

**AGFIRST FARM CREDIT BANK  
& DISTRICT ASSOCIATIONS**

**2017**  
**THIRD**  
**QUARTER**  
**REPORT**



**FARM  
CREDIT**

*Lending support to rural America®*

# ***THIRD QUARTER 2017***

## **Table of Contents**

Report on Internal Control Over Financial Reporting.....	2
Management’s Discussion and Analysis of Financial Condition and Results of Operations.....	3
Combined Financial Statements:	
Combined Balance Sheets.....	16
Combined Statements of Income.....	17
Combined Statements of Comprehensive Income .....	18
Combined Statements of Changes in Shareholders’ Equity .....	19
Combined Statements of Cash Flows.....	20
Notes to the Combined Financial Statements.....	21

### **CERTIFICATION**

The undersigned certify that we have reviewed the September 30, 2017 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.



John S. Langford  
Chairman of the Board



Leon T. Amerson  
Chief Executive Officer & President



Stephen Gilbert  
Chief Financial Officer

November 8, 2017

## Report on Internal Control Over Financial Reporting

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

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

The Bank's and each District Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2017. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Bank's and each District Association's management concluded that as of September 30, 2017, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Bank's and each District Association's management determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2017.



Leon T. Amerson  
Chief Executive Officer & President



Stephen Gilbert  
Chief Financial Officer

November 8, 2017

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

The following discussion reviews the combined financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the District, as of and for the three and nine months ended September 30, 2017. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Combined Financial Statements, and the 2016 Annual Report of AgFirst Farm Credit Bank and District Associations. The accompanying combined financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

As of September 30, 2017, the District included 19 Associations, all of which were structured as Agricultural Credit Association (ACA) holding companies, with Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries. PCAs originate and service short- and intermediate-term loans; FLCAs originate and service long-term real estate mortgage loans; and ACAs originate both long-term and short- and intermediate-term loans.

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

### FORWARD-LOOKING INFORMATION

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

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

## FINANCIAL CONDITION

### Loan Portfolio

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

<b>Loan Portfolio</b> <i>(dollars in thousands)</i>	<b>September 30, 2017</b>		<b>December 31, 2016</b>		<b>September 30, 2016</b>	
Real Estate Mortgage	\$ 13,843,572	49.07%	\$ 13,238,788	48.21%	\$ 13,042,562	47.98%
Production and Intermediate-Term	7,235,462	25.65	7,248,346	26.40	7,203,618	26.50
Rural Residential Real Estate	3,370,545	11.95	3,228,215	11.76	3,189,700	11.73
Processing and Marketing	1,471,204	5.21	1,450,352	5.28	1,453,190	5.34
Loans to Cooperatives	602,274	2.13	625,642	2.28	597,980	2.20
Power and Water/Waste Disposal	548,399	1.94	581,249	2.12	591,652	2.18
Communication	478,326	1.70	473,352	1.72	467,362	1.72
Farm-Related Business	352,823	1.25	321,956	1.17	327,962	1.20
Loans to Other Financing Institutions (OFIs)	139,724	0.49	122,573	0.45	126,045	0.46
International	104,687	0.37	100,860	0.37	113,447	0.42
Other (including Mission Related)	53,244	0.19	53,038	0.19	58,958	0.22
Lease Receivables	12,866	0.05	13,595	0.05	12,255	0.05
<b>Total</b>	<b>\$ 28,213,126</b>	<b>100.00%</b>	<b>\$ 27,457,966</b>	<b>100.00%</b>	<b>\$ 27,184,731</b>	<b>100.00%</b>

Total loans outstanding were \$28.213 billion at September 30, 2017, an increase of \$755.2 million, or 2.75 percent, compared to total loans outstanding at December 31, 2016 and an increase of \$1.028 billion, or 3.78 percent, since September 30, 2016. The moderate increase in loan volume from December 31, 2016 to September 30, 2017 resulted primarily from strong demand in cotton, poultry, grains, tobacco, and timber. Minimal loan growth is expected for the remainder of 2017.

### Credit Quality

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

<b>Classification</b>	<b>Total Loan Portfolio Credit Quality as of:</b>		
	<b>September 30, 2017</b>	<b>December 31, 2016</b>	<b>September 30, 2016</b>
Acceptable	94.74%	95.00%	94.65%
OAEM *	2.93%	2.87%	3.12%
Adverse**	2.33%	2.13%	2.23%

\* Other Assets Especially Mentioned

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

Loan portfolio credit quality at September 30, 2017 declined slightly compared to December 31, 2016 and improved from September 30, 2016, as reflected in the table above. Improved housing starts continue to provide stability in certain housing-related segments such as forestry and nursery/greenhouse. District real estate values are stable. Credit quality is expected to remain relatively stable for the remainder of 2017. The impact of hurricanes in 2017 on District Associations is still being assessed, but is not expected to have a material impact on the District's financial condition or results of operations.

### Nonaccrual Loans

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the combined District at September 30, 2017 were \$237.5 million compared to \$250.6 million at December 31, 2016. The decrease of \$13.1 million resulted primarily from repayments of \$82.4 million, reinstatement to accrual status of \$7.9 million, charge-offs of \$5.6 million and transfers to other property owned of \$3.4 million, partially offset by loan balances transferred to nonaccrual status of \$82.3 million and recoveries of \$5.0 million. At September 30, 2017, total nonaccrual loans were primarily classified in the field crops (16.62 percent of the total), grain (10.06 percent), poultry (10.03 percent), forestry (9.21 percent), dairy (8.25 percent),

and cattle (7.93 percent) segments. Nonaccrual loans were 0.84 percent and 0.91 percent of total loans outstanding at September 30, 2017 and December 31, 2016, respectively.

### ***Troubled Debt Restructurings***

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank and District Associations would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms, rates, or amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by the Bank and District Associations. TDRs decreased \$5.5 million since December 31, 2016 and totaled \$192.3 million at September 30, 2017. TDRs at September 30, 2017 were comprised of \$122.0 million of accruing restructured loans and \$70.3 million of nonaccrual restructured loans. Restructured loans were primarily in the field crops (14.91 percent of the total), forestry (14.46 percent), poultry (11.07 percent), dairy (5.74 percent), and cattle (5.57 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 and 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 decreased \$3.8 million since December 31, 2016 and totaled \$26.5 million at September 30, 2017. The decrease was due to disposals of \$7.4 million and writedowns of \$1.7 million offset by transfers to OPO of \$5.5 million. The largest OPO holding at September 30, 2017 was in the forestry segment and totaled \$7.7 million (29.01 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 \$190.6 million at September 30, 2017, as compared with \$182.6 million at December 31, 2016, which was an increase of \$8.0 million. Activity which increased the allowance during the nine months ended September 30, 2017 included provision expense of \$8.7 million and loan recoveries of \$5.0 million. Offsetting these increases were charge-offs of \$5.7 million. Recoveries during the nine month period were related primarily to borrowers in the nursery/greenhouse (52.64 percent of the total), forestry (10.83 percent), and cattle (6.99 percent) segments. Charge-offs during the nine month period were related primarily to borrowers in the field crops (14.10 percent of the total), cattle (7.22 percent), corn (6.76 percent), forestry (6.65 percent), nursery/greenhouse (6.65 percent), cotton (6.43 percent), and rural home loan (5.54 percent) segments. See *Provision for Loan Losses* section below for additional details regarding loan loss provision expense and reversals. The allowance at September 30, 2017 included specific reserves of \$16.2 million (8.52 percent of the total) and \$174.4 million (91.48 percent) of general reserves. The largest commodity segments included in the allowance at September 30, 2017 were the field crops (14.39 percent of the total), poultry (13.24 percent), forestry (10.94 percent), cattle (8.26 percent), grain (8.04 percent), and corn (5.26 percent) segments. The allowance for loan losses was 0.68 percent and 0.67 percent of total loans outstanding at September 30, 2017 and December 31, 2016, respectively. See Note 2, *Loans and Allowance for Loan Losses*, in the Notes to the Combined Financial Statements for further information.

### ***Liquidity and Funding Sources***

AgFirst and the District Associations maintain adequate liquidity to satisfy the District's daily cash needs. Along with normal cash flows associated with lending operations, the District has two 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. There is an implied link between the credit rating of the U.S. government and the System given the System's status as a GSE. Any significant concerns regarding the U.S. government could pose a risk to the credit rating of the System.

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

At September 30, 2017, AgFirst had \$29.475 billion in total debt outstanding compared to \$29.408 billion at December 31, 2016. Debt increased primarily to support a higher level of loans as discussed elsewhere in this report.

Cash and cash equivalents, which decreased \$198.1 million from December 31, 2016 to a total of \$656.0 million at September 30, 2017, consist primarily of cash on deposit and money market securities that are short-term in nature (from overnight maturities to maturities that range up to 90 days). Incremental movements in cash balances between reporting periods are due primarily to changes in liquidity needs in relation to upcoming debt maturities.

Investment securities totaled \$8.071 billion, or 21.58 percent of total assets at September 30, 2017, compared to \$8.112 billion, or 22.03 percent, as of December 31, 2016. Investment securities decreased \$40.2 million, or 0.50 percent, compared to December 31, 2016. Management maintains the available-for-sale liquidity investment portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines which provide that a System bank may hold certain eligible available-for-sale investments in an amount not to exceed 35.00 percent of its total loans outstanding. Based upon FCA guidelines, at September 30, 2017, the Bank's eligible available-for-sale investments were 33.08 percent of the total loans outstanding.

Investment securities classified as being available-for-sale totaled \$7.530 billion at September 30, 2017. Available-for-sale investments at September 30, 2017 included \$326.4 million in U.S. Treasury securities, \$4.582 billion in U.S. government guaranteed securities, \$2.033 billion in U.S. government agency guaranteed securities, and \$588.6 million in non-agency asset-backed securities. Since the majority of the portfolio is invested in U.S. government guaranteed and agency securities, the portfolio is highly liquid and potential credit loss exposure is limited.

As of September 30, 2017, AgFirst exceeded all applicable regulatory liquidity requirements. FCA regulations require that the Bank have a liquidity policy that establishes a minimum total "coverage" level of 90 days and that short-term liquidity requirements must be met by certain high quality investments or cash. "Coverage" is defined as the number of

days that maturing debt could be funded with eligible cash, cash equivalents, and available-for-sale investments maintained by the Bank.

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

At September 30, 2017, AgFirst met each of the individual level criteria above and had a total of 197 days of maturing debt coverage compared to 201 days at December 31, 2016. The decrease resulted from a change in the timing of upcoming debt maturities. Cash provided by the Bank's operating activities is an additional source of liquidity for the Bank that is not reflected in the coverage calculation.

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

### **Capital Resources**

Total shareholders' equity increased \$372.8 million, or 6.34 percent, from December 31, 2016 to \$6.254 billion at September 30, 2017. This increase is primarily attributed to 2017 unallocated retained earnings from net income of \$423.0 million, partially offset by retained earnings retired of \$60.0 million.

The FCA adopted new regulatory capital requirements for System banks and associations which were effective January 1, 2017. These requirements were adopted to make System regulatory requirements more transparent and to ensure that the System's capital requirements are comparable with the Basel III framework and the standardized approach of federal banking regulatory agencies. All District entities were in compliance with the new regulations as of September 30, 2017. See *Regulatory Matters* section below for further discussion of capital ratios and related regulatory requirements effective in 2017.

## **RESULTS OF OPERATIONS**

Net income for the three months ended September 30, 2017 was \$146.7 million compared to \$157.8 million for the three months ended September 30, 2016, a decrease of \$11.1 million, or 7.05 percent. Net income for the nine months ended September 30, 2017 was \$423.0 million compared to \$411.9 million for the corresponding period in 2016, an increase of \$11.0 million or 2.68 percent. See below for further discussion of the change in net income by major components.

