guaranteed	\$ 15,964	\$ 287	\$ (76)	\$ 16,175	1.93%
U.S. Govt. Agency Guaranteed RABs and Other (a)	401,810	7,438	(6,166)	403,082	3.25
	104,374	6,011	(929)	109,456	6.26
Total	\$ 522,148	\$ 13,736	\$ (7,171)	\$ 528,713	3.81%

a) Gross unrealized losses included non-credit related other-than-temporary impairment included in AOCI of \$95 thousand for RABs and Other.

A summary of the contractual maturity, estimated fair value and amortized cost of investment securities at September 30, 2018 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	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
<i>(dollars in thousands)</i>										
U.S. Govt. Treasury Securities	\$ 324,766	2.08 %	\$ 64,351	2.21 %	\$ —	— %	\$ —	— %	\$ 389,117	2.10 %
U.S. Govt. Guaranteed	—	—	10,902	2.69	180,530	2.95	4,341,970	2.52	4,533,402	2.54
U.S. Govt. Agency Guaranteed	52,773	2.17	147,957	2.57	208,201	2.43	1,517,128	2.46	1,926,059	2.46
Non-Agency ABSs	3,465	2.43	659,177	2.02	46,638	2.43	—	—	709,280	2.05
Total fair value	\$ 381,004	2.10 %	\$ 882,387	2.13 %	\$ 435,369	2.65 %	\$ 5,859,098	2.51 %	\$ 7,557,858	2.45 %
Total amortized cost	\$ 381,658		\$ 889,388		\$ 439,348		\$ 5,937,141		\$ 7,647,535	

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	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
<i>(dollars in thousands)</i>										
U.S. Govt. Guaranteed	\$ 326	3.06 %	\$ 1,921	4.44 %	\$ 2,126	— %	\$ 6,434	4.12 %	\$ 10,807	4.01 %
U.S. Govt. Agency Guaranteed	3	5.08	—	—	—	3.45	362,538	3.04	362,541	3.04
RABs and Other	5,953	5.84	5,295	5.60	17,354	6.01	62,550	5.89	91,152	5.90
Total amortized cost	\$ 6,282	5.70 %	\$ 7,216	5.29 %	\$ 19,480	5.73 %	\$ 431,522	3.47 %	\$ 464,500	3.62 %
Total fair value	\$ 6,277		\$ 7,272		\$ 19,949		\$ 419,864		\$ 453,362	

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

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

	September 30, 2018					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(dollars in thousands)</i>						
U.S. Govt. Treasury Securities	\$ 312,401	\$ (752)	\$ 27,285	\$ (214)	\$ 339,686	\$ (966)
U.S. Govt. Guaranteed	1,219,447	(23,208)	1,824,189	(58,116)	3,043,636	(81,324)
U.S. Govt. Agency Guaranteed	556,556	(4,702)	1,145,630	(45,810)	1,702,186	(50,512)
Non-Agency ABSs	404,582	(4,116)	260,679	(3,158)	665,261	(7,274)
RABs and Other	19,620	(354)	11,887	(885)	31,507	(1,239)
Total	\$ 2,512,606	\$ (33,132)	\$ 3,269,670	\$ (108,183)	\$ 5,782,276	\$ (141,315)

	December 31, 2017					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(dollars in thousands)</i>						
U.S. Govt. Treasury Securities	\$ 413,053	\$ (182)	\$ 27,193	\$ (293)	\$ 440,246	\$ (475)
U.S. Govt. Guaranteed	1,357,768	(14,066)	1,418,523	(22,630)	2,776,291	(36,696)
U.S. Govt. Agency Guaranteed	334,739	(1,454)	1,380,697	(26,564)	1,715,436	(28,018)
Non-Agency ABSs	438,392	(2,569)	162,935	(815)	601,327	(3,384)
RABs and Other	682	(1)	11,896	(928)	12,578	(929)
Total	\$ 2,544,634	\$ (18,272)	\$ 3,001,244	\$ (51,230)	\$ 5,545,878	\$ (69,502)

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 District 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 District 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 District 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 District 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 District obtains assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party.

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

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

For the nine months ended September 30, 2018, net unrealized losses of \$69.7 million were recognized in OCI on investments in debt securities that are not other-than-temporarily impaired.

