AGFIRST

Foundations for the Future

Building on Our Success

2016 Third Quarter

Quarterly Report

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FARM CREDIT BANK

THIRD QUARTER 2016

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2016 quarterly report of AgFirst Farm Credit Bank, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Dale R. Hershey
Chairman of the Board

Leon T. Amerson
Chief Executive Officer & President

Charl L. Butler
Chief Financial Officer

November 8, 2016

Report on Internal Control Over Financial Reporting

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

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

The Bank's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2016. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Bank's management concluded that as of September 30, 2016, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Bank's management determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2016.

Leon T. Amerson
Chief Executive Officer & President

Charl L. Butler
Chief Financial Officer

November 8, 2016

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

The following discussion reviews the financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) as of and for the three and nine month periods ended September 30, 2016. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Financial Statements, and the 2015 Annual Report of AgFirst Farm Credit Bank. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the District. The accompanying financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

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

FORWARD-LOOKING INFORMATION

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

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

FINANCIAL CONDITION

Loan Portfolio

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

Loan Portfolio *(dollars in thousands)*	**September 30, 2016**		**December 31, 2015**		**September 30, 2015**	
Direct Notes*	$ 15,286,329	67.24%	$ 14,890,580	67.25%	$ 14,651,521	68.29%
Capital Markets*	4,499,427	19.79	4,457,397	20.13	4,065,403	18.95
Correspondent Lending	2,821,439	12.41	2,684,761	12.13	2,628,029	12.25
Loans to OFIs	126,045	0.56	108,020	0.49	111,120	0.51
Total	$ 22,733,240	100.00%	$ 22,140,758	100.00%	$ 21,456,073	100.00%

**Net of participations sold.*

Total loans outstanding were $22.733 billion at September 30, 2016, an increase of $592.5 million, or 2.68 percent, compared to total loans outstanding at December 31, 2015 and an increase of $1.277 billion, or 5.95 percent, since September 30, 2015. Excluding Bank patronage payments to Associations of approximately $231.3 million which were applied to the Association Direct Notes at the beginning of 2016 and a participation interest of approximately $187.0 million in a Direct Note sold in February 2016 to another System bank, loan volume at September 30, 2016 increased 4.57 percent compared to 2015 year-end. The increase in loan volume at September 30, 2016 resulted from improved economic conditions positively impacting borrowers in economically sensitive segments such as forestry, nursery/greenhouse, and borrowers dependent on non-farm income. Row crop farmers have borrowed more for operating needs as a result of lower commodity prices in 2015. Additionally, loan demand over the previous twelve months benefitted from capital expansion in the poultry and swine sectors. Future Bank loan demand is difficult to predict; however, moderate growth is expected.

Credit Quality

Credit quality of AgFirst's loans is shown below:

	Total Loan Portfolio Credit Quality as of:		
Classification	**September 30, 2016**	**December 31, 2015**	**September 30, 2015**
Acceptable	98.77%	98.40%	98.30%
OAEM *	0.76%	1.09%	1.13%
Adverse **	0.47%	0.51%	0.57%

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

Loan portfolio credit quality at September 30, 2016 improved compared to December 31, 2015 and September 30, 2015. The improvement in credit quality at September 30, 2016 compared to both December 31, 2015 and September 30, 2015, as reflected in the table above, was primarily due to improvement in the credit quality of the Direct Notes which is discussed in the Direct Notes section below. Total loan portfolio credit quality is anticipated to slightly deteriorate due to weakness in the dairy, beef, and row crop sectors. Over the past twelve months, the incremental improvement of general economic conditions positively impacted forestry, nursery/greenhouse, and borrowers dependent on non-farm income which has helped offset the declines in the above-mentioned sectors. District real estate values remain stable. The impact of extensive flooding from Hurricane Matthew in coastal North and South Carolina in early October 2016 is still being assessed, but is not expected to have a material impact on the Bank's financial condition or results of operations.

The credit conditions discussed above directly affect the credit quality of the Bank's participation/syndication loan portfolio. They also affect the credit quality of loan portfolios and earnings performance of the individual District Associations, which impacts the quality of the Bank's Direct Notes.

Direct Notes

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

At September 30, 2016, the total Direct Note volume outstanding was $15.286 billion, an increase of $395.7 million, or 2.66 percent, compared to December 31, 2015. Excluding Bank patronage payments of approximately $231.3 million and the sale of participation interest of approximately $187.0 million referenced in the Loan Portfolio section above, Direct Note volume increased 5.47 percent when compared to 2015 year-end. See the Loan Portfolio section above for the primary reasons for the change in the Direct Note volume from December 2015 to September 2016.

