AGFI BANK
& DI ONS

2018 SECOND QUARTER REPORT

SECOND QUARTER 2018

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CERTIFICATION

The undersigned certify that we have reviewed the June 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

August 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 June 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 June 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 June 30, 2018.

Leon T. Amerson
Chief Executive Officer & President

Stephen Gilbert
Chief Financial Officer

August 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 six month periods ended June 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 June 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 six 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 *(dollars in thousands)*	**June 30, 2018**		**December 31, 2017**		**June 30, 2017**	
Real Estate Mortgage	$ 14,333,564	50.17%	$ 14,092,944	49.54%	$ 13,612,947	48.91%
Production and Intermediate-Term	6,719,263	23.52	7,044,930	24.76	7,016,504	25.21
Rural Residential Real Estate	3,459,855	12.11	3,431,905	12.06	3,308,189	11.89
Processing and Marketing	1,598,602	5.59	1,442,935	5.07	1,521,710	5.47
Loans to Cooperatives	644,547	2.26	662,604	2.33	617,029	2.22
Power and Water/Waste Disposal	609,769	2.13	629,317	2.21	586,901	2.11
Communication	485,645	1.70	466,975	1.64	499,894	1.80
Farm-Related Business	373,574	1.31	363,137	1.28	356,612	1.28
Loans to Other Financing Institutions (OFIs)	139,742	0.49	131,572	0.46	138,221	0.49
International	112,894	0.39	98,625	0.35	107,864	0.39
Other (including Mission Related)	73,419	0.26	74,505	0.26	53,592	0.19
Lease Receivables	20,803	0.07	12,358	0.04	12,719	0.04
Total	$ 28,571,677	100.00%	$ 28,451,807	100.00%	$ 27,832,182	100.00%

Total loans outstanding were $28.572 billion at June 30, 2018, an increase of $119.9 million, or 0.42 percent, compared to total loans outstanding at December 31, 2017 and an increase of $739.5 million, or 2.66 percent, since June 30, 2017. District loan volume remained essentially unchanged during the first half of 2018. Increases in the field crops, grain, and cotton segments were partially offset by declines in the corn and swine segments.

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

Future District loan demand is difficult to predict; however, modest growth is expected in 2018.

Credit Quality

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

	Total Loan Portfolio Credit Quality as of:		
Classification	**June 30, 2018**	**December 31, 2017**	**June 30, 2017**
Acceptable	95.53%	95.27%	94.73%
OAEM *	2.44%	2.62%	2.76%
Adverse**	2.03%	2.11%	2.51%

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

Continued improvement in the general economy has resulted in strong credit quality for the District. Credit quality is expected to slightly deteriorate in 2018 given expected reduced farm income in certain sectors of the portfolio and uncertainty surrounding global trade issues.

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 June 30, 2018 were $241.3 million compared to $238.9 million at December 31, 2017. The increase of $2.5 million resulted primarily from loan balances transferred to nonaccrual status of $71.2 million, partially offset by repayments of $52.8 million and reinstatements to accrual status of $11.4 million. At June 30, 2018, total nonaccrual loans were primarily classified in the field crops (24.77

percent of the total), grains (10.02 percent), poultry (9.31 percent), cattle (9.06 percent), rural home loan (7.47 percent), and forestry (6.61 percent) segments. Nonaccrual loans were 0.84 percent of total loans outstanding at both June 30, 2018 and December 31, 2017.

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 increased $6.6 million since December 31, 2017 and totaled $202.6 million at June 30, 2018. TDRs at June 30, 2018 were comprised of $136.9 million of accruing restructured loans and $65.7 million of nonaccrual restructured loans. Restructured loans were primarily in the field crops (18.57 percent of the total), poultry (12.70 percent), forestry (10.43 percent), tree fruits and nuts (6.62 percent), dairy (5.32 percent), and cattle (5.13 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 $994 thousand since December 31, 2017 and totaled $15.6 million at June 30, 2018. The increase was due to transfers to OPO of $3.5 million offset by disposals of $2.5 million. The largest OPO holding at June 30, 2018 was in the forestry segment and totaled $3.8 million (24.37 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 $193.0 million at June 30, 2018, as compared with $193.1 million at December 31, 2017, which was a decrease of $21 thousand. Charge-offs of $6.8 million decreased the allowance during the six months ended June 30, 2018, and were offset by provision expense of $4.5 million and loan recoveries of $2.3 million. Charge-offs during the first six months of 2018 were related primarily to borrowers in the cattle (52.03 percent of the total), field crops (9.91 percent), and processing (8.74 percent) segments. Recoveries during the six month period were related primarily to borrowers in the forestry (24.92 percent of the total), nursery/greenhouse (17.76 percent), field crops (13.84 percent), and other (13.38 percent) segments. See *Provision for Loan Losses* section below for additional details regarding loan loss provision expense and reversals. The allowance at June 30, 2018 included specific reserves of $20.8 million (10.78 percent of the total) and $172.2 million (89.22 percent) of general reserves. The largest commodity segments included in the allowance at June 30, 2018 were the field crops (17.93 percent of the total), poultry (13.51 percent), forestry (9.37 percent), other (8.59 percent), cattle (8.29 percent), and grain (7.19 percent) segments. The allowance for loan losses was 0.68 percent of total loans outstanding at both June 30, 2018 and December 31, 2017. 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 primary sources of liquidity: the capacity to issue Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation; and cash and investments. The Bank also maintains several securities repurchase agreement facilities. In addition, the System has established lines of credit in the event contingency funding is needed to meet obligations of System banks. 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, 2018, unless otherwise renewed. The decision whether to seek funds from the FFB is at the discretion of the FCSIC. Each funding obligation of the FFB is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by AgFirst or the System.

Currently, Moody's Investor Service and Fitch Ratings have assigned long-term debt ratings for the System of Aaa and AAA and short-term debt ratings of P-1 and F1, respectively. These are the highest ratings available from these rating agencies. 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 June 30, 2018, AgFirst had $29.535 billion in total debt outstanding compared to $29.763 billion at December 31, 2017, a decrease of $228.1 million, or 0.77 percent. Debt decreased primarily due to lower balances of investment securities as discussed elsewhere in this report.

Cash and cash equivalents, which decreased $250.2 million from December 31, 2017 to a total of $521.8 million at June 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, which are primarily classified as being available-for-sale, totaled $7.979 billion, or 21.27 percent of total assets at June 30, 2018, compared to $8.186 billion, or 21.65 percent, as of December 31, 2017, a decrease of $206.5 million, or 2.52 percent. 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 June 30, 2018, the Bank's eligible available-for-sale investments were 33.56 percent of the total loans outstanding.

Investments in debt securities classified as being available-for-sale totaled $7.498 billion at June 30, 2018. Available-for-sale investments at June 30, 2018 included $390.2 million in U.S. Treasury securities, $4.517 billion in U.S. government guaranteed securities, $1.972 billion in U.S. government agency guaranteed securities, and $619.1 million in non-agency asset-backed securities. Since the majority of the portfolio is invested in U.S. government guaranteed and agency securities, the portfolio is highly liquid and potential credit loss exposure is limited.

As of June 30, 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 June 30, 2018, AgFirst met each of the individual level criteria above and had a total of 234 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 $205.7 million, or 3.29 percent, from December 31, 2017 to $6.455 billion at June 30, 2018. This increase is primarily attributed to 2018 unallocated retained earnings from net income of $303.4 million, partially offset by an increase in net unrealized losses on investments of $52.7 million, primarily due to an increase in interest rates lowering the fair value of existing available-for-sale fixed-rate investment securities, and retained earnings retired of $36.6 million.