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

<i>(dollars in thousands)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Amount related to credit loss-beginning balance	\$ 2,024	\$ 2,024	\$ 2,024	\$ 2,024
Additions for initial credit impairments	—	—	—	—
Additions for subsequent credit impairments	—	—	—	—
Reductions for increases in expected cash flows	—	—	—	—
Reductions for securities sold/settled/matured	(2,024)	—	(2,024)	—
Amount related to credit loss-ending balance	\$ —	\$ 2,024	\$ —	\$ 2,024
Life to date incurred credit losses	—	—	—	—
Remaining unrealized credit losses	\$ —	\$ 2,024	\$ —	\$ 2,024

For all other impaired investments, the District has not recognized any credit losses as the impairments are deemed temporary and result from non-credit related factors. The District 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 District expects these securities would not be settled at a price less than their amortized cost.

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

<i>(dollars in thousands)</i>	Nine Months Ended September 30,	
	2018	2017
Net gains (losses) on equity securities		
Net gains (losses) recognized	\$ 1,480	\$ 53
Less realized net gains (losses)	1,260	18
Unrealized gains (losses)	<u>\$ 220</u>	<u>\$ 35</u>

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 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. The table does not include \$1.039 billion of intra-system obligations.

<i>(dollars in thousands)</i>	September 30, 2018					
	Bonds		Discount Notes		Total	
Maturities	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate
One year or less	\$ 6,605,303	1.70%	\$ 4,793,820	2.20%	\$ 11,399,123	1.91%
Greater than one year to two years	6,005,631	1.92	–	–	6,005,631	1.92
Greater than two years to three years	3,540,135	2.01	–	–	3,540,135	2.01
Greater than three years to four years	2,256,880	2.16	–	–	2,256,880	2.16
Greater than four years to five years	1,631,245	2.30	–	–	1,631,245	2.30
Greater than five years	5,331,496	2.83	–	–	5,331,496	2.83
Total	<u>\$ 25,370,690</u>	<u>2.11%</u>	<u>\$ 4,793,820</u>	<u>2.20%</u>	<u>\$ 30,164,510</u>	<u>2.13%</u>

Discount notes are issued with maturities ranging from 1 to 365 days. The average maturity of discount notes at September 30, 2018 was 154 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.

Accumulated Other Comprehensive Income

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

<i>(dollars in thousands)</i>	Changes in Accumulated Other Comprehensive Income by Component (a)			
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Investment Securities:				
Balance at beginning of period	\$ (72,346)	\$ 3,795	\$ (19,635)	\$ 3,013
Other comprehensive income before reclassifications	(16,941)	1,901	(69,639)	2,472
Amounts reclassified from AOCI	75	(8)	62	203
Net current period other comprehensive income	(16,866)	1,893	(69,577)	2,675
Balance at end of period	\$ (89,212)	\$ 5,688	\$ (89,212)	\$ 5,688
Cash Flow Hedges:				
Balance at beginning of period	\$ 694	\$ (565)	\$ 18	\$ (838)
Other comprehensive income before reclassifications	(4)	(57)	12	(103)
Amounts reclassified from AOCI	77	248	737	567
Net current period other comprehensive income	73	191	749	464
Balance at end of period	\$ 767	\$ (374)	\$ 767	\$ (374)
Employee Benefit Plans:				
Balance at beginning of period	\$ (346,455)	\$ (359,177)	\$ (362,435)	\$ (376,498)
Other comprehensive income before reclassifications	—	—	—	1,051
Amounts reclassified from AOCI	7,990	8,089	23,970	24,359
Net current period other comprehensive income	7,990	8,089	23,970	25,410
Balance at end of period	\$ (338,465)	\$ (351,088)	\$ (338,465)	\$ (351,088)
Total Accumulated Other Comprehensive Income:				
Balance at beginning of period	\$ (418,107)	\$ (355,947)	\$ (382,052)	\$ (374,323)
Other comprehensive income before reclassifications	(16,945)	1,844	(69,627)	3,420
Amounts reclassified from AOCI	8,142	8,329	24,769	25,129
Net current period other comprehensive income	(8,803)	10,173	(44,858)	28,549
Balance at end of period	\$ (426,910)	\$ (345,774)	\$ (426,910)	\$ (345,774)