### **Key Results of Operations Comparisons**

	<b>Annualized for the nine months ended September 30, 2017</b>	<b>For the year ended December 31, 2016</b>	<b>Annualized for the nine months ended September 30, 2016</b>
Return on average assets	1.54%	1.55%	1.53%
Return on average shareholders' equity	9.21%	9.44%	9.33%
Net interest margin	2.89%	2.96%	2.95%
Operating expense as a percentage of net interest income and noninterest income	46.72%	47.73%	47.79%
Net (charge-offs) recoveries to average loans	0.00%	0.02%	0.03%

For the first nine months of 2017 compared to prior periods, the annualized return on average assets and return on average shareholders' equity ratios were negatively impacted by increases in average total assets and average total shareholders' equity, respectively. Compared to the first nine months of 2016, higher annualized net income for the 2017 period resulted in a slight improvement in the return on average assets ratio. The lower net interest margin ratio in 2017 resulted from higher average interest-earning assets and higher debt costs in the 2017 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 was positively impacted by increases in net interest income and noninterest income for the first nine months of 2017. Net recoveries positively impacted the net (charge-offs) recoveries to average loans ratio in the 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 increased \$46 thousand to \$264.5 million, a 0.02 percent increase, for the three months ended September 30, 2017 compared to the three months ended September 30, 2016. For the nine months ended September 30, 2017, net interest income was \$778.3 million compared to \$766.8 million for the same period of 2016, an increase of \$11.5 million, or 1.50 percent. The net interest margin, which is net interest income as a percentage of average earning assets, was 2.89 percent for both the three and nine month periods of 2017, a decrease of eight basis points and six basis points compared to the three and nine month periods in the prior year, respectively. For both the three and nine month periods, the increase in net interest income resulted primarily from higher average loan balances as well as higher yields earned on interest-earning assets substantially offset by higher rates paid on interest-bearing liabilities.

During the nine months ended September 30, 2017 and 2016, the Bank called debt totaling \$2.297 billion and \$15.973 billion, respectively, and was able to lower the cost of funds. Over time, as interest rates change and as assets prepay or reprice, the positive impact on the net interest margin that the Bank has experienced over the last several years from calling debt will continue to diminish.

The effects of changes in volume and interest rates on net interest income for the three and nine months ended September 30, 2017, as compared with the corresponding periods in 2016, are presented in the following table. The table distinguishes between the changes in interest income and interest expense related to average outstanding balances and to the levels of average interest rates. Accordingly, the benefit derived from funding earning assets with interest-free funds (principally capital) is reflected solely as a volume increase.

<i>(dollars in thousands)</i>	<b>For the three months ended September 30, 2017 vs. September 30, 2016</b>			<b>For the nine months ended September 30, 2017 vs. September 30, 2016</b>		
	<b>Increase (decrease) due to changes in:</b>			<b>Increase (decrease) due to changes in:</b>		
	<b>Volume</b>	<b>Rate</b>	<b>Total</b>	<b>Volume</b>	<b>Rate</b>	<b>Total</b>
Interest Income:						
Loans	\$ 10,832	\$ 16,291	\$ 27,123	\$ 35,751	\$ 27,949	\$ 63,700
Investments & Cash Equivalents	222	6,628	6,850	1,803	13,395	15,198
Total Interest Income	11,054	22,919	33,973	37,554	41,344	78,898
Interest Expense:						
Interest-Bearing Liabilities	(826)	34,753	33,927	5,752	61,676	67,428
Changes in Net Interest Income	\$ 11,880	\$ (11,834)	\$ 46	\$ 31,802	\$ (20,332)	\$ 11,470

### **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 a net expense of \$3.5 million and a net expense \$8.7 million for the three and nine month periods ended September 30, 2017, respectively, compared to a net reversal of \$5.3 million and a net reversal of \$1.3 million for the three and nine months ended September 30, 2016. For the three months ended September 30, 2017, the provision for loan losses included net provision expense of \$4.6 million for general reserves and net provision reversals of \$1.1 million for specific reserves. The largest segments included in the net provision expense for the third quarter of 2017 were poultry (\$1.6 million expense), field crops (\$1.3 million expense), cotton (\$1.1 million expense), and nursery/greenhouse (\$1.6 million reversal). For the nine months ended September 30, 2017, the provision for loan losses included net provision expense of \$8.9 million for general reserves and net provision reversals of \$265 thousand for specific reserves. The largest segments included in the net provision expense for the nine month period were field crops (\$5.8 million expense), poultry (\$3.0 million expense), cattle (\$1.8 million expense), cotton (\$1.6 million expense), and nursery/greenhouse (\$2.9 million reversal). For the three months ended September 30, 2016, the provision for loan losses included net provision reversals of \$7.3 million for specific reserves and net provision expense of \$2.0 million for general reserves. The largest segments included in the net provision reversal for the third quarter of 2016 were other real estate (\$4.7 million reversal), tree fruits and nuts (\$1.2 million reversal), nursery/greenhouse (\$941 thousand reversal), and field

crops (\$1.3 million expense). For the nine months ended September 30, 2016, the provision for loan losses included net provision reversals of \$9.5 million for specific reserves and net provision expense of \$8.2 million for general reserves. The largest segments included in the net provision reversal for the nine month period were other real estate (\$4.9 million reversal), forestry (\$3.0 million reversal), nursery/greenhouse (\$2.5 million reversal), field crops (\$3.4 million expense), grain (\$1.7 million expense), and dairy (\$1.4 million expense). Provision expense for both periods in 2016 was impacted by the adoption of an updated System probability of default curve which contained higher probabilities of default. This default curve is utilized in determining the amount of general allowance. 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 <i>(dollars in thousands)</i>	For the three months ended September 30,			For the nine months ended September 30,		
	2017	2016	Increase/ (Decrease)	2017	2016	Increase/ (Decrease)
Loan fees	\$ 6,699	\$ 7,250	\$ (551)	\$ 22,988	\$ 23,583	\$ (595)
Fees for financially related services	2,711	2,632	79	6,359	5,990	369
Building lease income	853	906	(53)	2,824	2,679	145
Net impairment losses on investments	—	(13,217)	13,217	—	(14,947)	14,947
Gains (losses) on investments, net	—	23,202	(23,202)	(258)	23,822	(24,080)
Gains (losses) on called debt	(1,447)	(10,491)	9,044	(4,528)	(28,428)	23,900
Gains (losses) on other transactions	2,215	1,059	1,156	4,031	2,310	1,721
Other noninterest income	560	792	(232)	4,609	4,897	(288)
Total noninterest income	\$ 11,591	\$ 12,133	\$ (542)	\$ 36,025	\$ 19,906	\$ 16,119

Noninterest income decreased \$542 thousand and increased \$16.1 million for the three and nine months ended September 30, 2017, respectively, compared to the corresponding periods in 2016. For both periods, the change was primarily due to lower investment impairment and called debt losses, offset by lower gains on investments. Significant line item variances are discussed further below.

Loan fees decreased \$551 thousand and \$595 thousand for the three and nine month periods ended September 30, 2017, respectively, compared to the same periods in the prior year. For the three and nine month periods the decreases were primarily due to decreases of \$467 thousand and \$1.3 million in servicing fee income, respectively. For the nine month period, lower fees of \$592 thousand in the Capital Markets portfolio due to fewer transactions coming to market also contributed to the decrease, partially offset by \$1.2 million higher origination fee income.

Net impairment losses on investments decreased \$13.2 million and \$14.9 million for the three and nine months ended September 30, 2017, respectively, compared to the corresponding periods in the prior year. No impairment losses were recorded for the first nine months of 2017. The impairment losses for the 2016 periods resulted primarily from the Bank's sale of all of its ineligible available-for-sale investment securities in August, 2016. These securities totaled \$129.4 million and an additional \$13.2 million in impairment losses was recognized as a result of the sale. The nine month period also included \$1.7 million in impairment losses recorded during the first quarter of 2016 on four non-agency collateralized mortgage obligation (CMO) securities. See further discussion of investments in the *Liquidity and Funding Sources* section and Note 3, *Investments*, in the Notes to the Financial Statements.

For the three and nine month periods ended September 30, 2017, gains on investments decreased \$23.2 million and \$24.1 million, respectively, compared to the same periods in 2016 primarily as a result of gains of \$23.2 million recognized in August, 2016 on the sale of the Bank's ineligible available-for-sale securities which totaled \$129.4 million as discussed above and elsewhere in this report. These transactions benefitted the Bank by eliminating future costs related to third party impairment modeling, and reducing FCSIC premium and safekeeping expenses. In March, 2016, the Bank sold agency mortgage-backed securities totaling \$15.0 million which resulted in gains totaling \$620 thousand. In May 2017, the Bank sold securities totaling \$77.4 million which resulted in a net loss of \$258 thousand. These transactions benefitted the Bank by reducing carrying costs and improving liquidity. See further discussion of investments in *Liquidity and Funding Sources* section above and in Note 3, *Investments*, in the Notes to the Financial Statements.

Debt issuance expense is amortized over the life of the underlying debt security. When debt securities are called prior to maturity, any unamortized issuance cost is expensed. Losses on called debt decreased \$9.0 million and \$23.9 million for the three and nine month periods ended September 30, 2017, respectively, compared to the same periods in the prior year. Call options were exercised on bonds totaling \$672.0 million and \$2.297 billion for the three and nine month periods in 2017, respectively, compared to \$6.867 billion and \$15.973 billion for the same periods in 2016. Debt is called to take advantage of favorable market interest rate changes. The amount of debt issuance cost expensed is dependent upon both the volume and remaining maturity of the debt when called. Losses on called debt are more than offset by interest expense savings realized as called debt is replaced by new debt issued at a lower rate of interest.

For the three and nine months ended September 30, 2017, gains on other transactions increased \$1.2 million and \$1.7 million, respectively, compared to the same periods in the prior year. The higher gains for the three month period in 2017 compared to the prior year resulted primarily from a loss of \$669 thousand recorded in the third quarter of 2016 due to the negotiated termination of a vendor contract, higher gains on the sale of rural residential mortgage loans of \$313 thousand, and lower provision expense for unfunded commitments of \$263 thousand. Changes in the reserve for unfunded commitments result from fluctuations in both the balance and composition of unfunded commitments between periods. For the nine month period, the increase was primarily due to \$1.6 million higher gains in 2017 in the market value of certain retirement plan trust assets and the \$669 thousand loss recorded in 2016 due to the negotiated termination of a vendor contract discussed above, partially offset by \$468 thousand in higher net losses on sales of assets.

### **Noninterest Expenses**

The following table illustrates the changes in noninterest expenses:

Change in Noninterest Expenses	For the three months ended September 30,			For the nine months ended September 30,		
	2017	2016	Increase/ (Decrease)	2017	2016	Increase/ (Decrease)
<i>(dollars in thousands)</i>						
Salaries and employee benefits	\$ 77,275	\$ 76,460	\$ 815	\$ 238,351	\$ 233,036	\$ 5,315
Occupancy and equipment	10,490	11,273	(783)	31,204	31,413	(209)
Insurance Fund premiums	9,238	11,091	(1,853)	27,340	29,702	(2,362)
Other operating expenses	28,360	27,198	1,162	83,578	81,831	1,747
Losses (gains) from other property owned	285	(1,945)	2,230	1,605	(208)	1,813
Total noninterest expenses	\$ 125,648	\$ 124,077	\$ 1,571	\$ 382,078	\$ 375,774	\$ 6,304

Noninterest expenses increased \$1.6 million and \$6.3 million for the three and nine months ended September 30, 2017, respectively, compared to the corresponding periods in 2016. For both periods, the increase was primarily due to an increase in salaries and employee benefits, lower gains on other property owned, and an increase in other operating expenses, partially offset by a decrease in insurance fund premiums. Significant line item variances are discussed further below.

Salaries and employee benefits increased \$815 thousand and \$5.3 million for the three and nine month periods, respectively, compared to the corresponding periods in 2016. The increase in both the three and nine month periods resulted primarily from higher salaries and incentives due to normal salary administration of \$2.8 million and \$7.4 million, respectively. These increases were partially offset by decreases of \$1.8 million and \$1.6 million for the three and nine month periods, respectively, in group health insurance costs.

Occupancy and equipment expense decreased \$783 thousand for the three month period in 2017 compared to the same period in 2016. The decrease resulted primarily from lower equipment depreciation expenses of \$869 thousand.

Insurance Fund premiums decreased \$1.9 million and \$2.4 million for the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016. The decrease resulted primarily from a decrease in the base annual premium rate to 15 basis points in 2017 from 16 basis points in the first and second quarters of 2016 and 18 basis points in the third quarter of 2016. 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 increased \$1.2 million and \$1.7 million for the three and nine month periods ended September 30, 2017, respectively, compared to the corresponding periods in 2016. The increases for the three and nine month periods resulted primarily from increases of \$787 thousand and \$1.3 million, respectively, in consultant and professional fees primarily related to technology initiatives. For the nine month period, an increase of \$733 thousand in FCA supervisory and examination fees also contributed to the increase, partially offset by a decrease in nonaccrual loan period costs, primarily legal fees and property taxes, of \$541 thousand.

Gains on other property owned decreased \$2.2 million and \$1.8 million for the three and nine month periods in 2017, respectively, compared with the same periods in the prior year. The decreases for both the three and nine month periods were primarily due to a \$2.3 million gain recognized in the third quarter of 2016 on the sale of one real estate property. See *Other Property Owned* section above for further information.