RESULTS OF OPERATIONS

Net income for the three months ended June 30, 2018 was $141.3 million compared to $138.7 million for the three months ended June 30, 2017, an increase of $2.6 million, or 1.90 percent. Net income for the six months ended June 30, 2018 was $303.4 million compared to $276.3 million for the corresponding period in 2017, an increase of $27.1 million or 9.81 percent. See below for further discussion of the change in net income by major components:

Key Results of Operations Comparisons

	Annualized for the Six Months Ended June 30, 2018	For the Year Ended December 31, 2017	Annualized for the Six Months Ended June 30, 2017
Return on average assets	1.64%	1.92%	1.53%
Return on average shareholders’ equity	9.58%	11.39%	9.16%
Net interest margin	2.79%	2.88%	2.90%
Operating expense as a percentage of net interest income and noninterest income	44.88%	33.67%	47.40%
Net (charge-offs) recoveries to average loans	(0.03)%	(0.01)%	(0.01)%

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 six 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 resulting from higher debt costs in the 2018 period as well as higher average interest-earning assets in the 2018 period. 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 $4.1 million, or 1.59 percent, to $254.7 million for the three months ended June 30, 2018 compared to the three months ended June 30, 2017. For the six months ended June 30, 2018, net interest income was $508.0 million compared to $513.8 million for the same period of 2017, a decrease of $5.8 million, or 1.12 percent. The net interest margin, which is net interest income as a percentage of average earning assets, was 2.78 percent and 2.79 percent for the three and six months ended June 30, 2018, respectively, which was a decrease of 11 basis points for both periods 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 six months ended June 30, 2018. The Bank called debt totaling $1.625 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 six months ended June 30, 2018, as compared with the corresponding period 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. Accordingly, the benefit derived from funding earning assets with interest-free funds (principally capital) is reflected solely as a volume increase.

	For the Three Months Ended June 30, 2018 vs. June 30, 2017			For the Six Months Ended June 30, 2018 vs. June 30, 2017		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
(dollars in thousands)	**Volume**	**Rate**	**Total**	**Volume**	**Rate**	**Total**
Interest Income:						
Loans	$ 8,994	$ 23,499	$ 32,493	$ 19,789	$ 41,236	$ 61,025
Investments & Cash Equivalents	561	11,104	11,665	993	20,688	21,681
Total Interest Income	9,555	34,603	44,158	20,782	61,924	82,706
Interest Expense:						
Interest-Bearing Liabilities	3,747	44,530	48,277	6,809	81,654	88,463
Changes in Net Interest Income	$ 5,808	$ (9,927)	$ (4,119)	$ 13,973	$ (19,730)	$ (5,757)

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 $2.7 million and $4.5 million for the three and six month periods ended June 30, 2018, respectively, compared to net expense of $3.6 million and $5.2 million for three and six months ended June 30, 2017.

For the three months ended June 30, 2018, total net provision expense consisted of $1.6 million of general reserves and $1.1 million of specific reserves. Total net provision expense for the second quarter of 2018 primarily related to borrowers in the field crops ($6.8 million), dairy ($1.8 million), and cotton ($916 thousand) segments, partially offset by provision reversals in the forestry ($2.1 million), other ($1.5 million), nursery/greenhouse ($978 thousand), poultry ($651 thousand), and tree fruits and nuts ($500 thousand) segments. For the six months ended June 30, 2018, total net provision expense included provision expense of $6.6 million for specific reserves and provision reversals of $2.1 million for general reserves. Total net provision expense for the six month period of 2018 primarily related to borrowers in the field crops ($9.4 million) and dairy ($2.6 million) segments, partially offset by provision reversals in the forestry ($3.0 million), swine ($1.1 million), grain ($932 thousand), corn ($695 thousand), utilities ($617 thousand), and fruits/vegetables ($612 thousand) segments.

For the three months ended June 30, 2017, total net provision expense consisted of $2.6 million of general reserves and $968 thousand of specific reserves. Total net provision expense for the second quarter of 2017 primarily related to borrowers in the field crops ($2.8 million), cattle ($1.2 million), poultry ($1.1 million), cotton ($727 thousand), and corn ($661 thousand) segments, partially offset by provision reversals in the nursery/greenhouse ($1.2 million), dairy ($1.1 million), and grain ($1.1 million) segments. For the six months ended June 30, 2017, total net provision expense included provision expense of $4.3 million for general reserves and $865 thousand for specific reserves. Total net provision expense for the six month period of 2017 primarily related to borrowers in the field crops ($4.5 million), cattle ($2.0 million) and poultry ($1.3 million) segments, partially offset by provision reversals in the nursery/greenhouse ($1.3 million) and dairy ($1.1 million) segments.

See 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	**For the Three Months Ended June 30,**			**For the Six Months Ended June 30,**		
(dollars in thousands)	**2018**	**2017**	**Increase/ (Decrease)**	**2018**	**2017**	**Increase/ (Decrease)**
Loan fees	$ 8,417	$ 8,237	$ 180	$ 16,161	$ 16,289	$ (128)
Fees for financially related services	1,734	1,943	(209)	3,813	3,648	165
Building lease income	876	1,038	(162)	1,743	1,971	(228)
Gains (losses) on investments, net	–	(258)	258	–	(258)	258
Gains (losses) on debt extinguishment	150	(2,641)	2,791	150	(3,081)	3,231
Gains (losses) on other transactions	2,113	2,261	(148)	3,539	1,816	1,723
Insurance premium refund	–	–	–	21,086	–	21,086
Other noninterest income	1,852	1,000	852	4,661	4,049	612
Total noninterest income	$ 15,142	$ 11,580	$ 3,562	$ 51,153	$ 24,434	$ 26,719

Noninterest income increased $3.6 million and $26.7 million for the three and six months ended June 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. For the six 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 $2.8 million and $3.2 million for the three and six months ended June 30, 2018, respectively, compared to the same periods in 2017. During the second quarter of 2018, in order to improve its repricing and maturity gap position, the Bank extinguished discount notes totaling $450.0 million and recognized a gain of $150 thousand. No debt was called during the six months ended June 30, 2018. For 2017, losses on called debt were $2.6 million and $3.1 million for the three and six 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 $1.125 billion and $1.625 billion for the three and six 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 six month period ended June 30, 2018, gains on other transactions increased $1.7 million. During the second quarter of 2018, the Bank established interest rate lock and forward commitment derivatives that resulted from the sale of rural residential loans and recognized a $1.4 million gain on these derivatives. A $1.6 million loss related to a legal settlement recorded by one Association in 2017 also contributed to the increase for the period. Lower market value gains on certain retirement plan trust assets of $1.5 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 six month periods ended June 30, 2018, other noninterest income increased $852 thousand and $612 thousand, respectively, compared to the same periods in the prior year primarily due to an increase of $298 thousand and $576 thousand, respectively, in income from services provided to Farm Credit entities outside the AgFirst District. Higher patronage received from other Farm Credit Institutions of $271 thousand also contributed to the increase in income for the three month period.

Noninterest Expenses

The following table illustrates the changes in noninterest expenses:

Change in Noninterest Expenses	**For the Three Months Ended June 30,**			**For the Six Months Ended June 30,**		
(dollars in thousands)	**2018**	**2017**	**Increase/ (Decrease)**	**2018**	**2017**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 75,788	$ 72,675	$ 3,113	$ 150,700	$ 146,375	$ 4,325
Occupancy and equipment	10,545	10,496	49	21,323	20,714	609
Insurance Fund premiums	5,411	9,351	(3,940)	11,043	18,102	(7,059)
Other operating expenses	33,741	34,510	(769)	67,876	69,919	(2,043)
Losses (gains) from other property owned	132	939	(807)	32	1,320	(1,288)
Total noninterest expenses	$ 125,617	$ 127,971	$ (2,354)	$ 250,974	$ 256,430	$ (5,456)

Noninterest expenses for the three and six months ended June 30, 2018 decreased $2.4 million and $5.5 million, respectively, compared to the corresponding periods in 2017. The decrease for the three month period resulted primarily from lower insurance fund premiums and lower losses from other property owned, partially offset by higher salaries and employee benefits. The decrease in the six month period was primarily due to decreases in insurance fund premiums and other operating expenses, partially offset by an increase in salaries and employee benefits. Significant line item dollar variances are discussed below.