<i>(dollars in thousands)</i>	Reclassifications Out of Accumulated Other Comprehensive Income (b)				
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		Income Statement Line Item
	2018	2017	2018	2017	
Investment Securities:					
Sales gains & losses	\$ 13	\$ —	\$ 13	\$ (258)	Gains (losses) on investments, net
Holding gains & losses	—	—	—	—	Net other-than-temporary impairment
Amortization	(88)	8	(75)	55	Interest income on investments
Net amounts reclassified	(75)	8	(62)	(203)	
Cash Flow Hedges:					
Interest income	(73)	(191)	(749)	(464)	See Note 11.
Gains (losses) on other transactions	(4)	(57)	12	(103)	See Note 11.
Net amounts reclassified	(77)	(248)	(737)	(567)	
Employee Benefit Plans:					
Periodic pension costs	(7,990)	(8,089)	(23,970)	(24,359)	See Note 7.
Net amounts reclassified	(7,990)	(8,089)	(23,970)	(24,359)	
Total reclassifications for period	\$ (8,142)	\$ (8,329)	\$ (24,769)	\$ (25,129)	

(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.

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

<i>(dollars in thousands)</i>	Mortgage Servicing Rights, Net	Forward Contracts, Net
Balance at December 31, 2017	\$ —	\$ —
Gains or (losses) included in earnings	—	—
Gains or (losses) included in OCI	—	—
Purchases	—	—
Sales	—	—
Issuances	1,084	1,413
Settlements	—	(1,413)
Transfers in and/or out of Level 3	—	—
Balance at September 30, 2018	<u>\$ 1,084</u>	<u>\$ —</u>

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

	September 30, 2018				
<i>(dollars in thousands)</i>	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Investments in debt securities available-for-sale:					
U.S. Govt. Treasury Securities	\$ 389,117	\$ —	\$ 389,117	\$ —	\$ 389,117
U.S. Govt. Guaranteed	4,533,402	—	4,533,402	—	4,533,402
U.S. Govt. Agency Guaranteed	1,926,059	—	1,926,059	—	1,926,059
Non-Agency ABSs	709,280	—	709,280	—	709,280
Total investments in debt securities available-for-sale	<u>7,557,858</u>	<u>—</u>	<u>7,557,858</u>	<u>—</u>	<u>7,557,858</u>
Federal funds sold, securities purchased under resale agreements, and other	100,000	—	100,000	—	100,000
Interest rate swaps and forward contracts	—	—	—	—	—
Money market funds	174,739	174,739	—	—	174,739
Mortgage servicing rights	1,170	—	—	1,170	1,170
Assets held in trust funds	33,377	33,377	—	—	33,377
Recurring Assets	<u>\$ 7,867,144</u>	<u>\$ 208,116</u>	<u>\$ 7,657,858</u>	<u>\$ 1,170</u>	<u>\$ 7,867,144</u>
Liabilities:					
Interest rate swaps and forward contracts	\$ —	\$ —	\$ —	\$ —	\$ —
Mortgage servicing rights	86	—	—	86	86
Collateral liabilities	—	—	—	—	—
Recurring Liabilities	<u>\$ 86</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 86</u>	<u>\$ 86</u>
Nonrecurring Measurements					
Assets:					
Impaired loans	\$ 77,993	\$ —	\$ —	\$ 77,993	\$ 77,993
Other property owned	18,015	—	—	19,673	19,673
Nonrecurring Assets	<u>\$ 96,008</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 97,666</u>	<u>\$ 97,666</u>
Other Financial Instruments					
Assets:					
Cash	\$ 213,787	\$ 213,787	\$ —	\$ —	\$ 213,787
Investments in debt securities held-to-maturity	464,500	—	361,119	92,243	453,362
Loans	20,023,604	—	—	28,487,367	28,487,367
Other Financial Assets	<u>\$ 29,701,891</u>	<u>\$ 213,787</u>	<u>\$ 361,119</u>	<u>\$ 28,579,610</u>	<u>\$ 29,154,516</u>
Liabilities:					
Systemwide debt securities	\$ 31,203,709	\$ —	\$ —	\$ 30,789,358	\$ 30,789,358
Other Financial Liabilities	<u>\$ 31,203,709</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 30,789,358</u>	<u>\$ 30,789,358</u>