## REGULATORY MATTERS

### Capital

Effective January 1, 2017, the regulatory capital requirements for System Banks and Associations were modified. The new regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. New regulations replaced existing core surplus and total surplus ratios with common equity tier 1 (CET1), tier 1 capital, and total capital risk-based capital ratios. The new regulations also replaced the existing net collateral ratio with a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The current permanent capital ratio (PCR) remains in effect.

Risk-adjusted assets have been defined by FCA Regulations as the Balance Sheet assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the effect of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Calculation of PCR risk-adjusted assets includes the allowance for loan losses as a deduction from risk-adjusted assets. This differs from the other risk-based capital calculations.

The ratios are calculated using three-month average daily balances, in accordance with FCA regulations, as follows:

- The CET1 ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- The total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The tier 1 leverage ratio is tier 1 capital, divided by average assets less regulatory deductions to tier 1 capital.
- The UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions to tier 1 capital.

The following sets forth the regulatory capital ratios for the Bank and District Associations, which were effective January 1, 2017:

<b>Ratio</b>	<b>Regulatory Minimum Requirement</b>	<b>Capital Conservation Buffer</b>	<b>Minimum Requirement, Including Buffer</b>	<b>Bank Capital Ratios as of September 30, 2017</b>	<b>District Association Capital Ratios as of September 30, 2017</b>
Risk-adjusted ratios:					
CET1 Capital*	4.5%	0.625%	5.125%	21.13%	12.87%-38.48%
Tier 1 Capital*	6.0%	0.625%	6.625%	21.57%	12.87%-38.48%
Total Capital*	8.0%	0.625%	8.625%	21.72%	15.61%-39.39%
Permanent Capital Ratio	7.0%	0.0%	7.0%	21.60%	14.79%-38.82%
Non-risk-adjusted:					
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	7.51%	12.18%-33.72%
UREE Leverage Ratio	1.5%	0.0%	1.5%	6.55%	7.91%-34.42%

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

If the capital ratios fall below the minimum regulatory requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

Additional information can be found in the *Regulatory Matters* section of the Third Quarter 2017 Report for AgFirst Farm Credit Bank.

### Other Regulatory Matters

On July 25, 2014, the FCA published a proposed rule in the Federal Register to revise the requirements governing the eligibility of investments for System banks and associations. The public comment period ended on October 23, 2014. The FCA expects to issue a final regulation in 2018. The stated objectives of the proposed rule are as follows:

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

### RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

<b>Standard</b>	<b>Summary of Guidance</b>	<b>Effective Date and Potential Financial Statement Impact</b>
ASU 2017-08 – Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): <i>Premium Amortization on Purchased Callable Debt Securities</i>	<ul style="list-style-type: none"> <li>• Requires amortization of premiums to the earliest call date on debt securities with call features that are explicit, noncontingent and callable at fixed prices and on preset dates.</li> <li>• Does not impact securities held at a discount; the discount continues to be</li> </ul>	<ul style="list-style-type: none"> <li>• The investment securities portfolio may include holdings of callable debt securities. The District is currently evaluating the impact of the Update on the financial statements, which will be affected by any investments in callable debt securities carried at a premium at the time of adoption.</li> </ul>

	<ul style="list-style-type: none"> <li>amortized to the contractual maturity.</li> <li>Requires adoption on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption.</li> <li>Effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted.</li> </ul>	<ul style="list-style-type: none"> <li>The District expects to adopt the guidance in first quarter 2019 using the modified retrospective method with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption.</li> </ul>
<p>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): <i>Measurement of Credit Losses on Financial Instruments</i></p>	<ul style="list-style-type: none"> <li>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.</li> <li>Changes the present incurred loss impairment guidance for loans to a current expected credit loss (CECL) model.</li> <li>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.</li> <li>Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on financial assets purchased with more than insignificant credit deterioration since origination.</li> <li>Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>The District expects that the new guidance will result in an increase in its allowance for credit losses due to several factors, including: <ol style="list-style-type: none"> <li>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,</li> <li>An allowance will be established for estimated credit losses on debt securities,</li> <li>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.</li> </ol> </li> <li>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.</li> <li>The District expects to adopt the guidance in first quarter 2021 using the modified retrospective method with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption.</li> </ul>
<p>ASU 2016-02 – Leases (Topic 842)</p>	<ul style="list-style-type: none"> <li>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.</li> <li>Lessor accounting activities are largely unchanged from existing lease accounting.</li> <li>The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity.</li> </ul>	<ul style="list-style-type: none"> <li>The practical expedients allow entities to largely account for existing leases consistent with current guidance, except for the incremental balance sheet recognition for lessees.</li> <li>The District has started its implementation of the Update which has included an initial evaluation of leasing contracts and activities.</li> <li>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</li> </ul>

	<p>termination or modification.</p> <ul style="list-style-type: none"> <li>• Expands qualitative and quantitative disclosures of leasing arrangements.</li> <li>• Requires adoption using a modified cumulative-effect approach wherein the guidance is applied to all periods presented.</li> <li>• Effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted.</li> </ul>	<p>not expect a material change to the timing of expense recognition.</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• The District is evaluating existing disclosures and may need to provide additional information as a result of adoption of the Update.</li> <li>• The District expects to adopt the guidance in first quarter 2019 using the modified retrospective method and practical expedients for transition.</li> </ul>
<p>ASU 2016-01 – Financial Instruments – Overall (Subtopic 825-10): <i>Recognition and Measurement of Financial Assets and Financial Liabilities</i></p>	<ul style="list-style-type: none"> <li>• The Update amends the presentation and accounting for certain financial instruments, including liabilities measured at fair value under the fair value option and equity investments.</li> <li>• Requires certain equity instruments be measured at fair value, with changes in fair value recognized in earnings.</li> <li>• The guidance also updates fair value presentation and disclosure requirements for financial instruments measured at amortized cost.</li> <li>• Effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.</li> </ul>	<ul style="list-style-type: none"> <li>• The District is currently evaluating any impacts to the financial statements. The District’s implementation efforts include the identification of securities within the scope of the guidance, the evaluation of the measurement alternative available for equity securities without a readily determinable fair value, and the related impact to accounting policies, presentation, and disclosures.</li> <li>• Any investments in nonmarketable equity investments accounted for under the cost method of accounting (except for other Farm Credit Institution stock) will be accounted for either at fair value with unrealized gains and losses reflected in earnings or, if elected, using an alternative method. The alternative method is similar to the cost method of accounting, except that the carrying value is adjusted (through earnings) for subsequent observable transactions in the same or similar investment. The District is evaluating which method will be applied to these nonmarketable equity investments.</li> <li>• Additionally, for purposes of disclosing the fair value of loans carried at amortized cost, the District is evaluating valuation methods to determine the necessary changes to conform to an “exit price” notion as required by the Standard. Accordingly, the fair value amounts disclosed for such loans may change upon adoption.</li> <li>• The District expects to adopt the guidance in first quarter 2018 with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption, except for changes related to nonmarketable equity investments, which is applied prospectively. The District expects the primary accounting changes will relate to equity investments.</li> </ul>

<p>ASU 2014-09 – Revenue from Contracts With Customers (Topic 606) and subsequent related Updates</p>	<ul style="list-style-type: none"> <li>• Requires that revenue from contracts with customers be recognized upon transfer of control of a good or service, and transfers of nonfinancial assets, in an amount equaling the consideration expected to be received.</li> <li>• Changes the accounting for certain contract costs, including whether they may be offset against revenue in the Statements of Income, and requires additional disclosures about revenue and contract costs.</li> <li>• May be adopted using a full retrospective approach or a modified, cumulative-effect approach wherein the guidance is applied only to existing contracts as of the date of initial application, and to new contracts transacted after that date.</li> <li>• Effective for reporting periods beginning after December 15, 2017. Early application is not permitted.</li> </ul>	<ul style="list-style-type: none"> <li>• The District’s revenue is the sum of net interest income and noninterest income. The scope of the guidance explicitly excludes net interest income as well as many other revenues for financial assets and liabilities including loans, leases, securities, and derivatives. Accordingly, the majority of the District’s revenues will not be affected.</li> <li>• The District is performing an assessment of revenue contracts as well as working with industry participants on matters of interpretation and application. Accounting policies will not change materially since the principles of revenue recognition from the Update are largely consistent with existing guidance and current practices. The District has not identified material changes to the timing or amount of revenue recognition.</li> <li>• The District expects a minor change to the presentation of costs for certain underwriting activities which will be presented in expenses rather than the current presentation against the related revenues. The District will provide qualitative disclosures of performance obligations related to revenue recognition and will continue to evaluate disaggregation for significant categories of revenue in the scope of the guidance.</li> <li>• The District expects to adopt the guidance in first quarter 2018 using the modified retrospective method with a cumulative-effect adjustment to opening retained earnings.</li> </ul>
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**NOTE:** Shareholder investment in a District Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst’s annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, Director of Financial Reporting and ICFR, 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](http://www.agfirst.com). AgFirst prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no quarterly report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.



# Combined Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2017 <i>(unaudited)</i>	December 31, 2016 <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 405,068	\$ 591,491
Cash equivalents	250,946	262,624
Investment securities:		
Available for sale (amortized cost of \$7,524,815 and \$7,488,279, respectively)	7,530,107	7,490,841
Held to maturity (fair value of \$551,007 and \$625,980, respectively)	541,241	620,682
Total investment securities	<u>8,071,348</u>	<u>8,111,523</u>
Loans held for sale	11,813	17,561
Loans	28,213,126	27,457,966
Allowance for loan losses	<u>(190,604)</u>	<u>(182,600)</u>
Net loans	28,022,522	27,275,366
Accrued interest receivable	269,850	205,487
Accounts receivable	59,548	57,102
Investments in other Farm Credit System institutions	36,357	34,610
Premises and equipment, net	193,741	194,283
Other property owned	26,454	30,281
Other assets	<u>47,318</u>	<u>40,791</u>
Total assets	<u>\$ 37,394,965</u>	<u>\$ 36,821,119</u>
<b>Liabilities</b>		
Systemwide bonds payable	\$ 24,062,362	\$ 22,660,317
Systemwide and other notes payable	6,435,574	7,442,928
Accrued interest payable	76,065	59,273
Accounts payable	64,903	257,249
Advanced conditional payments	7,098	4,368
Other liabilities	<u>495,073</u>	<u>515,927</u>
Total liabilities	<u>31,141,075</u>	<u>30,940,062</u>
Commitments and contingencies (Note 8)		
<b>Shareholders' Equity</b>		
Perpetual preferred stock	49,250	49,250
Protected borrower equity	509	513
Capital stock and participation certificates	168,098	174,877
Additional paid-in-capital	82,573	82,573
Retained earnings		
Allocated	1,909,602	1,971,423
Unallocated	4,389,632	3,976,744
Accumulated other comprehensive income (loss)	<u>(345,774)</u>	<u>(374,323)</u>
Total shareholders' equity	<u>6,253,890</u>	<u>5,881,057</u>
Total liabilities and equity	<u>\$ 37,394,965</u>	<u>\$ 36,821,119</u>

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

# Combined Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
<b>Interest Income</b>				
Investments	\$ 39,533	\$ 32,683	\$ 111,659	\$ 96,461
Loans	338,442	311,319	976,335	912,635
Total interest income	377,975	344,002	1,087,994	1,009,096
<b>Interest Expense</b>				
Net interest income	264,524	264,478	778,309	766,839
Provision for (reversal of allowance for) loan losses	3,467	(5,306)	8,655	(1,285)
Net interest income after provision for loan losses	261,057	269,784	769,654	768,124
<b>Noninterest Income</b>				
Loan fees	6,699	7,250	22,988	23,583
Fees for financially related services	2,711	2,632	6,359	5,990
Building lease income	853	906	2,824	2,679
Total other-than-temporary impairment losses	—	(4,665)	—	(4,665)
Portion of loss recognized in other comprehensive income	—	(8,552)	—	(10,282)
Net other-than-temporary impairment losses	—	(13,217)	—	(14,947)
Gains (losses) on investments, net	—	23,202	(258)	23,822
Gains (losses) on called debt	(1,447)	(10,491)	(4,528)	(28,428)
Gains (losses) on other transactions	2,215	1,059	4,031	2,310
Other noninterest income	560	792	4,609	4,897
Total noninterest income	11,591	12,133	36,025	19,906
<b>Noninterest Expenses</b>				
Salaries and employee benefits	77,275	76,460	238,351	233,036
Occupancy and equipment	10,490	11,273	31,204	31,413
Insurance Fund premiums	9,238	11,091	27,340	29,702
Other operating expenses	28,360	27,198	83,578	81,831
Losses (gains) from other property owned	285	(1,945)	1,605	(208)
Total noninterest expenses	125,648	124,077	382,078	375,774
Income before income taxes	147,000	157,840	423,601	412,256
Provision (benefit) for income taxes	343	62	644	328
Net income	\$ 146,657	\$ 157,778	\$ 422,957	\$ 411,928