Salaries and employee benefits increased $3.1 million and $4.3 million for the three and six month periods, respectively, compared to the same periods in 2017. The increases resulted primarily from $3.5 million and $5.1 million increases for the three and six month periods, respectively, in salaries and incentives due to normal salary administration and an increase in headcount. Increases of $422 thousand and $844 thousand in pension expense for the three and six month periods, respectively, resulted primarily from a decrease in the discount rate used to calculate net periodic pension costs. These increases were partially offset by decreases of $1.2 million and $2.4 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 $609 thousand for the six months ended June 30, 2018 compared to the same period in 2017. The increase resulted primarily from $328 thousand higher software and hardware maintenance costs.

Insurance Fund premiums decreased $3.9 million and $7.1 million for the three and six month periods ended June 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 $769 thousand and $2.0 million for the three and six month periods ended June 30, 2018, respectively, compared to the corresponding periods in 2017. The decrease resulted primarily from lower postretirement benefits plans operating expenses of $2.3 million and $4.8 million, respectively, due mainly to lower contributions required in 2018. These decreases were partially offset by increases of $440 thousand and $1.4 million, respectively, in consultant and professional fees primarily related to Bank technology initiatives. In addition, for the six month period, nonaccrual loan period costs, primarily legal fees and property taxes, increased $898 thousand due to lower recoveries of nonaccrual costs in the 2018 period. The remainder of the variance in other operating expenses was comprised of numerous and varied expenses, none of which individually had a significant change compared to the same period of the prior year.

Losses on other property owned decreased $807 thousand and $1.3 million for the three and six month periods ended June 30, 2018, respectively, compared with the same periods in the prior year. The decreases were primarily due to $1.0 million and $1.4 million in lower writedowns for the three and six month periods ended June 30, 2018, respectively.

REGULATORY MATTERS

On May 10, 2018, the Farm Credit Administration adopted a final rule that primarily implements the requirements of Section 939A of the Dodd-Frank Act and grants associations greater flexibility regarding the risk management purposes for investments. The regulation also sets forth the types of eligible investments and establishes a portfolio limit on the amount of investments they 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 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
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to a 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.	• 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: 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 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.

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-02 – Leases (Topic 842)	
• Requires lessees to recognize leases on the balance sheet with lease liabilities and corresponding right-of-use assets based on the present value of lease payments. • Lessor accounting activities are largely unchanged from existing lease accounting. • The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification. • 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. • Effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted.	• The practical expedients allow entities to largely account for existing leases consistent with current guidance, except for the incremental balance sheet recognition for lessees. • The 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 it is early in 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 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

(dollars in thousands)	**June 30, 2018** *(unaudited)*	**December 31, 2017** *(audited)*
Assets		
Cash	**$ 257,261**	$ 499,451
Cash equivalents	**264,546**	272,519
Investments in debt securities:		
Available-for-sale (amortized cost of $7,571,009 and $7,683,631, respectively)	**7,498,286**	7,663,605
Held-to-maturity (fair value of $474,390 and $528,713, respectively)	**481,006**	522,148
Total investments in debt securities	**7,979,292**	8,185,753
Loans	**28,571,677**	28,451,807
Allowance for loan losses	**(193,046)**	(193,067)
Net loans	**28,378,631**	28,258,740
Loans held for sale	**15,764**	14,046
Accrued interest receivable	**246,644**	227,323
Accounts receivable	**48,354**	49,339
Equity investments in other Farm Credit institutions	**40,520**	40,292
Premises and equipment, net	**201,712**	197,492
Other property owned	**15,649**	14,655
Other assets	**57,677**	50,958
Total assets	**$ 37,506,050**	$ 37,810,568
Liabilities		
Systemwide bonds payable	**$ 24,883,413**	$ 24,829,679
Systemwide and other notes payable	**5,685,789**	5,949,507
Accrued interest payable	**97,553**	83,221
Accounts payable	**52,525**	316,960
Advanced conditional payments	**6,946**	10,175
Other liabilities	**324,963**	371,902
Total liabilities	**31,051,189**	31,561,444
Commitments and contingencies (Note 8)		
Shareholders' Equity		
Perpetual preferred stock	**49,250**	49,250
Protected borrower equity	**502**	502
Capital stock and participation certificates	**164,493**	169,716
Additional paid-in-capital	**82,573**	82,573
Retained earnings		
Allocated	**2,057,453**	2,097,179
Unallocated	**4,518,697**	4,231,956
Accumulated other comprehensive income (loss)	**(418,107)**	(382,052)
Total shareholders' equity	**6,454,861**	6,249,124
Total liabilities and equity	**$ 37,506,050**	$ 37,810,568

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

Combined Statements of Income

(unaudited)

(dollars in thousands)	For the Three Months Ended June 30, 2018	2017	For the Six Months Ended June 30, 2018	2017
Interest Income				
Investments	**$ 49,031**	$ 37,366	**$ 93,807**	$ 72,126
Loans	**356,915**	324,422	**698,918**	637,893
Total interest income	**405,946**	361,788	**792,725**	710,019
Interest Expense	**151,244**	102,967	**284,697**	196,234
Net interest income	**254,702**	258,821	**508,028**	513,785
Provision for (reversal of allowance for) loan losses	**2,676**	3,556	**4,500**	5,188
Net interest income after provision for loan losses	**252,026**	255,265	**503,528**	508,597
Noninterest Income				
Loan fees	**8,417**	8,237	**16,161**	16,289
Fees for financially related services	**1,734**	1,943	**3,813**	3,648
Building lease income	**876**	1,038	**1,743**	1,971
Gains (losses) on investments, net	**—**	(258)	**—**	(258)
Gains (losses) on debt extinguishment	**150**	(2,641)	**150**	(3,081)
Gains (losses) on other transactions	**2,113**	2,261	**3,539**	1,816
Insurance premium refund	**—**	—	**21,086**	—
Other noninterest income	**1,852**	1,000	**4,661**	4,049
Total noninterest income	**15,142**	11,580	**51,153**	24,434
Noninterest Expenses				
Salaries and employee benefits	**75,788**	72,675	**150,700**	146,375
Occupancy and equipment	**10,545**	10,496	**21,323**	20,714
Insurance Fund premiums	**5,411**	9,351	**11,043**	18,102
Other operating expenses	**33,741**	34,510	**67,876**	69,919
Losses (gains) from other property owned	**132**	939	**32**	1,320
Total noninterest expenses	**125,617**	127,971	**250,974**	256,430
Income before income taxes	**141,551**	138,874	**303,707**	276,601
Provision for income taxes	**229**	182	**307**	301
Net income	**$ 141,322**	$ 138,692	**$ 303,400**	$ 276,300

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

Combined Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended June 30, 2018	For the Three Months Ended June 30, 2017	For the Six Months Ended June 30, 2018	For the Six Months Ended June 30, 2017
Net income	**$ 141,322**	$ 138,692	**$ 303,400**	$ 276,300
Other comprehensive income net of tax:				
Unrealized gains (losses) on investments	**(15,701)**	5,168	**(52,711)**	782
Change in value of cash flow hedges	**104**	190	**676**	273
Employee benefit plans adjustments	**7,990**	8,090	**15,980**	17,321
Other comprehensive income (Note 5)	**(7,607)**	13,448	**(36,055)**	18,376
Comprehensive income	**$ 133,715**	$ 152,140	**$ 267,345**	$ 294,676