December 31, 2017

<i>(dollars in thousands)</i>	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Investments in debt securities available-for-sale:					
U.S. Govt. Treasury Securities	\$ 490,097	\$ —	\$ 490,097	\$ —	\$ 490,097
U.S. Govt. Guaranteed	4,535,213	—	4,535,213	—	4,535,213
U.S. Govt. Agency Guaranteed	2,006,843	—	2,006,843	—	2,006,843
Non-Agency ABSs	631,452	—	631,452	—	631,452
Total investments in debt securities available-for-sale	7,663,605	—	7,663,605	—	7,663,605
Federal funds sold, securities purchased under resale agreements, and other	150,000	—	150,000	—	150,000
Interest rate swaps and forward contracts	—	—	—	—	—
Money market funds	122,519	122,519	—	—	122,519
Assets held in trust funds	31,496	31,496	—	—	31,496
Recurring Assets	\$ 7,967,620	\$ 154,015	\$ 7,813,605	\$ —	\$ 7,967,620
Liabilities:					
Interest rate swaps and forward contracts	\$ —	\$ —	\$ —	\$ —	\$ —
Collateral liabilities	—	—	—	—	—
Recurring Liabilities	\$ —	\$ —	\$ —	\$ —	\$ —
Nonrecurring Measurements					
Assets:					
Impaired loans	\$ 62,492	\$ —	\$ —	\$ 62,492	\$ 62,492
Other property owned	14,655	—	—	15,942	15,942
Nonrecurring Assets	\$ 77,147	\$ —	\$ —	\$ 78,434	\$ 78,434
Other Financial Instruments					
Assets:					
Cash	\$ 499,451	\$ 499,451	\$ —	\$ —	\$ 499,451
Investments in debt securities held-to-maturity	522,148	—	419,257	109,456	528,713
Loans	28,210,294	—	—	28,032,271	28,032,271
Other Financial Assets	\$ 29,231,893	\$ 499,451	\$ 419,257	\$ 28,141,727	\$ 29,060,435
Liabilities:					
Systemwide debt securities	\$ 30,779,186	\$ —	\$ —	\$ 30,635,868	\$ 30,635,868
Other Financial Liabilities	\$ 30,779,186	\$ —	\$ —	\$ 30,635,868	\$ 30,635,868

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.

Investments in Debt Securities

The fair values of predominantly all Level 3 investments in debt 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 District'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

<i>(dollars in thousands)</i>	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 97,666	Appraisal	Income and expense Comparable sales Replacement cost Comparability adjustments	* * * *
Forward contracts	\$ —	Discounted cash flow	Estimated future cash flows	
Mortgage servicing rights, net	\$ 1,084	Discounted cash flow	Constant prepayment rate Probability of default Loss severity Fees and costs	

Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

	Valuation Technique(s)	Input
Debt securities available-for-sale	Discounted cash flow	Constant prepayment rate Probability of default Loss severity
	Quoted prices Vendor priced	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
Debt securities held-to-maturity	Discounted cash flow	Constant prepayment rate Prepayment rates Probability of default Risk adjusted spread Loss severity
	Quoted prices Vendor priced	Price for similar security **
Systemwide debt securities	Discounted cash flow	Benchmark yield curve Derived yield spread Own credit risk
Cash collateral	Carrying value	Par/principal and appropriate interest yield

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

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

Note 7 — Employee Benefit Plans

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

<i>(dollars in thousands)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Pension	\$ 9,267	\$ 11,140	\$ 27,801	\$ 34,625
401k	3,398	3,119	10,547	9,811
Other postretirement benefits	1,683	3,222	5,704	9,666
Total	\$ 14,348	\$ 17,481	\$ 44,052	\$ 54,102

Following are retirement and other postretirement benefit contributions for the District. Projections are based upon actuarially determined amounts as of the most recent measurement date of December 31, 2017.

<i>(dollars in thousands)</i>	Actual YTD Through 9/30/18	Projected Contributions for Remainder of 2018	Projected Total Contributions 2018
Pensions	\$ 3,157	\$ 46,549	\$ 49,706
Other postretirement benefits	5,704	2,103	7,807
Total	\$ 8,861	\$ 48,652	\$ 57,513

Contributions in the above table include allocated estimates of funding for multiemployer plans in which the District 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, 2018.