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

# Combined Statements of Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
<b>Net income</b>	<b>\$ 146,657</b>	<b>\$ 157,778</b>	<b>\$ 422,957</b>	<b>\$ 411,928</b>
Other comprehensive income net of tax:				
Unrealized gains (losses) on investments:				
Other-than-temporarily impaired	—	(14,790)	—	(15,969)
Not other-than-temporarily impaired	<b>1,893</b>	(6,992)	<b>2,675</b>	3,712
Change in value of cash flow hedges	<b>191</b>	(85)	<b>464</b>	(22)
Employee benefit plans adjustments	<b>8,089</b>	8,751	<b>25,410</b>	26,251
Other comprehensive income (Note 5)	<b>10,173</b>	(13,116)	<b>28,549</b>	13,972
Comprehensive income	<b>\$ 156,830</b>	<b>\$ 144,662</b>	<b>\$ 451,506</b>	<b>\$ 425,900</b>

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

# Combined Statements of Changes in Shareholders' Equity

(unaudited)

<i>(dollars in thousands)</i>	Perpetual Preferred Stock	Protected Borrower Equity	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Retained Earnings		Accumulated Other Comprehensive Income	Total Shareholders' Equity
					Allocated	Unallocated		
Balance at December 31, 2015	\$ 115,000	\$ 606	\$ 160,456	\$ 63,678	\$ 1,893,930	\$ 3,762,253	\$ (324,863)	\$ 5,671,060
Comprehensive income						411,928	13,972	425,900
Protected borrower equity retired		(5)						(5)
Capital stock/participation certificates issued (retired), net			9,724					9,724
Dividends declared/paid			358			(497)		(139)
Redemption of perpetual preferred stock (Note 5)	(45,750)			12,870				(32,880)
Dividends paid on perpetual preferred stock						(1,193)		(1,193)
Cash patronage distribution						(9,375)		(9,375)
Retained earnings retired					(61,954)	90		(61,864)
Patronage distribution adjustment			13		(1,872)	1,874		15
Balance at September 30, 2016	\$ 69,250	\$ 601	\$ 170,551	\$ 76,548	\$ 1,830,104	\$ 4,165,080	\$ (310,891)	\$ 6,001,243
Balance at December 31, 2016	\$ 49,250	\$ 513	\$ 174,877	\$ 82,573	\$ 1,971,423	\$ 3,976,744	\$ (374,323)	\$ 5,881,057
<b>Comprehensive income</b>						<b>422,957</b>	<b>28,549</b>	<b>451,506</b>
<b>Protected borrower equity retired</b>		<b>(4)</b>						<b>(4)</b>
<b>Capital stock/participation certificates issued (retired), net</b>			<b>(7,137)</b>					<b>(7,137)</b>
<b>Dividends declared/paid</b>			<b>356</b>			<b>(493)</b>		<b>(137)</b>
<b>Dividends paid on perpetual preferred stock</b>						<b>(841)</b>		<b>(841)</b>
<b>Cash patronage distribution</b>						<b>(9,375)</b>		<b>(9,375)</b>
<b>Retained earnings retired</b>					<b>(59,917)</b>			<b>(59,917)</b>
<b>Patronage distribution adjustment</b>			<b>2</b>		<b>(1,904)</b>	<b>640</b>		<b>(1,262)</b>
Balance at September 30, 2017	\$ 49,250	\$ 509	\$ 168,098	\$ 82,573	\$ 1,909,602	\$ 4,389,632	\$ (345,774)	\$ 6,253,890

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

# Combined Statements of Cash Flows

(unaudited)

	For the nine months ended September 30,	
	2017	2016
<i>(dollars in thousands)</i>		
<b>Cash flows from operating activities:</b>		
Net income	\$ 422,957	\$ 411,928
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	14,646	15,784
Amortization of net deferred loan (fees) costs and premium amortization (discount accretion)	(1,909)	(1,426)
Premium amortization (discount accretion) on investment securities	8,685	7,951
(Premium amortization) discount accretion on bonds and notes	43,153	31,690
Amortization (accretion) of yield mark resulting from merger	(895)	(1,763)
Provision for (reversal of allowance for) loan losses	8,655	(1,285)
(Gains) losses on other property owned	891	(1,119)
Net impairment losses on investments	—	14,947
(Gains) losses on investments, net	258	(23,822)
(Gains) losses on called debt	4,528	28,428
(Gains) losses on other transactions	(4,031)	(2,310)
Net change in loans held for sale	12,405	5,426
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(64,363)	(52,904)
(Increase) decrease in accounts receivable	(2,446)	(8,248)
Increase (decrease) in accrued interest payable	16,792	(11,422)
Increase (decrease) in accounts payable	(18,759)	(7,225)
Change in other, net	(805)	21,230
Total adjustments	16,805	13,932
Net cash provided by (used in) operating activities	439,762	425,860
<b>Cash flows from investing activities:</b>		
Investment securities purchased	(2,119,266)	(2,394,335)
Proceeds from investment securities sold or matured	2,153,644	1,864,629
Net (increase) decrease in loans	(762,009)	(1,039,403)
(Increase) decrease in investments in other Farm Credit System institutions	(1,747)	(656)
Purchase of premises and equipment, net	(13,860)	(17,879)
Proceeds from sale of premises and equipment, net	1,038	2,059
Proceeds from sale of other property owned	6,748	22,782
Net cash provided by (used in) investing activities	(735,452)	(1,562,803)
<b>Cash flows from financing activities:</b>		
Bonds and notes issued	14,532,194	30,276,633
Bonds and notes retired	(14,185,075)	(27,971,003)
Net increase (decrease) in advanced conditional payments	2,730	(1,297)
Protected borrower equity retired	(4)	(5)
Capital stock and participation certificates issued/retired, net	(7,137)	9,737
Patronage refunds and dividends paid	(184,361)	(170,658)
Redemption of perpetual preferred stock	—	(32,880)
Dividends paid on perpetual preferred stock	(841)	(1,193)
Retained earnings retired	(59,917)	(61,864)
Net cash provided by (used in) financing activities	97,589	2,047,470
Net increase (decrease) in cash and cash equivalents	(198,101)	910,527
Cash and cash equivalents, beginning of period	854,115	718,010
Cash and cash equivalents, end of period	\$ 656,014	\$ 1,628,537
<b>Supplemental schedule of non-cash activities:</b>		
Financed sales of other property owned	\$ 1,426	\$ 2,119
Receipt of property in settlement of loans	5,500	12,465
Change in unrealized gains (losses) on investments, net	2,675	(12,257)
Employee benefit plans adjustments	(25,410)	(26,251)
<b>Non-cash changes related to interest rate hedging activities:</b>		
Increase (decrease) in bonds and notes	\$ (92)	\$ (4,546)
Decrease (increase) in other assets	92	4,546
<b>Supplemental information:</b>		
Interest paid	\$ 249,757	\$ 222,050
Taxes paid, net	116	92

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, 2016 are contained in the 2016 Annual Report to Shareholders. These unaudited interim financial statements should be read in conjunction with the latest Annual Report to Shareholders.

### **Basis of Presentation**

In the opinion of management, the accompanying 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 Annual Report:

- In March 2017, the FASB issued ASU 2017-08 *Receivables—Nonrefundable Fees and Other Costs* (Subtopic 310-20): *Premium Amortization on Purchased Callable Debt Securities*. The guidance relates to certain callable debt securities and shortens the amortization period for any premium to the earliest call date. The Update will be effective for interim and annual periods beginning after December 15, 2018 for public business entities. Early adoption is permitted. The District is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 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 will be effective for the District for interim and annual periods beginning after December 15, 2017 for public business entities. Early adoption is permitted. The District does not expect these amendments to have a material effect on its financial statements.

- 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) which 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 February 2017, the FASB issued ASU 2017-05 Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The Update clarifies whether certain transactions are within the scope of the guidance on derecognition and the accounting for partial sales of nonfinancial assets, and defines the term in substance nonfinancial asset. The amendments conform the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue recognition standard. The amendments will be effective for reporting periods beginning after December 15, 2017 for public business entities. The District is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- In January 2017, the FASB issued ASU 2017-04 Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The Update simplifies the accounting for goodwill impairment for public business entities and other entities that have goodwill reported in their financial statements and have not elected the private company alternative for the subsequent measurement of goodwill. The amendment removes Step 2 of the goodwill impairment test. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The effective date and transition requirements for the technical corrections will be effective for reporting periods beginning after December 15, 2020 for public business entities that are not SEC filers. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The District is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- In January 2017, the FASB issued ASU 2017-03 Accounting Changes and Error Corrections (Topic 250) and Investments—Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings (SEC Update). The ASU incorporates recent SEC guidance about disclosing, under SEC SAB Topic 11.M, the effect on financial statements of adopting the revenue, leases, and credit losses standards. The Update was effective upon issuance. Application of this guidance did not have a material impact on the District's financial condition or results of operations.

#### ***ASUs Pending Effective Date***

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

Potential effects of ASUs issued in previous periods:

- 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business. In January, 2017, the FASB issued this update to provide a more robust framework to use in determining when a set of assets and activities is a business. It supports more consistency in applying the guidance, reduces the costs of application, and makes the definition of a business more operable. For public business entities, the ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The amendments should be applied prospectively. The District is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2016-16 Income Taxes (Topic 740) - Intra-Entity Transfers of Assets Other Than Inventory: In October, 2016, the FASB issued this Update that requires an entity to recognize the income tax consequences of an intra-entity transfer

of an asset other than inventory when the transfer occurs. For public business entities, the amendments are effective, on a modified retrospective basis, for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The District is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments: In June, 2016, the FASB issued this Update to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to better estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The District is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2016-07 Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. In March, 2016, the FASB issued this Update to simplify the accounting for equity method investments. The amendments eliminate the requirement that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Earlier application is permitted. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. The District is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2016-02 Leases (Topic 842): In February, 2016, the FASB issued this Update which requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. The amendments will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities. Early adoption is permitted. The District is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2016-01 Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities: In January, 2016, the FASB issued this Update which is intended to improve the recognition and measurement of financial instruments. The new guidance makes targeted improvements to existing GAAP. The ASU will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years for public business entities. The District is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2014-09 Revenue from Contracts with Customers (Topic 606): In May 2014, the FASB issued this guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. This guidance also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Based on input received from stakeholders, the FASB has issued several additional Updates that generally provide clarifying guidance where there was the potential for diversity in practice, or address the cost and complexity of applying Topic 606. The guidance and all related updates will be effective for reporting periods beginning after December 15, 2017 for public business entities. Early application is not permitted. The amendments are to be applied retrospectively. The District has identified ancillary revenues that will be affected by this Update. However, because financial instruments are not within the scope of the guidance, it is expected that adoption will not have a material impact on the District's financial condition or results of operations, but may result in additional disclosures.



***Accounting Standards Effective During the Period***

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

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

- 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash. In November, 2016, the FASB issued this Update to clarify that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted using a retrospective transition method to each period presented. The District elected retrospective early adoption of this guidance. The criteria of the standard were not significantly different from the District's policy in place at adoption. Application of the guidance had no impact on the District's Statements of Cash Flows.
- 2016-17 Consolidation (Topic 810) - Interests Held through Related Parties That Are under Common Control: In October, 2016, the FASB issued this Update to amend the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity (VIE) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. The amendments are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Application of the guidance had no impact on the District's financial statements.
- 2016-15 Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force): In August, 2016, the FASB issued this Update to eliminate diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The Update addresses eight specific cash flow issues with the objective of reducing existing diversity in practice. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments are to be applied using a retrospective transition method to each period presented. The District elected retrospective early adoption of this guidance. The criteria of the standard were not significantly different from the District's policy in place at adoption. Application of the guidance had no impact on the District's Statements of Cash Flows.
- In March, 2016, the FASB issued ASU 2016-06 Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments to clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. The Update requires the assessment to be done solely in accordance with the four-step decision sequence. The amendments were effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The amendments were applied on a modified retrospective basis to existing debt instruments at the beginning of the fiscal year. The criteria of the standard were not significantly different from the District's policy in place at adoption. Application of the guidance had no impact on the District's financial statements.
- In March, 2016, the FASB issued ASU 2016-05 Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships. The term novation refers to replacing one counterparty to a derivative instrument with a new counterparty. The amendments clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815, does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The amendments were effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The amendments were applied on a prospective basis. The criteria of the standard were not significantly different from the District's policy in place at adoption. Application of the guidance had no impact on the District's financial statements.