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 Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Shareholders' Equity
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						276,300	18,376	294,676
Protected borrower equity retired		(1)						(1)
Capital stock/participation certificates issued (retired), net			(6,816)					(6,816)
Dividends declared/paid			239			(330)		(91)
Dividends paid on perpetual preferred stock						(542)		(542)
Cash patronage distribution						(6,250)		(6,250)
Retained earnings retired					(38,408)			(38,408)
Patronage distribution adjustment			2		(2,083)	560		(1,521)
Balance at June 30, 2017	$ 49,250	$ 512	$ 168,302	$ 82,573	$ 1,930,932	$ 4,246,482	$ (355,947)	$ 6,122,104
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						**303,400**	**(36,055)**	**267,345**
Capital stock/participation certificates issued (retired), net			**(5,438)**					**(5,438)**
Dividends declared/paid			**215**			**(305)**		**(90)**
Dividends paid on perpetual preferred stock						**(744)**		**(744)**
Cash patronage distribution						**(17,813)**		**(17,813)**
Retained earnings retired					**(36,609)**			**(36,609)**
Patronage distribution adjustment					**(3,117)**	**2,203**		**(914)**
Balance at June 30, 2018	**$ 49,250**	**$ 502**	**$ 164,493**	**$ 82,573**	**$ 2,057,453**	**$ 4,518,697**	**$ (418,107)**	**$ 6,454,861**

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

Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the Six Months Ended June 30, 2018	2017
Cash flows from operating activities:		
Net income	**$ 303,400**	$ 276,300
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	**9,495**	9,711
Amortization of net deferred loan (fees) costs and premium amortization (discount accretion)	**69**	(1,334)
Premium amortization (discount accretion) on investment securities	**2,920**	5,996
(Premium amortization) discount accretion on bonds and notes	**42,139**	26,725
Amortization (accretion) of yield mark resulting from merger	**(797)**	(655)
Provision for (reversal of allowance for) loan losses	**4,500**	5,188
(Gains) losses on other property owned	**(185)**	842
(Gains) losses on investments, net	**—**	258
(Gains) losses on debt extinguishment	**(150)**	3,081
(Gains) losses on other transactions	**(3,539)**	(1,816)
Net change in loans held for sale	**1,499**	10,663
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	**(19,321)**	(17,506)
(Increase) decrease in accounts receivable	**985**	10,903
Increase (decrease) in accrued interest payable	**14,332**	10,183
Increase (decrease) in accounts payable	**(30,823)**	(31,937)
Change in other, net	**(35,874)**	(20,846)
Total adjustments	**(14,750)**	9,456
Net cash provided by (used in) operating activities	**288,650**	285,756
Cash flows from investing activities:		
Investment securities purchased	**(1,182,983)**	(1,387,702)
Proceeds from investment securities sold or matured	**1,334,495**	1,442,999
Net (increase) decrease in loans	**(128,187)**	(379,979)
(Increase) decrease in investments in other Farm Credit System institutions	**(228)**	(1,486)
Purchase of premises and equipment, net	**(14,484)**	(9,464)
Proceeds from sale of premises and equipment, net	**1,562**	1,038
Proceeds from sale of other property owned	**1,426**	3,822
Net cash provided by (used in) investing activities	**11,601**	(330,772)
Cash flows from financing activities:		
Bonds and notes issued	**8,150,795**	9,545,894
Bonds and notes retired	**(8,402,760)**	(9,741,025)
Net increase (decrease) in advanced conditional payments	**(3,229)**	4,501
Protected borrower equity retired	**—**	(1)
Capital stock and participation certificates issued/retired, net	**(5,438)**	(6,816)
Patronage refunds and dividends paid	**(252,429)**	(184,462)
Dividends paid on perpetual preferred stock	**(744)**	(542)
Retained earnings retired	**(36,609)**	(38,408)
Net cash provided by (used in) financing activities	**(550,414)**	(420,859)
Net increase (decrease) in cash and cash equivalents	**(250,163)**	(465,875)
Cash and cash equivalents, beginning of period	**771,970**	854,115
Cash and cash equivalents, end of period	**$ 521,807**	$ 388,240
Supplemental schedule of non-cash activities:		
Financed sales of other property owned	**$ 1,173**	$ 226
Receipt of property in settlement of loans	**3,492**	3,381
Change in unrealized gains (losses) on investments, net	**(52,711)**	782
Employee benefit plans adjustments	**(15,980)**	(17,321)
Non-cash changes related to derivatives:		
Increase (decrease) in bonds and notes	**$ —**	$ (92)
Increase (decrease) in other liabilities	**5**	—
Decrease (increase) in other assets	**(85)**	92
Supplemental information:		
Interest paid	**$ 228,234**	$ 159,335
Taxes paid, net	**434**	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 July 2018, the FASB issued ASU 2018-11—Leases (Topic 842): Targeted Improvements. The amendments in this Update 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. The ASU simplifies transition requirements and, for lessors, provides a practical expedient for the separation of nonlease components from lease components. 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.

- 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 Update 2016-01 as described below. 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 Update 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:

(dollars in thousands)	June 30, 2018	December 31, 2017
Real estate mortgage	$ 14,333,564	$ 14,092,944
Production and intermediate-term	6,719,263	7,044,930
Loans to cooperatives	644,547	662,604
Processing and marketing	1,598,602	1,442,935
Farm-related business	373,574	363,137
Communication	485,645	466,975
Power and water/waste disposal	609,769	629,317
Rural residential real estate	3,459,855	3,431,905
International	112,894	98,625
Lease receivables	20,803	12,358
Loans to other financing institutions (OFIs)	139,742	131,572
Other (including Mission Related)	73,419	74,505
Total loans	$ 28,571,677	$ 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 $279.4 million of residential mortgage loans from various System associations and sold $80.8 million from the portfolio. The following tables present the principal balance of participation loans at periods ended:

	June 30, 2018					
	Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 314,493	$ 99,739	$ 42,273	$ 11,621	$ 356,766	$ 111,360
Production and intermediate-term	708,059	322,392	159,934	4,809	867,993	327,201
Loans to cooperatives	639,657	–	–	–	639,657	–
Processing and marketing	400,593	446,808	956,821	10	1,357,414	446,818
Farm-related business	27,764	14,557	35,456	245	63,220	14,802
Communication	486,710	–	–	–	486,710	–
Power and water/waste disposal	611,348	–	–	–	611,348	–
Rural residential real estate	–	–	43	–	43	–
International	113,138	–	–	–	113,138	–
Lease receivables	10,137	–	–	–	10,137	–
Other (including Mission Related)	–	–	47,122	–	47,122	–
Total	$ 3,311,899	$ 883,496	$ 1,241,649	$ 16,685	$ 4,553,548	$ 900,181

	December 31, 2017					
	Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
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:

	June 30, 2018			
(dollars in thousands)	Due Less Than 1 Year	Due 1 Through 5 Years	Due After 5 Years	Total
Real estate mortgage	$ 313,801	$ 2,551,029	$ 11,468,734	$ 14,333,564
Production and intermediate-term	2,059,108	3,290,226	1,369,929	6,719,263
Loans to cooperatives	31,249	479,165	134,133	644,547
Processing and marketing	111,577	1,109,181	377,844	1,598,602
Farm-related business	62,484	193,012	118,078	373,574
Communication	12,809	394,747	78,089	485,645
Power and water/waste disposal	12,435	199,251	398,083	609,769
Rural residential real estate	114,386	54,820	3,290,649	3,459,855
International	–	97,337	15,557	112,894
Lease receivables	169	11,940	8,694	20,803
Loans to OFIs	117,022	7,477	15,243	139,742
Other (including Mission Related)	1,543	22,027	49,849	73,419
Total loans	$ 2,836,583	$ 8,410,212	$ 17,324,882	$ 28,571,677
Percentage	9.93%	29.43%	60.64%	100.00%