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

	Direct Note Credit Quality as of					
	September 30, 2016		December 31, 2015		September 30, 2015	
Classification	% Total	# Total	% Total	# Total	% Total	# Total
Acceptable	100.00%	19	99.22%	18	99.25%	18
OAEM *	–%	–	0.78%	1	0.75%	1
Adverse **	–%	–	–%	–	–%	–

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

As reflected in the table above, over the previous twelve months, the classification of the Direct Note for one District Association improved from OAEM to Acceptable due to sustained satisfactory financial and operational performance at this Association. At September 30, 2016, all Associations were classified as acceptable.

Presently, collection of the full Direct Note amount due is expected from all Associations in accordance with the contractual terms of the debt arrangements, and no allowance has been recorded for Direct Notes. All assets of the various Associations are pledged as collateral for their respective Direct Notes. In the opinion of management, all Association Direct Notes are adequately collateralized. The risk funds of an Association, including both capital and the allowance for loan losses, also protect the interest of the Bank should a Direct Note default.

At December 31, 2015, one District Association was operating under a written supervisory agreement with the FCA. In February, 2016, the FCA terminated the written supervisory agreement with this Association and returned the Association to normal supervision. At September 30, 2016, this Association, which had total assets of $169.9 million, continued to operate under a special credit agreement pursuant to its GFA as a result of events of default under the GFA. The GFA events of default are not expected to have a significant adverse impact on the Bank's or District's financial condition or results of operations.

Capital Markets

The Capital Markets portfolio consists primarily of loan participations and syndications. As of September 30, 2016, this portfolio totaled $4.499 billion, an increase of $42.0 million, or 0.94 percent, from December 31, 2015. It is anticipated that borrower demand in this portfolio will continue to reflect modest improvement.

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

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

	Participations/Syndications Credit Quality as of:		
Classification	**September 30, 2016**	**December 31, 2015**	**September 30, 2015**
Acceptable	93.84%	94.70%	93.84%
OAEM*	3.86%	2.82%	3.23%
Adverse**	2.30%	2.48%	2.93%

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

Favorable credit quality in the participations/syndications portfolio has been sustained by improvement in general economic conditions combined with stability in major commodity concentrations. See the *Credit Quality* section above for further information.

Correspondent Lending

The Correspondent Lending portfolio consists primarily of first lien residential mortgages. As of September 30, 2016, the Correspondent Lending portfolio totaled $2.821 billion. From December 31, 2015 to September 30, 2016, this portfolio increased $136.7 million, or 5.09 percent.

Substantially all loans originated on or before July 31, 2013 in the Correspondent Lending portfolio have guarantees from the Federal National Mortgage Association (Fannie Mae) and/or the Federal Agricultural Mortgage Corporation (Farmer Mac), thereby limiting credit risk to AgFirst. The guarantees are in the form of Long-Term Standby Commitments to Purchase which give AgFirst the right to deliver delinquent loans to the guarantor at par. The Fannie Mae guarantee program in which AgFirst participated ended on July 31, 2013. Subsequent to this date, new loans in this portfolio purchased by the Bank are held without a Fannie Mae guarantee. As of September 30, 2016, $1.643 billion, or 58.23 percent, of loans in the Correspondent Lending portfolio were guaranteed and $1.179 billion, or 41.77 percent, were unguaranteed. The discontinuation of the Fannie Mae guarantee program is reflected in the Bank's allowance for loan losses methodology related to this portfolio.

At September 30, 2016, 99.88 percent of the Correspondent Lending portfolio was classified as acceptable and 0.12 percent was classified as substandard.

FCA regulations limit rural home loans, combined with rural home mortgage-backed securities, to 15 percent of total loans outstanding. Based on September 30, 2016 levels, the Bank has unused capacity of $219.3 million under a total limit of $3.486 billion. The Bank monitors this position and will consider options to manage the rural home asset level within the regulatory limit. See Note 3, *Investments*, in the Notes to the Financial Statements for further discussion of these securities.

Nonaccrual Loans

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the Bank totaled $27.9 million at September 30, 2016, an increase of 4.78 percent compared to $26.6 million at December 31, 2015. The increase of $1.3 million resulted primarily from $20.0 million of loan balances transferred to nonaccrual status, partially offset by $12.0 million of loan balances reinstated to accrual status and $7.1 million of repayments. At September 30, 2016, total nonaccrual loans were primarily classified in the tree fruits and nuts (33.66 percent of the total), forestry (23.62 percent), rural home loan (23.54 percent), and field crops (10.27 percent) segments. Nonaccrual loans were 0.12 of total loans outstanding at September 30, 2016 and at December 31, 2015.