**Note 2 — Loans and Allowance for Loan Losses**

The District maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the District has been identified. See Note 3, *Loans and Allowance for Loan Losses*, from the latest Annual Report for further discussion.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. The District manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Bank and each Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the boards of directors.

A summary of loans outstanding at period end follows:

<i>(dollars in thousands)</i>	<b>September 30, 2017</b>	<b>December 31, 2016</b>
Real estate mortgage	\$ 13,843,572	\$ 13,238,788
Production and intermediate-term	7,235,462	7,248,346
Loans to cooperatives	602,274	625,642
Processing and marketing	1,471,204	1,450,352
Farm-related business	352,823	321,956
Communication	478,326	473,352
Power and water/waste disposal	548,399	581,249
Rural residential real estate	3,370,545	3,228,215
International	104,687	100,860
Lease receivables	12,866	13,595
Loans to other financing institutions (OFIs)	139,724	122,573
Other (including Mission Related)	53,244	53,038
Total Loans	<u>\$ 28,213,126</u>	<u>\$ 27,457,966</u>

The District may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. The following tables present the principal balance of participation loans at periods ended:

<i>(dollars in thousands)</i>	<b>September 30, 2017</b>					
	<b>Within Farm Credit System</b>		<b>Outside Farm Credit System</b>		<b>Total</b>	
	<b>Participations Purchased</b>	<b>Participations Sold</b>	<b>Participations Purchased</b>	<b>Participations Sold</b>	<b>Participations Purchased</b>	<b>Participations Sold</b>
Real estate mortgage	\$ 351,081	\$ 103,813	\$ 43,071	\$ 12,105	\$ 394,152	\$ 115,918
Production and intermediate-term	838,835	286,909	237,466	5,884	1,076,301	292,793
Loans to cooperatives	601,021	—	2,000	—	603,021	—
Processing and marketing	437,058	391,056	835,320	22	1,272,378	391,078
Farm-related business	27,148	3,901	28,179	—	55,327	3,901
Communication	479,668	—	—	—	479,668	—
Power and water/waste disposal	531,634	—	18,275	—	549,909	—
Rural residential real estate	—	—	124	—	124	—
International	104,988	—	—	—	104,988	—
Lease receivables	4,681	—	—	—	4,681	—
Other (including Mission Related)	—	—	26,688	—	26,688	—
Total	<u>\$ 3,376,114</u>	<u>\$ 785,679</u>	<u>\$ 1,191,123</u>	<u>\$ 18,011</u>	<u>\$ 4,567,237</u>	<u>\$ 803,690</u>

	December 31, 2016					
	Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
<i>(dollars in thousands)</i>						
Real estate mortgage	\$ 313,993	\$ 124,552	\$ 48,661	\$ 13,113	\$ 362,654	\$ 137,665
Production and intermediate-term	870,125	328,955	172,737	9,089	1,042,862	338,044
Loans to cooperatives	623,055	—	3,341	—	626,396	—
Processing and marketing	508,105	417,347	846,021	—	1,354,126	417,347
Farm-related business	26,847	4,215	33,593	26	60,440	4,241
Communication	474,676	—	—	—	474,676	—
Power and water/waste disposal	577,194	—	5,733	—	582,927	—
Rural residential real estate	—	—	2,003	—	2,003	—
International	—	—	23,911	—	23,911	—
Lease receivables	4,020	—	—	—	4,020	—
Other (including Mission Related)	101,069	—	1,010	—	102,079	—
Total	\$ 3,499,084	\$ 875,069	\$ 1,137,010	\$ 22,228	\$ 4,636,094	\$ 897,297

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

	September 30, 2017			
	Due less than 1 year	Due 1 through 5 years	Due after 5 years	Total
<i>(dollars in thousands)</i>				
Real estate mortgage	\$ 359,014	\$ 2,571,559	\$ 10,912,999	\$ 13,843,572
Production and intermediate-term	2,405,743	3,265,983	1,563,736	7,235,462
Loans to cooperatives	22,958	353,787	225,529	602,274
Processing and marketing	96,627	920,457	454,120	1,471,204
Farm-related business	55,234	164,658	132,931	352,823
Communication	—	394,932	83,394	478,326
Power and water/waste disposal	21,203	151,216	375,980	548,399
Rural residential real estate	101,340	54,798	3,214,407	3,370,545
International	—	78,355	26,332	104,687
Lease receivables	307	8,736	3,823	12,866
Loans to OFIs	133,207	6,517	—	139,724
Other (including Mission Related)	2,448	7,804	42,992	53,244
Total Loans	\$ 3,198,081	\$ 7,978,802	\$ 17,036,243	\$ 28,213,126
Percentage	11.34%	28.28%	60.38%	100.00%

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

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

	September 30, 2017	December 31, 2016		September 30, 2017	December 31, 2016
<b>Real estate mortgage:</b>			<b>Power and water/waste disposal:</b>		
Acceptable	94.78%	94.95%	Acceptable	93.19%	91.98%
OAEM	2.71	2.53	OAEM	6.40	8.02
Substandard/doubtful/loss	2.51	2.52	Substandard/doubtful/loss	0.41	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Production and intermediate-term:</b>			<b>Rural residential real estate:</b>		
Acceptable	90.92%	92.31%	Acceptable	99.15%	99.15%
OAEM	5.44	4.82	OAEM	0.38	0.44
Substandard/doubtful/loss	3.64	2.87	Substandard/doubtful/loss	0.47	0.41
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Loans to cooperatives:</b>			<b>International:</b>		
Acceptable	98.60%	98.43%	Acceptable	100.00%	100.00%
OAEM	—	1.39	OAEM	—	—
Substandard/doubtful/loss	1.40	0.18	Substandard/doubtful/loss	—	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Processing and marketing:</b>			<b>Lease receivables:</b>		
Acceptable	99.59%	98.24%	Acceptable	99.45%	98.50%
OAEM	0.18	1.39	OAEM	0.10	0.89
Substandard/doubtful/loss	0.23	0.37	Substandard/doubtful/loss	0.45	0.61
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Farm-related business:</b>			<b>Loans to OFIs:</b>		
Acceptable	93.66%	91.89%	Acceptable	100.00%	100.00%
OAEM	2.19	0.84	OAEM	—	—
Substandard/doubtful/loss	4.15	7.27	Substandard/doubtful/loss	—	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Communication:</b>			<b>Other (including Mission Related):</b>		
Acceptable	100.00%	97.95%	Acceptable	99.95%	100.00%
OAEM	—	2.05	OAEM	—	—
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	0.05	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
			<b>Total Loans:</b>		
			Acceptable	94.74%	95.00%
			OAEM	2.93	2.87
			Substandard/doubtful/loss	2.33	2.13
				<u>100.00%</u>	<u>100.00%</u>

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

	September 30, 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
<i>(dollars in thousands)</i>					
Real estate mortgage	\$ 56,171	\$ 48,216	\$ 104,387	\$ 13,887,647	\$ 13,992,034
Production and intermediate-term	23,377	67,400	90,777	7,231,412	7,322,189
Loans to cooperatives	—	—	—	603,509	603,509
Processing and marketing	345	3,296	3,641	1,471,948	1,475,589
Farm-related business	855	453	1,308	353,677	354,985
Communication	—	—	—	478,727	478,727
Power and water/waste disposal	—	—	—	551,893	551,893
Rural residential real estate	10,445	6,628	17,073	3,362,707	3,379,780
International	—	—	—	105,208	105,208
Lease receivables	—	—	—	12,899	12,899
Loans to OFIs	—	—	—	139,977	139,977
Other (including Mission Related)	428	591	1,019	52,854	53,873
Total	\$ 91,621	\$ 126,584	\$ 218,205	\$ 28,252,458	\$ 28,470,663

<i>(dollars in thousands)</i>	December 31, 2016				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	\$ 49,883	\$ 50,006	\$ 99,889	\$ 13,250,044	\$ 13,349,933
Production and intermediate-term	39,914	49,172	89,086	7,223,079	7,312,165
Loans to cooperatives	—	—	—	626,605	626,605
Processing and marketing	213	5,388	5,601	1,448,885	1,454,486
Farm-related business	866	429	1,295	322,323	323,618
Communication	—	—	—	473,579	473,579
Power and water/waste disposal	—	—	—	583,793	583,793
Rural residential real estate	46,018	5,280	51,298	3,185,697	3,236,995
International	—	—	—	101,844	101,844
Lease receivables	—	—	—	13,626	13,626
Loans to OFIs	—	—	—	122,772	122,772
Other (including Mission Related)	103	—	103	53,604	53,707
Total	\$ 136,997	\$ 110,275	\$ 247,272	\$ 27,405,851	\$ 27,653,123

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

<i>(dollars in thousands)</i>	September 30, 2017	December 31, 2016
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 115,308	\$ 125,359
Production and intermediate-term	101,416	105,026
Processing and marketing	3,364	5,389
Farm-related business	3,532	4,335
Rural residential real estate	13,782	10,390
Lease receivables	58	83
Total	\$ 237,460	\$ 250,582
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 59,801	\$ 59,943
Production and intermediate-term	49,573	52,488
Farm-related business	455	1,596
Rural residential real estate	3,082	2,920
Other (including Mission Related)	9,109	9,050
Total	\$ 122,020	\$ 125,997
<b>Accruing loans 90 days or more past due:</b>		
Real estate mortgage	\$ 1,064	\$ 113
Total	\$ 1,064	\$ 113
Total nonperforming loans	\$ 360,544	\$ 376,692
Other property owned	26,454	30,281
Total nonperforming assets	\$ 386,998	\$ 406,973
Nonaccrual loans as a percentage of total loans	0.84%	0.91%
Nonperforming assets as a percentage of total loans and other property owned	1.37%	1.48%
Nonperforming assets as a percentage of capital	6.19%	6.92%

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

<i>(dollars in thousands)</i>	September 30, 2017	December 31, 2016
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 99,457	\$ 106,037
Past due	138,003	144,545
Total	\$ 237,460	\$ 250,582
<b>Impaired accrual loans:</b>		
Restructured	\$ 122,020	\$ 125,997
90 days or more past due	1,064	113
Total	\$ 123,084	\$ 126,110
Total impaired loans	\$ 360,544	\$ 376,692
Additional commitments to lend	\$ 658	\$ 663

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

<i>(dollars in thousands)</i>	September 30, 2017			Quarter Ended September 30, 2017		Nine Months Ended September 30, 2017	
	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
<b>Impaired Loans</b>							
<b>With a related allowance for credit losses:</b>							
Real estate mortgage	\$ 20,199	\$ 23,725	\$ 3,880	\$ 20,785	\$ 215	\$ 21,487	\$ 766
Production and intermediate-term	45,181	48,216	11,286	46,460	567	43,631	1,719
Processing and marketing	—	—	—	—	—	—	—
Farm-related business	220	224	44	226	(58)	2,062	9
Rural residential real estate	3,050	3,267	415	1,949	30	1,845	72
Lease receivables	58	58	—	60	1	41	2
Other (including Mission Related)	9,109	9,792	617	9,140	118	9,182	365
Total	\$ 77,817	\$ 85,282	\$ 16,242	\$ 78,620	\$ 873	\$ 78,248	\$ 2,933
<b>With no related allowance for credit losses:</b>							
Real estate mortgage	\$ 155,974	\$ 190,143	\$ —	\$ 160,978	\$ 1,795	\$ 159,898	\$ 5,850
Production and intermediate-term	105,808	150,818	—	108,544	1,239	109,967	5,152
Processing and marketing	3,364	3,595	—	3,466	(5)	4,526	133
Farm-related business	3,767	5,581	—	3,879	86	2,806	147
Rural residential real estate	13,814	15,177	—	13,223	146	12,104	409
Lease receivables	—	184	—	—	—	25	—
Other (including Mission Related)	—	—	—	—	—	110	—
Total	\$ 282,727	\$ 365,498	\$ —	\$ 290,090	\$ 3,261	\$ 289,436	\$ 11,691
<b>Total:</b>							
Real estate mortgage	\$ 176,173	\$ 213,868	\$ 3,880	\$ 181,763	\$ 2,010	\$ 181,385	\$ 6,616
Production and intermediate-term	150,989	199,034	11,286	155,004	1,806	153,598	6,871
Processing and marketing	3,364	3,595	—	3,466	(5)	4,526	133
Farm-related business	3,987	5,805	44	4,105	28	4,868	156
Rural residential real estate	16,864	18,444	415	15,172	176	13,949	481
Lease receivables	58	242	—	60	1	66	2
Other (including Mission Related)	9,109	9,792	617	9,140	118	9,292	365
Total	\$ 360,544	\$ 450,780	\$ 16,242	\$ 368,710	\$ 4,134	\$ 367,684	\$ 14,624