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

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

	June 30, 2018	December 31, 2017
Real estate mortgage:		
Acceptable	95.18%	95.09%
OAEM	2.78	2.65
Substandard/doubtful/loss	2.04	2.26
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	92.54%	91.67%
OAEM	3.73	4.94
Substandard/doubtful/loss	3.73	3.39
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	98.73%	98.75%
OAEM	–	–
Substandard/doubtful/loss	1.27	1.25
	100.00%	100.00%
Processing and marketing:		
Acceptable	99.60%	99.60%
OAEM	0.08	0.21
Substandard/doubtful/loss	0.32	0.19
	100.00%	100.00%
Farm-related business:		
Acceptable	97.58%	94.02%
OAEM	1.26	2.11
Substandard/doubtful/loss	1.16	3.87
	100.00%	100.00%
Communication:		
Acceptable	93.85%	100.00%
OAEM	6.15	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	June 30, 2018	December 31, 2017
Power and water/waste disposal:		
Acceptable	100.00%	99.65%
OAEM	–	–
Substandard/doubtful/loss	–	0.35
	100.00%	100.00%
Rural residential real estate:		
Acceptable	99.17%	99.21%
OAEM	0.34	0.32
Substandard/doubtful/loss	0.49	0.47
	100.00%	100.00%
International:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Lease receivables:		
Acceptable	98.13%	99.49%
OAEM	0.07	0.11
Substandard/doubtful/loss	1.80	0.40
	100.00%	100.00%
Loans to OFIs:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Other (including Mission Related):		
Acceptable	99.98%	99.97%
OAEM	–	–
Substandard/doubtful/loss	0.02	0.03
	100.00%	100.00%
Total loans:		
Acceptable	95.53%	95.27%
OAEM	2.44	2.62
Substandard/doubtful/loss	2.03	2.11
	100.00%	100.00%

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

	June 30, 2018				
(dollars in thousands)	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 50,663	$ 46,665	$ 97,328	$ 14,373,816	$ 14,471,144
Production and intermediate-term	32,185	55,275	87,460	6,703,189	6,790,649
Loans to cooperatives	–	8	8	645,894	645,902
Processing and marketing	415	2,682	3,097	1,600,688	1,603,785
Farm-related business	1,504	978	2,482	373,123	375,605
Communication	–	–	–	486,166	486,166
Power and water/waste disposal	–	–	–	612,214	612,214
Rural residential real estate	10,427	5,865	16,292	3,453,078	3,469,370
International	–	–	–	113,315	113,315
Lease receivables	423	23	446	20,417	20,863
Loans to OFIs	–	–	–	140,039	140,039
Other (including Mission Related)	68	737	805	73,378	74,183
Total	$ 95,685	$ 112,233	$ 207,918	$ 28,595,317	$ 28,803,235

(dollars in thousands)	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:

(dollars in thousands)	June 30, 2018	December 31, 2017
Nonaccrual loans:		
Real estate mortgage	$ 110,629	$ 118,073
Production and intermediate-term	100,027	99,646
Loans to cooperatives	8,182	–
Processing and marketing	2,745	2,827
Farm-related business	3,031	3,224
Rural residential real estate	16,460	15,037
Lease receivables	242	50
Total	$ 241,316	$ 238,857
Accruing restructured loans:		
Real estate mortgage	$ 67,104	$ 64,234
Production and intermediate-term	56,347	47,100
Processing and marketing	672	–
Farm-related business	411	439
Rural residential real estate	3,683	3,011
Other (including Mission Related)	8,656	8,958
Total	$ 136,873	$ 123,742
Accruing loans 90 days or more past due:		
Real estate mortgage	$ 817	$ –
Production and intermediate-term	1,320	75
Other (including Mission Related)	287	–
Total	$ 2,424	$ 75
Total nonperforming loans	$ 380,613	$ 362,674
Other property owned	15,649	14,655
Total nonperforming assets	$ 396,262	$ 377,329
Nonaccrual loans as a percentage of total loans	0.84%	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	6.14%	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.

(dollars in thousands)		June 30, 2018		December 31, 2017
Impaired nonaccrual loans:				
Current as to principal and interest	$	115,299	$	104,285
Past due		126,017		134,572
Total	$	241,316	$	238,857
Impaired accrual loans:				
Restructured	$	136,873	$	123,742
90 days or more past due		2,424		75
Total	$	139,297	$	123,817
Total impaired loans	$	380,613	$	362,674
Additional commitments to lend	$	3,848	$	1,109

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

(dollars in thousands)	June 30, 2018			Three Months Ended June 30, 2018		Six Months Ended June 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	$ 23,030	$ 25,228	$ 3,326	$ 22,744	$ 291	$ 24,404	$ 588
Production and intermediate-term	48,806	52,575	13,748	48,429	712	49,094	1,279
Loans to cooperatives	8,175	8,341	2,267	7,744	(47)	7,798	(2)
Processing and marketing	–	–	–	–	–	–	–
Farm-related business	179	194	16	178	3	185	5
Power and water/waste disposal	–	–	–	–	(25)	1,091	–
Rural residential real estate	5,501	5,792	872	2,154	26	2,211	46
Lease receivables	208	214	124	209	4	195	6
Other (including Mission Related)	8,628	8,579	454	8,529	101	8,734	220
Total	$ 94,527	$ 100,923	$ 20,807	$ 89,987	$ 1,065	$ 93,712	$ 2,142
With no related allowance for credit losses:							
Real estate mortgage	$ 155,520	$ 188,216	$ –	$ 154,314	$ 2,174	$ 151,708	$ 3,837
Production and intermediate-term	108,888	158,254	–	109,200	1,986	100,501	3,110
Loans to cooperatives	7	8	–	7	–	8	–
Processing and marketing	3,417	3,862	–	3,405	63	3,074	94
Farm-related business	3,263	5,768	–	3,258	34	4,138	92
Power and water/waste disposal	–	–	–	–	–	3	–
Rural residential real estate	14,642	15,684	–	17,600	225	16,829	414
Lease receivables	34	34	–	33	–	49	1
Other (including Mission Related)	315	1,049	–	305	3	330	6
Total	$ 286,086	$ 372,875	$ –	$ 288,122	$ 4,485	$ 276,640	$ 7,554
Total:							
Real estate mortgage	$ 178,550	$ 213,444	$ 3,326	$ 177,058	$ 2,465	$ 176,112	$ 4,425
Production and intermediate-term	157,694	210,829	13,748	157,629	2,698	149,595	4,389
Loans to cooperatives	8,182	8,349	2,267	7,751	(47)	7,806	(2)
Processing and marketing	3,417	3,862	–	3,405	63	3,074	94
Farm-related business	3,442	5,962	16	3,436	37	4,323	97
Power and water/waste disposal	–	–	–	–	(25)	1,094	–
Rural residential real estate	20,143	21,476	872	19,754	251	19,040	460
Lease receivables	242	248	124	242	4	244	7
Other (including Mission Related)	8,943	9,628	454	8,834	104	9,064	226
Total	$ 380,613	$ 473,798	$ 20,807	$ 378,109	$ 5,550	$ 370,352	$ 9,696