Further details regarding employee benefit plans are contained in the most recent Annual Report to Shareholders.

Note 8 — Commitments and Contingencies

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

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

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

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

<i>(dollars in billions)</i>		9/30/18		12/31/17
Total System bonds and notes	\$	268.462	\$	265.169
AgFirst bonds and notes	\$	30.165	\$	29.763

From time to time, legal actions are pending against the District in which claims for money damages are asserted. On at least a quarterly basis, the District 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 District. No material liabilities have been recorded for any claims that may be pending.

Note 9 - Revenue from Contracts with Customers

On January 1, 2018, Accounting Standards Update 2014-09 Revenue from Contracts with Customers (Topic 606) became effective. The core principle of the new standard is that companies should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The District maintains contracts with customers to provide support services in various areas such as accounting, lending transactions, consulting, insurance, and information technology. The District does not generally incur costs to obtain contracts. As most of the contracts are to provide access to expertise or other services, there are no material incremental costs to fulfill these contracts that should be capitalized. Total revenue recognized from contracts with customers was as follows:

<i>(dollars in thousands)</i>		Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018
Revenue recognized from contracts with customers:				
At a point in time	\$	3,102	\$	6,841
Over time		1,483		5,507
Total	\$	4,585	\$	12,348

Note 10 — Additional Financial Information

Offsetting of Financial and Derivative Assets

<i>(dollars in thousands)</i>	September 30, 2018	December 31, 2017
Derivatives	\$ —	\$ —
Reverse repurchase and similar arrangements	100,000	150,000
Gross Amount of Recognized Assets	<u>100,000</u>	<u>150,000</u>
Derivatives	—	—
Reverse repurchase and similar arrangements	—	—
Gross Amounts Offset in the Balance Sheets	<u>—</u>	<u>—</u>
Net Amounts of Assets Presented in the Balance Sheets	\$ 100,000	\$ 150,000
Financial Instruments	(100,000)	(150,000)
Derivatives	—	—
Cash Collateral Received	—	—
Gross Amounts Not Offset in the Balance Sheets	<u>(100,000)</u>	<u>(150,000)</u>
Net Amount	\$ —	\$ —

A description of any rights of setoff associated with recognized derivative assets and liabilities subject to enforceable master netting arrangements is located in Note 11, *Derivative Financial Instruments and Hedging Activities*.

The reverse repurchase agreements are accounted for as collateralized lending.

Bank Only Financial Data

Condensed financial information of the Bank follows:

Balance Sheets		
<i>(dollars in thousands)</i>	September 30, 2018	December 31, 2017
	<i>(unaudited)</i>	<i>(audited)</i>
Cash, cash equivalents and investment securities	\$ 8,434,640	\$ 8,835,515
Loans		
To District Associations	16,411,951	15,838,709
To others	7,602,499	7,520,451
Total loans	<u>24,014,450</u>	<u>23,359,160</u>
Allowance for loan losses	(17,177)	(14,381)
Net loans	<u>23,997,273</u>	<u>23,344,779</u>
Other assets	299,914	307,163
Total assets	<u>\$ 32,731,827</u>	<u>\$ 32,487,457</u>
Bonds and notes	\$ 30,164,510	\$ 29,762,991
Other liabilities	171,103	481,651
Total liabilities	<u>30,335,613</u>	<u>30,244,642</u>
Perpetual preferred stock	49,250	49,250
Capital stock and participation certificates	310,140	313,752
Additional paid-in-capital	58,883	58,883
Retained earnings	2,071,225	1,845,686
Accumulated other comprehensive income (loss)	(93,284)	(24,756)
Total shareholders' equity	<u>2,396,214</u>	<u>2,242,815</u>
Total liabilities and equity	<u>\$ 32,731,827</u>	<u>\$ 32,487,457</u>

<i>(dollars in thousands)</i>	Statements of Income	
	For the Nine Months Ended September 30,	
	2018	2017
	<i>(unaudited)</i>	
Interest income	\$ 737,985	\$ 634,076
Interest expense	429,922	297,316
Net interest income	308,063	336,760
Provision for loan losses	2,806	(143)
Net interest income after provision for loan losses	305,257	336,903
Noninterest expense, net	78,623	89,533
Net income	<u>\$ 226,634</u>	<u>\$ 247,370</u>