AgFirst Farm Credit Bank and District Associations

<i>(dollars in thousands)</i>	December 31, 2016			Year Ended December 31, 2016	
<b>Impaired Loans</b>	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Related Allowance</b>	<b>Average Impaired Loans</b>	<b>Interest Income Recognized on Impaired Loans</b>
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 25,136	\$ 28,746	\$ 5,636	\$ 31,749	\$ 1,260
Production and intermediate-term	40,892	45,734	10,326	47,033	2,132
Processing and marketing	—	—	—	1,105	—
Farm-related business	3,480	4,242	154	3,744	190
Rural residential real estate	2,282	2,392	437	1,775	90
Lease receivables	—	—	—	—	—
Other (including Mission Related)	9,050	9,005	605	9,274	245
Total	<b>\$ 80,840</b>	<b>\$ 90,119</b>	<b>\$ 17,158</b>	<b>\$ 94,680</b>	<b>\$ 3,917</b>
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 160,279	\$ 195,427	\$ —	\$ 158,324	\$ 8,381
Production and intermediate-term	116,622	162,400	—	106,808	7,730
Processing and marketing	5,389	5,583	—	2,352	295
Farm-related business	2,451	3,818	—	2,490	122
Rural residential real estate	11,028	12,470	—	9,991	438
Lease receivables	83	136	—	22	4
Other (including Mission Related)	—	820	—	450	245
Total	<b>\$ 295,852</b>	<b>\$ 380,654</b>	<b>\$ —</b>	<b>\$ 280,437</b>	<b>\$ 17,215</b>
<b>Total:</b>					
Real estate mortgage	\$ 185,415	\$ 224,173	\$ 5,636	\$ 190,073	\$ 9,641
Production and intermediate-term	157,514	208,134	10,326	153,841	9,862
Processing and marketing	5,389	5,583	—	3,457	295
Farm-related business	5,931	8,060	154	6,234	312
Rural residential real estate	13,310	14,862	437	11,766	528
Lease receivables	83	136	—	22	4
Other (including Mission Related)	9,050	9,825	605	9,724	490
Total	<b>\$ 376,692</b>	<b>\$ 470,773</b>	<b>\$ 17,158</b>	<b>\$ 375,117</b>	<b>\$ 21,132</b>

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

<i>(dollars in thousands)</i>	Real Estate Mortgage	Production and Intermediate- term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivables	Other Loans **	Total
<b>Activity related to allowance for credit losses:</b>										
Balance at June 30, 2017	\$ 80,465	\$ 81,873	\$ 10,958	\$ 2,400	\$ 3,627	\$ 6,193	\$ 160	\$ 54	\$ 694	\$ 186,424
Charge-offs	(144)	(932)	—	—	—	(60)	—	—	—	(1,136)
Recoveries	985	713	83	—	—	49	—	9	10	1,849
Provision for loan losses	(183)	3,724	(234)	(77)	(175)	377	1	(45)	79	3,467
Loan type reclassifications	49	—	—	—	—	—	—	25	(74)	—
Balance at September 30, 2017	\$ 81,172	\$ 85,378	\$ 10,807	\$ 2,323	\$ 3,452	\$ 6,559	\$ 161	\$ 43	\$ 709	\$ 190,604
Balance at December 31, 2016	\$ 77,629	\$ 81,548	\$ 10,342	\$ 2,987	\$ 3,040	\$ 6,008	\$ 186	\$ 38	\$ 822	\$ 182,600
Charge-offs	(2,089)	(3,264)	(2)	—	—	(313)	—	—	—	(5,668)
Recoveries	2,831	1,829	194	—	—	121	—	21	21	5,017
Provision for loan losses	2,699	5,089	273	(664)	412	743	(25)	(41)	169	8,655
Loan type reclassifications	102	176	—	—	—	—	—	25	(303)	—
Balance at September 30, 2017	\$ 81,172	\$ 85,378	\$ 10,807	\$ 2,323	\$ 3,452	\$ 6,559	\$ 161	\$ 43	\$ 709	\$ 190,604
Balance at June 30, 2016	\$ 78,126	\$ 81,179	\$ 10,902	\$ 3,538	\$ 2,759	\$ 5,714	\$ 248	\$ 29	\$ 955	\$ 183,450
Charge-offs	(699)	(1,250)	—	—	—	(74)	—	—	—	(2,023)
Recoveries	5,803	967	43	—	—	230	—	—	5	7,048
Provision for loan losses	(6,167)	1,310	(125)	(535)	294	(53)	(42)	13	(1)	(5,306)
Balance at September 30, 2016	\$ 77,063	\$ 82,206	\$ 10,820	\$ 3,003	\$ 3,053	\$ 5,817	\$ 206	\$ 42	\$ 959	\$ 183,169
Balance at December 31, 2015	\$ 79,176	\$ 80,611	\$ 8,087	\$ 2,449	\$ 1,933	\$ 5,268	\$ 106	\$ 41	\$ 946	\$ 178,617
Charge-offs	(2,147)	(4,031)	—	—	—	(452)	—	—	—	(6,630)
Recoveries	8,020	3,470	616	—	—	346	—	—	15	12,467
Provision for loan losses	(7,986)	2,171	2,102	554	1,120	655	100	1	(2)	(1,285)
Loan type reclassifications	—	(15)	15	—	—	—	—	—	—	—
Balance at September 30, 2016	\$ 77,063	\$ 82,206	\$ 10,820	\$ 3,003	\$ 3,053	\$ 5,817	\$ 206	\$ 42	\$ 959	\$ 183,169
<b>Allowance on loans evaluated for impairment:</b>										
Individually	\$ 3,880	\$ 11,286	\$ 44	\$ —	\$ —	\$ 415	\$ —	\$ —	\$ 617	\$ 16,242
Collectively	77,292	74,092	10,763	2,323	3,452	6,144	161	43	92	174,362
PCI***	—	—	—	—	—	—	—	—	—	—
Balance at September 30, 2017	\$ 81,172	\$ 85,378	\$ 10,807	\$ 2,323	\$ 3,452	\$ 6,559	\$ 161	\$ 43	\$ 709	\$ 190,604
Individually	\$ 5,636	\$ 10,326	\$ 154	\$ —	\$ —	\$ 437	\$ —	\$ —	\$ 605	\$ 17,158
Collectively	71,993	71,222	10,188	2,987	3,040	5,571	186	38	217	165,442
PCI***	—	—	—	—	—	—	—	—	—	—
Balance at December 31, 2016	\$ 77,629	\$ 81,548	\$ 10,342	\$ 2,987	\$ 3,040	\$ 6,008	\$ 186	\$ 38	\$ 822	\$ 182,600
<b>Recorded investment in loans evaluated for impairment:</b>										
Individually	\$ 310,219	\$ 144,792	\$ 6,903	\$ —	\$ —	\$ 1,529,624	\$ —	\$ 248	\$ 9,109	\$ 2,000,895
Collectively	13,680,266	7,177,397	2,427,180	478,727	551,893	1,850,094	105,208	12,651	184,741	26,468,157
PCI***	1,549	—	—	—	—	62	—	—	—	1,611
Balance at September 30, 2017	\$ 13,992,034	\$ 7,322,189	\$ 2,434,083	\$ 478,727	\$ 551,893	\$ 3,379,780	\$ 105,208	\$ 12,899	\$ 193,850	\$ 28,470,663
Individually	\$ 291,064	\$ 150,529	\$ 12,733	\$ —	\$ —	\$ 1,652,900	\$ —	\$ 305	\$ 9,050	\$ 2,116,581
Collectively	13,056,781	7,161,636	2,391,976	473,579	583,793	1,584,054	101,844	13,321	167,429	25,534,413
PCI***	2,088	—	—	—	—	41	—	—	—	2,129
Balance at December 31, 2016	\$ 13,349,933	\$ 7,312,165	\$ 2,404,709	\$ 473,579	\$ 583,793	\$ 3,236,995	\$ 101,844	\$ 13,626	\$ 176,479	\$ 27,653,123

\* 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 September 30, 2017					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
<b>Pre-modification</b>					
Real estate mortgage	\$ 1,162	\$ 3,061	\$ —	\$ 4,223	
Production and intermediate-term	1,140	4,668	—	5,808	
Processing and marketing	—	72	—	72	
Rural residential real estate	387	—	—	387	
Total	\$ 2,689	\$ 7,801	\$ —	\$ 10,490	
<b>Post-modification</b>					
Real estate mortgage	\$ 1,175	\$ 2,900	\$ —	\$ 4,075	\$ —
Production and intermediate-term	1,284	3,973	—	5,257	(10)
Processing and marketing	—	71	—	71	—
Rural residential real estate	405	—	—	405	—
Total	\$ 2,864	\$ 6,944	\$ —	\$ 9,808	\$ (10)

*(dollars in thousands)*

Nine months ended September 30, 2017					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
<b>Pre-modification</b>					
Real estate mortgage	\$ 2,041	\$ 13,471	\$ —	\$ 15,512	
Production and intermediate-term	3,091	20,451	198	23,740	
Processing and marketing	—	2,030	—	2,030	
Rural residential real estate	617	225	—	842	
Total	\$ 5,749	\$ 36,177	\$ 198	\$ 42,124	
<b>Post-modification</b>					
Real estate mortgage	\$ 2,054	\$ 13,434	\$ —	\$ 15,488	\$ (1)
Production and intermediate-term	3,370	19,697	198	23,265	(405)
Processing and marketing	—	2,029	—	2,029	—
Rural residential real estate	670	228	—	898	—
Total	\$ 6,094	\$ 35,388	\$ 198	\$ 41,680	\$ (406)

*(dollars in thousands)*

Three months ended September 30, 2016					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
<b>Pre-modification</b>					
Real estate mortgage	\$ 738	\$ 5,517	\$ 252	\$ 6,507	
Production and intermediate-term	707	5,655	—	6,362	
Farm-related business	—	29	—	29	
Rural residential real estate	444	518	—	962	
Total	\$ 1,889	\$ 11,719	\$ 252	\$ 13,860	
<b>Post-modification</b>					
Real estate mortgage	\$ 746	\$ 4,564	\$ 253	\$ 5,563	\$ —
Production and intermediate-term	715	6,252	—	6,967	—
Farm-related business	—	29	—	29	—
Rural residential real estate	447	522	—	969	—
Total	\$ 1,908	\$ 11,367	\$ 253	\$ 13,528	\$ —

(dollars in thousands)

Outstanding Recorded Investment	Nine months ended September 30, 2016				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
<b>Pre-modification</b>					
Real estate mortgage	\$ 2,765	\$ 16,499	\$ 252	\$ 19,516	
Production and intermediate-term	1,104	18,890	–	19,994	
Farm-related business	–	29	–	29	
Rural residential real estate	643	744	–	1,387	
Total	\$ 4,512	\$ 36,162	\$ 252	\$ 40,926	
<b>Post-modification</b>					
Real estate mortgage	\$ 2,691	\$ 15,481	\$ 253	\$ 18,425	\$ –
Production and intermediate-term	1,096	19,233	–	20,329	–
Farm-related business	–	29	–	29	–
Rural residential real estate	654	752	–	1,406	–
Total	\$ 4,441	\$ 35,495	\$ 253	\$ 40,189	\$ –

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 September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Real estate mortgage	\$ 143	\$ 1,278	\$ 179	\$ 2,612
Production and intermediate-term	738	960	4,729	3,816
Processing and marketing	–	1	–	2
Rural residential real estate	176	43	422	252
Total	\$ 1,057	\$ 2,282	\$ 5,330	\$ 6,682

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

(dollars in thousands)	Total TDRs		Nonaccrual TDRs	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Real estate mortgage	\$ 93,774	\$ 95,557	\$ 33,973	\$ 35,614
Production and intermediate-term	79,873	84,126	30,300	31,638
Processing and marketing	1,980	–	1,980	–
Farm-related business	2,566	4,355	2,111	2,759
Rural residential real estate	4,982	4,703	1,900	1,783
Other (including Mission Related)	9,109	9,050	–	–
Total	\$ 192,284	\$ 197,791	\$ 70,264	\$ 71,794
Additional commitments to lend	\$ 502	\$ 321		

The following table presents foreclosure information as of period end:

	September 30, 2017
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ 1,895
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ 2,068

### PCI Loans

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

In connection with past mergers, certain Associations purchased impaired loans that are not accounted for as debt securities. The carrying amounts of those loans included in the balance sheet amounts of loans receivable at September 30, 2017, were as follows.