(dollars in thousands)	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

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

(dollars in thousands)	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 March 31, 2018	$ 83,356	$ 80,855	$ 13,669	$ 2,416	$ 1,985	$ 7,502	$ 145	$ 520	$ 923	$ 191,371
Charge-offs	(162)	(1,590)	–	–	(315)	(111)	–	–	–	(2,178)
Recoveries	250	857	2	–	–	68	–	–	–	1,177
Provision for loan losses	(3,702)	7,096	(271)	(146)	(232)	(33)	7	(41)	(2)	2,676
Loan type reclassifications	105	–	–	–	–	–	–	64	(169)	–
Balance at June 30, 2018	$ 79,847	$ 87,218	$ 13,400	$ 2,270	$ 1,438	$ 7,426	$ 152	$ 543	$ 752	$ 193,046
Balance at December 31, 2017	$ 82,686	$ 86,037	$ 10,977	$ 2,237	$ 2,935	$ 7,262	$ 151	$ 54	$ 728	$ 193,067
Charge-offs	(464)	(5,192)	(597)	–	(315)	(264)	–	–	–	(6,832)
Recoveries	819	1,362	18	–	2	110	–	–	–	2,311
Provision for loan losses	(3,295)	5,007	3,002	33	(1,184)	318	1	425	193	4,500
Loan type reclassifications	101	4	–	–	–	–	–	64	(169)	–
Balance at June 30, 2018	$ 79,847	$ 87,218	$ 13,400	$ 2,270	$ 1,438	$ 7,426	$ 152	$ 543	$ 752	$ 193,046
Balance at March 31, 2017	$ 78,606	$ 81,272	$ 11,467	$ 3,140	$ 2,799	$ 6,160	$ 170	$ 90	$ 691	$ 184,395
Charge-offs	(1,850)	(1,144)	–	–	–	(162)	–	–	–	(3,156)
Recoveries	905	683	2	–	–	30	–	5	4	1,629
Provision for loan losses	2,799	1,024	(511)	(740)	828	165	(10)	(3)	4	3,556
Loan type reclassifications	5	38	–	–	–	–	–	(38)	(5)	–
Balance at June 30, 2017	$ 80,465	$ 81,873	$ 10,958	$ 2,400	$ 3,627	$ 6,193	$ 160	$ 54	$ 694	$ 186,424
Balance at December 31, 2016	$ 77,629	$ 81,548	$ 10,342	$ 2,987	$ 3,040	$ 6,008	$ 186	$ 38	$ 822	$ 182,600
Charge-offs	(1,945)	(2,332)	(2)	–	–	(253)	–	–	–	(4,532)
Recoveries	1,846	1,116	111	–	–	72	–	12	11	3,168
Provision for loan losses	2,882	1,365	507	(587)	587	366	(26)	4	90	5,188
Loan type reclassifications	53	176	–	–	–	–	–	–	(229)	–
Balance at June 30, 2017	$ 80,465	$ 81,873	$ 10,958	$ 2,400	$ 3,627	$ 6,193	$ 160	$ 54	$ 694	$ 186,424
Allowance on loans evaluated for impairment:										
Individually	$ 3,326	$ 13,748	$ 2,283	$ –	$ –	$ 872	$ –	$ 124	$ 454	$ 20,807
Collectively	76,521	73,470	11,117	2,270	1,438	6,554	152	419	298	172,239
PCI***	–	–	–	–	–	–	–	–	–	–
Balance at June 30, 2018	$ 79,847	$ 87,218	$ 13,400	$ 2,270	$ 1,438	$ 7,426	$ 152	$ 543	$ 752	$ 193,046
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	$ 322,750	$ 151,211	$ 14,610	$ –	$ –	$ 1,340,789	$ –	$ 400	$ 8,914	$ 1,838,674
Collectively	14,146,673	6,639,438	2,610,682	486,166	612,214	2,128,527	113,315	20,463	205,308	26,962,786
PCI***	1,721	–	–	–	–	54	–	–	–	1,775
Balance at June 30, 2018	$ 14,471,144	$ 6,790,649	$ 2,625,292	$ 486,166	$ 612,214	$ 3,469,370	$ 113,315	$ 20,863	$ 214,222	$ 28,803,235
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.

(dollars in thousands)	Three Months Ended June 30, 2018				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification					
Real estate mortgage	$ 827	$ 13,242	$ –	$ 14,069	
Production and intermediate-term	837	13,770	–	14,607	
Loans to cooperatives	–	3,229	–	3,229	
Processing and marketing	–	663	–	663	
Rural residential real estate	232	298	–	530	
Total	$ 1,896	$ 31,202	$ –	$ 33,098	
Post-modification					
Real estate mortgage	$ 828	$ 13,548	$ –	$ 14,376	$ (6)
Production and intermediate-term	851	13,496	–	14,347	(49)
Loans to cooperatives	–	3,229	–	3,229	–
Processing and marketing	–	663	–	663	–
Rural residential real estate	240	299	–	539	–
Total	$ 1,919	$ 31,235	$ –	$ 33,154	$ (55)

(dollars in thousands)	Six Months Ended June 30, 2018				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification					
Real estate mortgage	$ 2,735	$ 15,264	$ –	$ 17,999	
Production and intermediate-term	996	18,265	–	19,261	
Loans to cooperatives	–	3,229	–	3,229	
Processing and marketing	–	663	–	663	
Rural residential real estate	341	840	8	1,189	
Total	$ 4,072	$ 38,261	$ 8	$ 42,341	
Post-modification					
Real estate mortgage	$ 2,744	$ 15,491	$ –	$ 18,235	$ (43)
Production and intermediate-term	1,010	17,738	–	18,748	(49)
Loans to cooperatives	–	3,229	–	3,229	–
Processing and marketing	–	663	–	663	–
Rural residential real estate	351	861	8	1,220	–
Total	$ 4,105	$ 37,982	$ 8	$ 42,095	$ (92)

(dollars in thousands)	Three Months Ended June 30, 2017				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification					
Real estate mortgage	$ 344	$ 7,765	$ –	$ 8,109	
Production and intermediate-term	852	9,134	198	10,184	
Processing and marketing	–	1,958	–	1,958	
Rural residential real estate	–	224	–	224	
Total	$ 1,196	$ 19,081	$ 198	$ 20,475	
Post-modification					
Real estate mortgage	$ 344	$ 8,019	$ –	$ 8,363	$ (1)
Production and intermediate-term	851	9,276	198	10,325	(3)
Processing and marketing	–	1,958	–	1,958	–
Rural residential real estate	–	228	–	228	–
Total	$ 1,195	$ 19,481	$ 198	$ 20,874	$ (4)

(dollars in thousands)	Six Months Ended June 30, 2017				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification					
Real estate mortgage	$ 879	$ 10,410	$ –	$ 11,289	
Production and intermediate-term	1,951	15,783	198	17,932	
Processing and marketing	–	1,958	–	1,958	
Rural residential real estate	231	224	–	455	
Total	$ 3,061	$ 28,375	$ 198	$ 31,634	
Post-modification					
Real estate mortgage	$ 879	$ 10,534	$ –	$ 11,413	$ (1)
Production and intermediate-term	2,086	15,724	198	18,008	(395)
Processing and marketing	–	1,958	–	1,958	–
Rural residential real estate	265	228	–	493	–
Total	$ 3,230	$ 28,444	$ 198	$ 31,872	$ (396)

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

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(dollars in thousands)	**2018**	**2017**	**2018**	**2017**
Defaulted troubled debt restructurings:				
Real estate mortgage	$ 2,473	$ 200	$ 4,256	$ 635
Production and intermediate-term	1,238	5,016	2,440	5,884
Rural residential real estate	301	8	387	450
Total	$ 4,012	$ 5,224	$ 7,083	$ 6,969

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

	Total TDRs		**Nonaccrual TDRs**	
(dollars in thousands)	**June 30, 2018**	**December 31, 2017**	**June 30, 2018**	**December 31, 2017**
Real estate mortgage	$ 97,175	$ 101,252	$ 30,071	$ 37,018
Production and intermediate-term	82,134	75,951	25,787	28,851
Loans to cooperatives	3,336	–	3,336	–
Processing and marketing	2,191	1,600	1,519	1,600
Farm-related business	2,288	2,461	1,877	2,022
Rural residential real estate	6,805	5,785	3,122	2,774
Other (including Mission Related)	8,656	8,958	–	–
Total	$ 202,585	$ 196,007	$ 65,712	$ 72,265
Additional commitments to lend	$ 1,886	$ 880		

The following table presents foreclosure information as of period end:

	June 30, 2018
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	$ 848
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ 2,874

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 June 30, 2018, were as follows.

(dollars in thousands)	
Real estate mortgage	$ 1,721
Rural residential real estate	54
Total loans	$ 1,775

At both June 30, 2018 and December 31, 2017, there was no allowance for loan losses related to these loans. During the three and six months ended June 30, 2018, provision for loan losses on these loans was an expense reversal of $43 thousand and an expense reversal of $56 thousand, respectively, compared with an expense reversal of $10 thousand and an expense reversal of $34 thousand for the three and six month periods ended June 30, 2017. See above for a summary of changes in the total allowance for loan losses for the period ended June 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 June 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 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 considers an RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9. The FCA requires System institutions to provide notification when a security becomes ineligible. At June 30, 2018, the District held three RABs whose credit quality had deteriorated beyond the program limits.

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

An agreement with a commercial bank requires AgFirst to maintain $50.0 million as a compensating balance. At June 30, 2018, the Bank held $41.8 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.