Note 11 — Derivative Financial Instruments and Hedging Activities

One of the District'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 District maintains an overall interest rate risk management strategy that may incorporate the use of derivative instruments to achieve that goal. The primary derivative type used by the District has been interest rate swaps, that convert fixed interest rate debt to a lower floating interest rate than was achievable from issuing floating rate debt with identical repricing characteristics. Interest rate swaps may allow the District to lower funding costs, diversify sources of funding, or alter interest rate exposures arising from mismatches between assets and liabilities. Under these arrangements, the District 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 District 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 District 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 District's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. The District 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:

<i>(dollars in millions)</i>	For the Nine Months Ended September 30,			
	2018		2017	
	Receive- Fixed Swaps	Forward Contracts	Receive- Fixed Swaps	Forward Contracts
Balance at beginning of period	\$ —	\$ —	\$ 50	\$ 1
Additions	—	121	—	7
Maturities/amortization	—	(121)	(50)	(7)
Terminations	—	—	—	—
Balance at end of period	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1</u>

By using derivative instruments, the District exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the District'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 District, thus creating a repayment risk for the District. When the fair value of the derivative contract is negative, the District owes the counterparty and, therefore, assumes no repayment risk.

To minimize the risk of credit losses, the District 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 District typically enters into master agreements that contain netting provisions. These provisions allow the District to

require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts.

Counterparty exposure related to derivatives at:

<i>(dollars in millions)</i>	September 30, 2018	December 31, 2017
Estimated Gross Credit Risk	\$—	\$—
Percent of Notional	—%	—%

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

The District's derivative activities, which are performed by the Bank, are monitored by the Bank's Asset-Liability Management Committee (ALCO) as part of its oversight of the Bank's asset/liability and treasury functions. The Bank's 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 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 District 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. 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 District 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 District's Balance Sheet for each period end. As of the periods presented, the District 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 District'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.

Derivatives Not Designated as Hedges

The Bank may enter into interest rate lock commitments, which are commitments to originate mortgage loans whereby the interest rate on the loan is determined prior to funding and the customers have locked into that interest rate. The Bank may also manage market risk on interest rate lock commitments and mortgage loans held for sale with corresponding forward sale commitments. Residential mortgage loans held for sale are recorded at fair value with changes in fair value recorded in Noninterest Income. Changes in mark-to-market from both interest rate lock commitments and corresponding forward sale commitments related to residential mortgage loans are included in Noninterest Income.

Fair Values of Derivative Instruments

There were no derivative assets or liabilities designated as hedging instruments at the periods ended September 30, 2018 and December 31, 2017.

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 nine month periods presented. See Note 5, *Shareholders' Equity*.

<i>(dollars in thousands)</i>	Location of Gain or (Loss) Recognized in, or Reclassified from AOCI into, Income	Amount of Gain or (Loss) Recognized in, or Reclassified from AOCI into, Income		Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)		Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	
		2018	2017	2018	2017	2018	2017
		Cash Flow Hedges:					
Firm Commitments	Interest Income	\$ (749)	\$ (464)	\$ -	\$ -	\$ -	\$ -
Forward Contracts	Gains (Losses) on Other Transactions	12	(103)	-	-	12	(103)

The following table represents the fair value of derivative instruments not designated as hedging instruments for the periods presented:

<i>(dollars in thousands)</i>	Balance Sheet Classification – Assets	9/30/18 Fair Value	Balance Sheet Classification – Liabilities	9/30/18 Fair Value
	Forward contracts	Other Assets	\$ -	Other Liabilities
Total		\$ -		\$ -

The following table sets forth the amount of net gain (loss) on derivatives recognized in earnings. No gain (loss) was recognized in AOCI for the nine month periods presented. See Note 5, *Shareholders' Equity*.

<i>(dollars in thousands)</i>	Location of Gain or (Loss) Recognized in Income	Amount of Gain or (Loss) Recognized in Income *	
		2018	2017
		Fair Value Derivatives:	
Forward Contracts	Gains (Losses) on Other Transactions	\$ 1,628	\$ -

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

Note 12 — Subsequent Events

The District evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through November 8, 2018, which was the date the financial statements were issued.

On October 15, 2018, the Bank's Board of Directors indicated an intention to declare, in December 2018, a special patronage distribution between \$110.0 million and \$130.0 million.