<i>(dollars in thousands)</i>	
Real estate mortgage	\$ 1,549
Rural residential real estate	62
Total Loans	<u>\$ 1,611</u>

At both September 30, 2017 and December 31, 2016, there was no allowance for loan losses related to these loans. During the three and nine months ended September 30, 2017, provision for loan losses on these loans was an expense reversal of \$34 thousand and an expense reversal of \$68 thousand, respectively, compared with an expense reversal of \$178 thousand and an expense reversal of \$470 thousand for the three and nine month periods ended September 30, 2016. See above for a summary of changes in the total allowance for loan losses for the period ended September 30, 2017. There were no loans acquired for 2017 or 2016 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.

### **Note 3 — Investments**

#### ***Investment Securities***

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

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

The FCA considers a non-agency security ineligible if it falls below AAA/Aaa credit rating criteria and requires Farm Credit System (System) institutions to provide notification to the FCA when a security becomes ineligible. In August, 2016, the Bank disposed of its non-agency CMO and ABS securities not rated in the top category by at least one of the NRSROs.

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

Held-to-maturity 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 September 30, 2017, the District held two RABs whose credit quality had deteriorated beyond the program limits.

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

An agreement with a commercial bank requires AgFirst to maintain \$50.0 million as a compensating balance. At September 30, 2017, the Bank held \$27.5 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 District also holds certain equity investments in Money Market funds. These funds are accounted for as investment securities but are classified as Cash Equivalents in the Balance Sheet and Statement of Cash Flows.

During the first nine months of 2017, proceeds from sales of investments were \$77.2 million and realized losses were \$258 thousand. During the first nine months of 2016, proceeds from sales of investments were \$155.3 million and realized gains were \$23.8 million.

#### Available-for-sale

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

September 30, 2017					
<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Treasury Securities	\$ 326,559	\$ 46	\$ (206)	\$ 326,399	1.09%
U.S. Govt. Guaranteed	4,564,404	39,031	(21,437)	4,581,998	1.98
U.S. Govt. Agency Guaranteed	2,044,453	7,362	(18,663)	2,033,152	1.81
ABSs	589,399	284	(1,125)	588,558	1.57
Total	<u>\$ 7,524,815</u>	<u>\$ 46,723</u>	<u>\$ (41,431)</u>	<u>\$ 7,530,107</u>	<u>1.86%</u>

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

#### Held-to-maturity

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

September 30, 2017					
<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	\$ 414,683	\$ 9,236	\$ (5,416)	\$ 418,503	3.14%
ABSs	18,926	349	(87)	19,188	2.30
RABs and Other (a)	107,632	6,494	(810)	113,316	5.92
Total	<u>\$ 541,241</u>	<u>\$ 16,079</u>	<u>\$ (6,313)</u>	<u>\$ 551,007</u>	<u>3.66%</u>

December 31, 2016						
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield	
U.S. Govt. Agency Guaranteed	\$ 462,888	\$ 10,553	\$ (8,505)	\$ 464,936	2.98%	
ABSs	23,521	366	(94)	23,793	1.90	
RABs and Other (b)	134,273	5,537	(2,559)	137,251	5.87	
Total	\$ 620,682	\$ 16,456	\$ (11,158)	\$ 625,980	3.56%	

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

A summary of the contractual maturity, estimated fair value and amortized cost of investment securities at September 30, 2017 follows:

### Available-for-sale

(dollars in thousands)	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Treasury Securities	\$ 299,123	1.10 %	\$ 27,276	0.94 %	\$ —	— %	\$ —	— %	\$ 326,399	1.09 %
U.S. Govt. Guaranteed	—	—	—	—	89,976	1.77	4,492,022	1.99	4,581,998	1.98
U.S. Govt. Agency Guaranteed	135	(1.25)	205,059	1.75	180,332	1.85	1,647,626	1.81	2,033,152	1.81
ABSs	1,035	1.40	418,346	1.46	169,177	1.83	—	—	588,558	1.57
Total fair value	\$ 300,293	1.10 %	\$ 650,681	1.53 %	\$ 439,485	1.82 %	\$ 6,139,648	1.94 %	\$ 7,530,107	1.86 %
Total amortized cost	\$ 300,248		\$ 651,421		\$ 439,374		\$ 6,133,772		\$ 7,524,815	

### Held-to-maturity

(dollars in thousands)	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Agency Guaranteed	\$ —	— %	\$ 58	4.32 %	\$ —	— %	\$ 414,625	3.14 %	\$ 414,683	3.14 %
ABSs	843	2.41	10,667	2.43	6,254	2.34	1,162	0.76	18,926	2.30
RABs and Other	6,072	5.39	17,967	6.31	18,533	5.97	65,060	5.85	107,632	5.92
Total amortized cost	\$ 6,915	5.02 %	\$ 28,692	4.86 %	\$ 24,787	5.05 %	\$ 480,847	3.50 %	\$ 541,241	3.66 %
Total fair value	\$ 7,785		\$ 28,408		\$ 26,178		\$ 488,636		\$ 551,007	

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.

(dollars in thousands)	September 30, 2017					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Treasury Securities	\$ 64,630	\$ (61)	\$ 12,355	\$ (145)	\$ 76,985	\$ (206)
U.S. Govt. Guaranteed	1,694,992	(12,590)	916,932	(8,847)	2,611,924	(21,437)
U.S. Govt. Agency Guaranteed	812,295	(14,500)	860,951	(9,579)	1,673,246	(24,079)
ABSs	374,130	(901)	66,274	(311)	440,404	(1,212)
RABs and Other	4,521	(130)	16,103	(680)	20,624	(810)
Total	\$ 2,950,568	\$ (28,182)	\$ 1,872,615	\$ (19,562)	\$ 4,823,183	\$ (47,744)

	December 31, 2016					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(dollars in thousands)</i>						
U.S. Govt. Treasury Securities	\$ 142,097	\$ (235)	\$ —	\$ —	\$ 142,097	\$ (235)
U.S. Govt. Guarantee	2,069,868	(18,855)	446,237	(3,614)	2,516,105	(22,469)
U.S. Govt. Agency Guaranteed	1,273,491	(26,423)	694,614	(8,167)	1,968,105	(34,590)
ABSs	376,376	(1,055)	3,451	(88)	379,827	(1,143)
RABs and Other	14,565	(665)	18,119	(1,894)	32,684	(2,559)
Total	\$ 3,876,397	\$ (47,233)	\$ 1,162,421	\$ (13,763)	\$ 5,038,818	\$ (60,996)

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

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

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

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

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

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

For the nine months ended September 30, 2017, net unrealized gains of \$2.7 million were recognized in OCI on investments that are not other-than-temporarily impaired.

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

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
<b>Amount related to credit loss-beginning balance</b>	\$ 2,024	\$ 59,229	\$ 2,024	\$ 59,226
Additions for initial credit impairments	—	4,665	—	4,665
Additions for subsequent credit impairments	—	8,552	—	10,282
Reductions for increases in expected cash flows	—	(460)	—	(2,187)
Reductions for securities sold/settled/matured	—	(69,825)	—	(69,825)
<b>Amount related to credit loss-ending balance</b>	\$ 2,024	\$ 2,161	\$ 2,024	\$ 2,161
Life to date incurred credit losses	—	—	—	—
<b>Remaining unrealized credit losses</b>	\$ 2,024	\$ 2,161	\$ 2,024	\$ 2,161

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:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
<b>Net gains (losses) on equity securities</b>				
Net gains (losses) recognized	\$ 53	\$ —	\$ 53	\$ —
Less realized net gains (losses)	18	—	18	—
Unrealized gains (losses)	\$ 35	\$ —	\$ 35	\$ —

#### Note 4 — Debt

##### *Bonds and Notes*

AgFirst, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide Debt Securities issued jointly by the System banks through the Funding Corporation. Certain conditions must be met before AgFirst can participate in the issuance of Systemwide Debt Securities. As one condition of participation, AgFirst is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable. This requirement does not provide holders of Systemwide Debt Securities with a security interest in any assets of the banks.

In accordance with FCA regulations, each issuance of Systemwide Debt Securities ranks equally with other unsecured Systemwide Debt Securities. Systemwide Debt Securities are not issued under an indenture and no trustee is provided with respect to these securities. Systemwide Debt Securities are not subject to acceleration prior to maturity upon the occurrence of any default or similar event.

The System may issue the following types of Systemwide Debt Securities:

- Federal Farm Credit Banks Consolidated Systemwide Bonds,
- Federal Farm Credit Banks Consolidated Systemwide Discount Notes,
- Federal Farm Credit Banks Consolidated Systemwide Master Notes,
- Federal Farm Credit Banks Global Debt Securities, and
- Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes.

Additional information regarding Systemwide Debt Securities can be found in their respective offering circulars.

The following table provides a summary of AgFirst's participation in outstanding Systemwide Debt Securities by maturity. Weighted average interest rates include the effect of related derivative financial instruments. The table does not include \$1.023 billion of intra-system obligations.

<i>(dollars in thousands)</i>	September 30, 2017					
	Bonds		Discount Notes		Total	
	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate
<b>Maturities</b>						
One year or less	\$ 7,374,465	1.20%	\$ 5,412,453	1.14%	\$ 12,786,918	1.17%
Greater than one year to two years	5,714,060	1.24	—	—	5,714,060	1.24
Greater than two years to three years	2,857,043	1.42	—	—	2,857,043	1.42
Greater than three years to four years	1,881,591	1.63	—	—	1,881,591	1.63
Greater than four years to five years	1,672,158	1.78	—	—	1,672,158	1.78
Greater than five years	4,563,045	2.45	—	—	4,563,045	2.45
Total	\$ 24,062,362	1.55%	\$ 5,412,453	1.14%	\$ 29,474,815	1.47%

Discount notes are issued with maturities ranging from 1 to 365 days. The average maturity of discount notes at September 30, 2017 was 165 days.

## Note 5 — Shareholders' Equity

### Perpetual Preferred Stock

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

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

### Accumulated Other Comprehensive Income

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

<i>(dollars in thousands)</i>	Changes in Accumulated Other Comprehensive Income by Component <i>(a)</i>			
	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
<b>Investment Securities:</b>				
Balance at beginning of period	\$ 3,795	\$ 75,431	\$ 3,013	\$ 65,906
Other comprehensive income before reclassifications	1,901	(11,787)	2,472	(3,353)
Amounts reclassified from AOCI	(8)	(9,995)	203	(8,904)
Net current period other comprehensive income	1,893	(21,782)	2,675	(12,257)
Balance at end of period	\$ 5,688	\$ 53,649	\$ 5,688	\$ 53,649
<b>Cash Flow Hedges:</b>				
Balance at beginning of period	\$ (565)	\$ (894)	\$ (838)	\$ (957)
Other comprehensive income before reclassifications	(57)	(2)	(103)	3
Amounts reclassified from AOCI	248	(83)	567	(25)
Net current period other comprehensive income	191	(85)	464	(22)
Balance at end of period	\$ (374)	\$ (979)	\$ (374)	\$ (979)
<b>Employee Benefit Plans:</b>				
Balance at beginning of period	\$ (359,177)	\$ (372,312)	\$ (376,498)	\$ (389,812)
Other comprehensive income before reclassifications	—	—	1,051	—
Amounts reclassified from AOCI	8,089	8,751	24,359	26,251
Net current period other comprehensive income	8,089	8,751	25,410	26,251
Balance at end of period	\$ (351,088)	\$ (363,561)	\$ (351,088)	\$ (363,561)
<b>Total Accumulated Other Comprehensive Income:</b>				
Balance at beginning of period	\$ (355,947)	\$ (297,775)	\$ (374,323)	\$ (324,863)
Other comprehensive income before reclassifications	1,844	(11,789)	3,420	(3,350)
Amounts reclassified from AOCI	8,329	(1,327)	25,129	17,322
Net current period other comprehensive income	10,173	(13,116)	28,549	13,972
Balance at end of period	\$ (345,774)	\$ (310,891)	\$ (345,774)	\$ (310,891)



(dollars in thousands)	Reclassifications Out of Accumulated Other Comprehensive Income (b)				Income Statement Line Item
	For the three months ended		For the nine months ended		
	2017	2016	2017	2016	
<b>Investment Securities:</b>					
Sales gains & losses	\$ —	\$ 23,202	\$ (258)	\$ 23,822	Gains (losses) on investments, net
Holding gains & losses	—	(13,217)	—	(14,947)	Net other-than-temporary impairment
Amortization	8	10	55	29	Interest income on investments
Net amounts reclassified	8	9,995	(203)	8,904	
<b>Cash Flow Hedges:</b>					
Interest income	(191)	85	(464)	22	See Note 10.
Gains (losses) on other transactions	(57)	(2)	(103)	3	See Note 10.
Net amounts reclassified	(248)	83	(567)	25	
<b>Employee Benefit Plans:</b>					
Periodic pension costs	(8,089)	(8,751)	(24,359)	(26,251)	See Note 7.
Net amounts reclassified	(8,089)	(8,751)	(24,359)	(26,251)	
Total reclassifications for period	\$ (8,329)	\$ 1,327	\$ (25,129)	\$ (17,322)	

(a) Amounts in parentheses indicate debits to AOCI.