The District did not sell any investments during the first six months of 2018. During the first six 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:

	June 30, 2018				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Treasury Securities	$ 390,841	$ 43	$ (703)	$ 390,181	1.91%
U.S. Govt. Guaranteed	4,555,761	30,055	(68,930)	4,516,886	2.42
U.S. Govt. Agency Guaranteed	1,997,667	6,290	(31,863)	1,972,094	2.36
Non-Agency ABSs	626,740	59	(7,674)	619,125	1.92
Total	$ 7,571,009	$ 36,447	$ (109,170)	$ 7,498,286	2.34%

	December 31, 2017				
(dollars in thousands)	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:

	June 30, 2018				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Guaranteed	$ 12,210	$ 65	$ (130)	$ 12,145	3.75%
U.S. Govt. Agency Guaranteed	376,318	5,278	(14,011)	367,585	3.14
RABs and Other (a)	92,478	3,108	(926)	94,660	5.90
Total	$ 481,006	$ 8,451	$ (15,067)	$ 474,390	3.68%

(dollars in thousands)	December 31, 2017 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	401,810	7,438	(6,166)	403,082	3.25
RABs and Other (a)	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 June 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	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Treasury Securities	$ 313,314	1.89 %	$ 76,867	1.98 %	$ –	– %	$ –	– %	$ 390,181	1.91 %
U.S. Govt. Guaranteed	–	–	11,610	2.63	167,087	2.75	4,338,189	2.41	4,516,886	2.42
U.S. Govt. Agency Guaranteed	–	–	200,286	2.39	206,564	2.31	1,565,244	2.36	1,972,094	2.36
Non-Agency ABSs	17,205	2.10	511,070	1.87	90,850	2.17	–	–	619,125	1.92
Total fair value	$ 330,519	1.90 %	$ 799,833	2.02 %	$ 464,501	2.44 %	$ 5,903,433	2.40 %	$ 7,498,286	2.34 %
Total amortized cost	$ 330,518		$ 806,824		$ 467,910		$ 5,965,757		$ 7,571,009	

Held-to-maturity

	Due in 1 Year or Less		Due After 1 Year Through 5 Years		Due After 5 Years Through 10 Years		Due After 10 Years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Guaranteed	$ 85	2.27 %	$ 2,273	3.79 %	$ 3,080	3.51 %	$ 6,772	3.87 %	$ 12,210	3.75 %
U.S. Govt. Agency Guaranteed	14	3.76	–	–	–	–	376,304	3.14	376,318	3.14
RABs and Other	5,980	5.84	5,948	5.60	17,886	6.01	62,664	5.90	92,478	5.90
Total amortized cost	$ 6,079	5.79 %	$ 8,221	5.10 %	$ 20,966	5.64 %	$ 445,740	3.54 %	$ 481,006	3.68 %
Total fair value	$ 6,086		$ 8,293		$ 21,497		$ 438,514		$ 474,390	

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

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

	June 30, 2018					
	Less Than 12 Months		12 Months or Greater		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Treasury Securities	$ 64,597	$ (430)	$ 27,222	$ (273)	$ 91,819	$ (703)
U.S. Govt. Guaranteed	1,697,273	(32,603)	1,380,800	(36,457)	3,078,073	(69,060)
U.S. Govt. Agency Guaranteed	416,200	(5,278)	1,167,592	(40,596)	1,583,792	(45,874)
Non-Agency ABSs	506,714	(6,974)	80,148	(700)	586,862	(7,674)
RABs and Other	19,114	(125)	8,851	(801)	27,965	(926)
Total	$ 2,703,898	$ (45,410)	$ 2,664,613	$ (78,827)	$ 5,368,511	$ (124,237)

	December 31, 2017					
	Less Than 12 Months		12 Months or Greater		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Treasury Securities	$ 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 six months ended June 30, 2018, net unrealized losses of $52.7 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:

(dollars in thousands)	For the Three Months Ended June 30, 2018	For the Three Months Ended June 30, 2017	For the Six Months Ended June 30, 2018	For the Six Months Ended June 30, 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	–	–	–	–
Amount related to credit loss-ending balance	$ 2,024	$ 2,024	$ 2,024	$ 2,024
Life to date incurred credit losses	–	–	–	–
Remaining unrealized credit losses	$ 2,024	$ 2,024	$ 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:

(dollars in thousands)	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Net gains (losses) on equity securities		
Net gains (losses) recognized	$ 807	$ –
Less realized net gains (losses)	607	–
Unrealized gains (losses)	$ 200	$ –

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 $1.034 billion of intra-system obligations.

(dollars in thousands)	June 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	$ 6,525,192	1.62%	$ 4,651,493	1.93%	$ 11,176,685	1.75%
Greater than one year to two years	5,825,560	1.76	–	–	5,825,560	1.76
Greater than two years to three years	3,288,131	1.89	–	–	3,288,131	1.89
Greater than three years to four years	2,087,499	2.07	–	–	2,087,499	2.07
Greater than four years to five years	1,817,096	2.12	–	–	1,817,096	2.12
Greater than five years	5,339,935	2.78	–	–	5,339,935	2.78
Total	$ 24,883,413	2.01%	$ 4,651,493	1.93%	$ 29,534,906	2.00%

Discount notes are issued with maturities ranging from 1 to 365 days. The average maturity of discount notes at June 30, 2018 was 164 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:

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(dollars in thousands)	**2018**	**2017**	**2018**	**2017**
Investment Securities:				
Balance at beginning of period	$ (56,645)	$ (1,373)	$ (19,635)	$ 3,013
Other comprehensive income before reclassifications	(15,694)	4,984	(52,698)	571
Amounts reclassified from AOCI	(7)	184	(13)	211
Net current period other comprehensive income	(15,701)	5,168	(52,711)	782
Balance at end of period	$ (72,346)	$ 3,795	$ (72,346)	$ 3,795
Cash Flow Hedges:				
Balance at beginning of period	$ 590	$ (755)	$ 18	$ (838)
Other comprehensive income before reclassifications	31	(34)	16	(46)
Amounts reclassified from AOCI	73	224	660	319
Net current period other comprehensive income	104	190	676	273
Balance at end of period	$ 694	$ (565)	$ 694	$ (565)
Employee Benefit Plans:				
Balance at beginning of period	$ (354,445)	$ (367,267)	$ (362,435)	$ (376,498)
Other comprehensive income before reclassifications	–	–	–	1,051
Amounts reclassified from AOCI	7,990	8,090	15,980	16,270
Net current period other comprehensive income	7,990	8,090	15,980	17,321
Balance at end of period	$ (346,455)	$ (359,177)	$ (346,455)	$ (359,177)
Total Accumulated Other Comprehensive Income:				
Balance at beginning of period	$ (410,500)	$ (369,395)	$ (382,052)	$ (374,323)
Other comprehensive income before reclassifications	(15,663)	4,950	(52,682)	1,576
Amounts reclassified from AOCI	8,056	8,498	16,627	16,800
Net current period other comprehensive income	(7,607)	13,448	(36,055)	18,376
Balance at end of period	$ (418,107)	$ (355,947)	$ (418,107)	$ (355,947)

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,		
(dollars in thousands)	**2018**	**2017**	**2018**	**2017**	**Income Statement Line Item**
Investment Securities:					
Sales gains & losses	$ –	$ (258)	$ –	$ (258)	Gains (losses) on investments, net
Holding gains & losses	–	–	–	–	Net other-than-temporary impairment
Amortization	7	74	13	47	Interest income on investments
Net amounts reclassified	7	(184)	13	(211)	
Cash Flow Hedges:					
Interest income	(104)	(190)	(676)	(273)	See Note 11.
Gains (losses) on other transactions	31	(34)	16	(46)	See Note 11.
Net amounts reclassified	(73)	(224)	(660)	(319)	
Employee Benefit Plans:					
Periodic pension costs	(7,990)	(8,090)	(15,980)	(16,270)	See Note 7.
Net amounts reclassified	(7,990)	(8,090)	(15,980)	(16,270)	
Total reclassifications for period	$ (8,056)	$ (8,498)	$ (16,627)	$ (16,800)	

(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.