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

## Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

<i>(dollars in thousands)</i>	<b>Agency Collateralized CMOs</b>
Balance at December 31, 2016	\$ 27,582
Gains or (losses) included in earnings	(446)
Gains or (losses) included in OCI	634
Purchases	—
Sales	(24,981)
Settlements	(2,789)
Transfers in and/or out of Level 3	—
Balance at September 30, 2017	<u>\$ —</u>

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

<i>(dollars in thousands)</i>	<b>At or for the Nine Months Ended September 30, 2017</b>				<b>Total Fair Value</b>	<b>Fair Value Effects On Earnings</b>
	<b>Total Carrying Amount</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>		
<b><u>Recurring Measurements</u></b>						
<b>Assets:</b>						
Investments available-for-sale:						
U.S. Govt. Treasury Securities	\$ 326,399	\$ —	\$ 326,399	\$ —	\$ 326,399	
U.S. Govt. Guaranteed	4,581,998	—	4,581,998	—	4,581,998	
U.S. Govt. Agency Guaranteed	2,033,152	—	2,033,152	—	2,033,152	
ABSs	588,558	—	588,558	—	588,558	
Total investments available-for-sale	<u>7,530,107</u>	<u>—</u>	<u>7,530,107</u>	<u>—</u>	<u>7,530,107</u>	
Federal funds sold, securities purchased under resale agreements, and other	150,000	—	150,000	—	150,000	
Interest rate swaps and other derivative instruments	—	—	—	—	—	
Money Market funds	100,946	100,946	—	—	100,946	
Assets held in trust funds	28,757	28,757	—	—	28,757	
Recurring Assets	<u>\$ 7,809,810</u>	<u>\$ 129,703</u>	<u>\$ 7,680,107</u>	<u>\$ —</u>	<u>\$ 7,809,810</u>	
<b>Liabilities:</b>						
Interest rate swaps and other derivative instruments	\$ —	\$ —	\$ —	\$ —	\$ —	
Collateral liabilities	—	—	—	—	—	
Recurring Liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	
<b><u>Nonrecurring Measurements</u></b>						
<b>Assets:</b>						
Impaired loans	\$ 61,575	\$ —	\$ —	\$ 61,575	\$ 61,575	\$ 265
Other property owned	26,454	—	—	28,979	28,979	(891)
Nonrecurring Assets	<u>\$ 88,029</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 90,554</u>	<u>\$ 90,554</u>	<u>\$ (626)</u>
<b><u>Other Financial Instruments</u></b>						
<b>Assets:</b>						
Cash	\$ 405,068	\$ 405,068	\$ —	\$ —	\$ 405,068	
Investments held to maturity	541,241	—	437,691	113,316	551,007	
Loans	27,972,760	—	—	27,889,705	27,889,705	
Other Financial Assets	<u>\$ 28,919,069</u>	<u>\$ 405,068</u>	<u>\$ 437,691</u>	<u>\$ 28,003,021</u>	<u>\$ 28,845,780</u>	
<b>Liabilities:</b>						
Systemwide debt securities	\$ 30,497,936	\$ —	\$ —	\$ 30,451,747	\$ 30,451,747	
Other Financial Liabilities	<u>\$ 30,497,936</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 30,451,747</u>	<u>\$ 30,451,747</u>	

At or for the Year Ended December 31, 2016

<i>(dollars in thousands)</i>	At or for the Year Ended December 31, 2016					Fair Value	Fair Value
	Total	Level 1	Level 2	Level 3	Total Fair	Effects	On Earnings
	Carrying				Value		
	Amount						
<b>Recurring Measurements</b>							
<b>Assets:</b>							
Investments available-for-sale:							
U.S. Govt. Treasury Securities	\$ 341,948	\$ —	\$ 341,948	\$ —	\$ 341,948		
U.S. Govt. Guaranteed	4,274,286	—	4,249,239	25,047	4,274,286		
U.S. Govt. Agency Guaranteed	2,250,623	—	2,248,088	2,535	2,250,623		
ABSs	623,984	—	623,984	—	623,984		
Total investments available-for-sale	7,490,841	—	7,463,259	27,582	7,490,841		
Federal funds sold, securities purchased under resale agreements, and other	262,624	—	262,624	—	262,624		
Interest rate swaps and other derivative instruments	92	—	92	—	92		
Assets held in trust funds	24,435	24,435	—	—	24,435		
Recurring Assets	\$ 7,777,992	\$ 24,435	\$ 7,725,975	\$ 27,582	\$ 7,777,992		
<b>Liabilities:</b>							
Interest rate swaps and other derivative instruments	\$ —	\$ —	\$ —	\$ —	\$ —		
Collateral liabilities	—	—	—	—	—		
Recurring Liabilities	\$ —	\$ —	\$ —	\$ —	\$ —		
<b>Nonrecurring Measurements</b>							
<b>Assets:</b>							
Impaired loans*	\$ 63,682	\$ —	\$ —	\$ 63,682	\$ 63,682	\$ 8,827	
Other property owned	30,281	—	—	33,283	33,283	432	
Nonrecurring Assets	\$ 93,963	\$ —	\$ —	\$ 96,965	\$ 96,965	\$ 9,259	
<b>Other Financial Instruments</b>							
<b>Assets:</b>							
Cash	\$ 591,491	\$ 591,491	\$ —	\$ —	\$ 591,491		
Investments held to maturity	620,682	—	488,729	137,251	625,980		
Loans*	27,229,245	—	—	27,042,499	27,042,499		
Other Financial Assets	\$ 28,441,418	\$ 591,491	\$ 488,729	\$ 27,179,750	\$ 28,259,970		
<b>Liabilities:</b>							
Systemwide debt securities	\$ 30,103,245	\$ —	\$ —	\$ 29,980,436	\$ 29,980,436		
Other Financial Liabilities	\$ 30,103,245	\$ —	\$ —	\$ 29,980,436	\$ 29,980,436		

\*Subsequent to the issuance of the 2016 Annual Report, management identified errors in the reporting of certain loans measured at fair value on a non-recurring basis using Level 3. Management has evaluated the impact of the errors on the disclosure in this note and concluded that individually and in the aggregate, the errors do not result in a material misstatement of the previously issued financial statements. The Level 3 fair values of impaired loans and loans reported for December 31, 2016 have been revised from the previously reported amounts of \$359.5 million and \$26.747 billion to \$63.7 million and \$27.042 billion, respectively.

## SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

### Investment Securities

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

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

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

### Derivative Instruments

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

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

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

### Inputs to Valuation Techniques

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

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

#### Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

<i>(dollars in thousands)</i>	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Investments available-for-sale	\$ —	Vendor priced	Price adjustment	-1.000
Impaired loans and other property owned	\$ 90,554	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

#### Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

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

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

**Information about Other Financial Instrument Fair Value Measurements**

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

**Note 7 — Employee Benefit Plans**

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

<i>(dollars in thousands)</i>	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Pension	\$ 11,140	\$ 12,077	\$ 34,625	\$ 36,230
401k	3,119	2,893	9,811	9,010
Other postretirement benefits	3,222	3,286	9,666	9,857
Total	\$ 17,481	\$ 18,256	\$ 54,102	\$ 55,097

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, 2016.

<i>(dollars in thousands)</i>	<b>Actual YTD Through 9/30/17</b>	<b>Projected Contributions for Remainder of 2017</b>	<b>Projected Total Contributions 2017</b>
Pensions	\$ 3,894	\$ 37,590	\$ 41,484
Other postretirement benefits	5,421	1,987	7,408
Total	\$ 9,315	\$ 39,577	\$ 48,892

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, 2017.

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

**Note 8 — Commitments and Contingencies**

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

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

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

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

<i>(dollars in billions)</i>		<b>9/30/17</b>		<b>12/31/16</b>
Total System bonds and notes	\$	257.851	\$	257.782
AgFirst bonds and notes	\$	29.475	\$	29.408

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. Because it is not probable that the District will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

**Note 9 — Additional Financial Information**

*Offsetting of Financial and Derivative Assets*

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

  

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

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

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

The reverse repurchase agreements are accounted for as collateralized lending.

**Bank Only Financial Data**

Condensed financial information of the Bank follows:

<b>Balance Sheets</b>		
<i>(dollars in thousands)</i>	<b>September 30, 2017</b>	<b>December 31, 2016</b>
	<i>(unaudited)</i>	<i>(audited)</i>
Cash, cash equivalents and investment securities	\$ 8,640,817	\$ 8,843,943
Loans		
To District Associations	15,840,167	15,480,715
To others	7,332,090	7,433,967
Total loans	23,172,257	22,914,682
Allowance for loan losses	(14,750)	(14,783)
Net loans	23,157,507	22,899,899
Other assets	310,564	313,755
Total assets	<u>\$ 32,108,888</u>	<u>\$ 32,057,597</u>
Bonds and notes	\$ 29,474,815	\$ 29,408,483
Other liabilities	157,961	423,866
Total liabilities	29,632,776	29,832,349
Perpetual preferred stock	49,250	49,250
Capital stock and participation certificates	303,025	301,905
Additional paid-in-capital	58,883	58,883
Retained earnings	2,063,836	1,817,563
Accumulated other comprehensive income	1,118	(2,353)
Total shareholders' equity	2,476,112	2,225,248
Total liabilities and equity	<u>\$ 32,108,888</u>	<u>\$ 32,057,597</u>

<b>Statements of Income</b>		
<i>(dollars in thousands)</i>	<b>For the nine months ended September 30,</b>	
	<b>2017</b>	<b>2016</b>
	<i>(unaudited)</i>	
Interest income	\$ 634,076	\$ 577,088
Interest expense	297,316	236,808
Net interest income	336,760	340,280
Provision for loan losses	(143)	(3,618)
Net interest income after provision for loan losses	336,903	343,898
Noninterest expense, net	89,533	103,089
Net income	<u>\$ 247,370</u>	<u>\$ 240,809</u>

**Note 10 — 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. Currently, the primary derivative type used by the District is interest rate swaps, which convert fixed interest rate debt to a lower floating interest rate than was achievable from issuing floating rate debt with identical repricing characteristics. They may allow the 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:

Notional Amounts (dollars in millions)	For the Nine Months Ended September 30,			
	2017		2016	
	Receive- Fixed Swaps	Forward Contracts	Receive- Fixed Swaps	Forward Contracts
Balance at beginning of period	\$ 50	\$ 1	\$ 150	\$ -
Additions	-	7	-	1
Maturities/amortization	(50)	(7)	(100)	(1)
Terminations	-	-	-	-
Balance at end of period	\$ -	\$ 1	\$ 50	\$ -

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)	September 30, 2017	December 31, 2016
Estimated Gross Credit Risk	\$-	\$0.1
Percent of Notional	-%	0.18%

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. During the nine months ended September 30, 2017, there were no gains or losses recognized related to interest rate swaps. The amount of the loss on interest rate swaps recognized in interest expense for the nine months ended September 30, 2016 was \$4.5 million, while the amount of the gain on the Systemwide Debt Securities was \$4.5 million. Gains and losses on each derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.



### Cash Flow Hedges

From time to time, the 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.

### Fair Values of Derivative Instruments

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

<i>(dollars in thousands)</i>	Balance Sheet Classification – Assets	9/30/17 Fair Value	Balance Sheet Classification – Liabilities	9/30/17 Fair Value
Receive-fixed swaps	Other Assets	\$ –	Other Liabilities	\$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		\$ –		\$ –

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

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

<i>(dollars in thousands)</i>	Location of Gain or (Loss) Recognized in, or Reclassified from AOCI into, Income	Amount of Gain or (Loss) Recognized in, or Reclassified from AOCI into, Income *		Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)		Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	
		2017	2016	2017	2016	2017	2016
		<b>Fair Value Hedges:</b>					
Receive-fixed swaps	Noninterest income	\$ –	\$ –				
<b>Cash Flow Hedges:</b>							
Firm Commitments	Interest Income	\$ (464)	\$ 22	\$ –	\$ –	\$ –	\$ –
Forward Contracts	Gains (Losses) on Other Transactions	(103)	3	–	–	(103)	3

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

### Note 11 — Subsequent Events

The District evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through November 8, 2017, which was the date the financial statements were issued.

On October 16, 2017, the Bank's Board of Directors indicated an intention to declare, in December 2017, a special patronage distribution between \$125.0 million and \$150.0 million.