(dollars in thousands)	**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	1,032	1,435
Settlements	–	(1,355)
Transfers in and/or out of Level 3	–	–
Balance at June 30, 2018	$ 1,032	$ 80

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.

	June 30, 2018				
(dollars in thousands)	**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	$ 390,181	$ –	$ 390,181	$ –	$ 390,181
U.S. Govt. Guaranteed	4,516,886	–	4,516,886	–	4,516,886
U.S. Govt. Agency Guaranteed	1,972,094	–	1,972,094	–	1,972,094
Non-Agency ABSs	619,125	–	619,125	–	619,125
Total investments in debt securities available-for-sale	7,498,286	–	7,498,286	–	7,498,286
Federal funds sold, securities purchased under resale agreements, and other	100,000	–	100,000	–	100,000
Interest rate swaps and forward contracts	85	–	–	85	85
Money market funds	164,546	164,546	–	–	164,546
Mortgage servicing rights	1,117	–	–	1,117	1,117
Assets held in trust funds	32,555	32,555	–	–	32,555
Recurring Assets	$ 7,796,589	$ 197,101	$ 7,598,286	$ 1,202	$ 7,796,589
Liabilities:					
Interest rate swaps and forward contracts	$ 5	$ –	$ –	$ 5	$ 5
Mortgage servicing rights	85	–	–	85	85
Collateral liabilities	–	–	–	–	–
Recurring Liabilities	$ 90	$ –	$ –	$ 90	$ 90
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 73,720	$ –	$ –	$ 73,720	$ 73,720
Other property owned	15,649	–	–	16,969	16,969
Nonrecurring Assets	$ 89,369	$ –	$ –	$ 90,689	$ 90,689
Other Financial Instruments					
Assets:					
Cash	$ 257,261	$ 257,261	$ –	$ –	$ 257,261
Investments in debt securities held-to-maturity	481,006	–	379,730	94,660	474,390
Loans	28,320,675	–	–	27,814,722	27,814,722
Other Financial Assets	$ 29,058,942	$ 257,261	$ 379,730	$ 27,909,382	$ 28,546,373
Liabilities:					
Systemwide debt securities	$ 30,569,202	$ –	$ –	$ 30,192,703	$ 30,192,703
Other Financial Liabilities	$ 30,569,202	$ –	$ –	$ 30,192,703	$ 30,192,703

	December 31, 2017				
(dollars in thousands)	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

(dollars in thousands)	Fair Value		Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$	90,689	Appraisal	Income and expense	*
				Comparable sales	*
				Replacement cost	*
				Comparability adjustments	*
Forward contracts	$	80	Discounted cash flow	Estimated future cash flows	
Mortgage servicing rights, net	$	1,032	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	Price for similar security
	Vendor priced	**
Federal funds sold, securities purchased under resale agreements and other	Carrying value	Par/principal and appropriate interest yield
Interest rate swaps	Discounted cash flow	Annualized volatility
		Counterparty credit risk
		Own credit risk

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	Price for similar security
	Vendor priced	**
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:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(dollars in thousands)	2018	2017	2018	2017
Pension	$ 9,267	$ 11,138	$ 18,534	$ 23,485
401k	3,435	3,161	7,149	6,692
Other postretirement benefits	2,010	3,222	4,021	6,444
Total	$ 14,712	$ 17,521	$ 29,704	$ 36,621

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.

(dollars in thousands)	Actual YTD Through 6/3018	Projected Contributions for Remainder of 2018	Projected Total Contributions 2018
Pensions	$ 610	$ 49,096	$ 49,706
Other postretirement benefits	4,021	3,786	7,807
Total	$ 4,631	$ 52,882	$ 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:

(dollars in billions)		**6/30/18**		**12/31/17**
Total System bonds and notes	$	268.881	$	265.169
AgFirst bonds and notes	$	29.535	$	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:

(dollars in thousands)		**Three Months Ended June 30, 2018**		**Six Months Ended June 30, 2018**
Revenue recognized from contracts with customers:				
At a point in time	$	2,217	$	3,739
Over time		1,581		4,024
Total	$	3,798	$	7,763

Note 10 — Additional Financial Information

Offsetting of Financial and Derivative Assets

(dollars in thousands)	June 30, 2018	December 31, 2017
Derivatives	$ 85	$ –
Reverse repurchase and similar arrangements	100,000	150,000
Gross Amount of Recognized Assets	100,085	150,000
Derivatives	–	–
Reverse repurchase and similar arrangements	–	–
Gross Amounts Offset in the Balance Sheets	–	–
Net Amounts of Assets Presented in the Balance Sheets	$ 100,085	$ 150,000
Financial Instruments	(100,000)	(150,000)
Derivatives	5	
Cash Collateral Received	–	–
Gross Amounts Not Offset in the Balance Sheets	(100,005)	(150,000)
Net Amount	$ 80	$ –

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

(dollars in thousands)	June 30, 2018 *(unaudited)*	December 31, 2017 *(audited)*
Cash, cash equivalents and investment securities	$ 8,423,246	$ 8,835,515
Loans		
To District Associations	15,910,104	15,838,709
To others	7,397,693	7,520,451
Total loans	23,307,797	23,359,160
Allowance for loan losses	(15,669)	(14,381)
Net loans	23,292,128	23,344,779
Other assets	304,658	307,163
Total assets	$ 32,020,032	$ 32,487,457
Bonds and notes	$ 29,534,906	$ 29,762,991
Other liabilities	145,929	481,651
Total liabilities	29,680,835	30,244,642
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	1,997,452	1,845,686
Accumulated other comprehensive income (loss)	(76,528)	(24,756)
Total shareholders' equity	2,339,197	2,242,815
Total liabilities and equity	$ 32,020,032	$ 32,487,457

Statements of Income

(dollars in thousands)	For the Six Months Ended June 30, 2018	2017
	(unaudited)	
Interest income	$ 475,597	$ 411,706
Interest expense	272,276	188,838
Net interest income	203,321	222,868
Provision for loan losses	1,262	525
Net interest income after provision for loan losses	202,059	222,343
Noninterest expense, net	49,653	58,436
Net income	$ 152,406	$ 163,907

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, which convert fixed interest rate debt to a lower floating interest rate than was achievable from issuing floating rate debt with identical repricing characteristics. They may allow the 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:

	For the Six Months Ended June 30,			
	2018		2017	
Notional Amounts *(dollars in millions)*	Receive-Fixed Swaps	Forward Contracts	Receive-Fixed Swaps	Forward Contracts
Balance at beginning of period	$ –	$ –	$ 50	$ 1
Additions	–	121	–	5
Maturities/amortization	–	(114)	(50)	(5)
Terminations	–	–	–	–
Balance at end of period	$ –	$ 7	$ –	$ 1

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:

(dollars in millions)	**June 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 Asset-Liability Management Committee (ALCO) as part of its oversight of the District'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 June 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 six month periods presented. See Note 5, *Shareholders' Equity*.

(dollars in thousands)	**Location of Gain or (Loss) Recognized in, or Reclassified from AOCI into, Income**	**Amount of Gain or (Loss) Recognized in, or Reclassified from AOCI into, Income ***		**Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)**		**Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)**	
		2018	**2017**	**2018**	**2017**	**2018**	**2017**
Cash Flow Hedges:							
Firm Commitments	Interest Income	$ (676)	$ (273)	$ –	$ –	$ –	$ –
Forward Contracts	Gains (Losses) on Other Transactions	16	(46)	–	–	16	(46)

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

(dollars in thousands)	**Balance Sheet Classification – Assets**	**6/30/18 Fair Value**	**Balance Sheet Classification – Liabilities**	**6/30/18 Fair Value**
Forward contracts	Other Assets	$ 85	Other Liabilities	$ 5
Total		$ 85		$ 5

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

(dollars in thousands)	**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	$ 1,435	$ –

** 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 there were none requiring disclosure through August 8, 2018, which was the date the financial statements were issued.