Troubled Debt Restructurings

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms, rates, or amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by the Bank. TDRs decreased $4.7 million since December 31, 2015 and totaled $26.7 million at September 30, 2016. TDRs at September 30, 2016 were comprised of $17.4 million of accruing restructured loans and $9.3 million of nonaccrual restructured loans. Restructured loans were primarily in the nursery/greenhouse (35.73 percent of the total), forestry (23.57 percent), swine (9.12 percent), and tree fruits and nuts (7.86 percent) segments.

Other Property Owned

Other property owned (OPO) consists primarily of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank (or a lender group) in satisfaction of secured loans. OPO may be comprised of real estate, equipment, and equity interests in companies or partnerships. OPO decreased $9.0 million since December 31, 2015 and totaled $4.4 million at September 30, 2016. The decrease was mainly due to the disposal of two properties totaling $8.7 million. The remaining OPO balance at September 30, 2016 consisted primarily of a $2.5 million real estate holding (57.32 percent of the total).

Allowance for Loan Losses

The Bank maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan portfolio as of each reported balance sheet date. The allowance for loan losses was $16.3 million at September 30, 2016, as compared with $15.1 million at December 31, 2015. The allowance at September 30, 2016 included specific reserves of $376 thousand (2.30 percent of the total) and general reserves of $16.0 million (97.70 percent). For the nine months ended September 30, 2016, the increase of $1.2 million resulted from recoveries of $5.0 million, partially offset by reversal of provision expense of $3.6 million and charge-offs of $173 thousand. The general reserves at September 30, 2016 included $2.4 million of allowance provided by the Bank for loans in the Correspondent Lending portfolio purchased after July 31, 2013 which are being held without a Fannie Mae guarantee. See further discussion in the *Correspondent Lending* section above. None of the allowance relates to the Direct Note portfolio as mentioned in the *Direct Notes* section above. The total allowance at September 30, 2016 was comprised primarily of reserves for the utilities (17.58 percent of the total), rural home loan (15.13 percent), tree fruits and nuts (12.79 percent), forestry (10.35 percent), processing (8.67 percent), and cattle (5.24 percent) segments. The allowance for loan losses was 0.07 percent of total loans outstanding at September 30, 2016 and at December 31, 2015. See Note 2, *Loans and Allowance for Loan Losses*, in the Notes to the Financial Statements for further information. See *Provision for Loan Losses* section below for additional details regarding loan loss provision expense and reversals.

Liquidity and Funding Sources

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

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

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

The System does not have a guaranteed line of credit from the U.S. Treasury or the Federal Reserve. However, the Farm Credit System Insurance Corporation (FCSIC) has an agreement with the Federal Financing Bank (FFB), a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the FFB could advance funds to the FCSIC. Under its existing statutory authority, the FCSIC may use these funds to provide assistance to the System banks in exigent market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to $10 billion and terminates on September 30, 2017, unless otherwise renewed. The decision whether to seek funds from the FFB is at the discretion of the FCSIC. Each funding obligation of the FFB is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by AgFirst or the System.

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

On September 25, 2015, S&P affirmed the Bank's AA-/A-1+ long- and short-term issuer credit ratings, the stand-alone credit profile of a+ and the BBB+ preferred stock rating. S&P also revised their outlook on the Bank to negative from stable, reflecting their assessment of the Bank's capital position. On February 5, 2016, S&P revised their outlook on the Bank back to stable from negative based upon additional analysis of the strength of the Bank's capital position. Ratings and outlook for AgFirst by Fitch Ratings remain unchanged at AA-/F1+ and stable.

At September 30, 2016, AgFirst had $30.095 billion in total debt outstanding compared to $27.973 billion at December 31, 2015. Debt increased primarily to support a higher level of investment securities and loans as discussed elsewhere in this report.

Cash and cash equivalents, which increased $933.6 million from December 31, 2015 to a total of $1.606 billion at September 30, 2016, consist primarily of cash on deposit and money market securities that are short-term in nature (from overnight maturities to maturities that range up to 90 days). Incremental movements in cash balances are due primarily to changes in liquidity needs in relation to upcoming debt maturities between reporting periods.

Investment securities totaled $8.054 billion, or 24.65 percent of total assets at September 30, 2016, compared to $7.512 billion, or 24.53 percent, as of December 31, 2015. Investment securities increased $542.2 million, or 7.22 percent, compared to December 31, 2015. Management maintains the available-for-sale liquidity investment portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines.

The FCA considers a non-agency security ineligible if it falls below AAA/Aaa credit rating criteria. In August, 2016, the Bank sold all of its ineligible available-for-sale securities which totaled $129.4 million. These transactions resulted in additional impairment expense of $13.2 million and gains on sale of $23.2 million. 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. These transactions benefitted the Bank by reducing carrying costs and improving liquidity. See *Noninterest Income* section below for further discussion.

Investment securities classified as being available-for-sale totaled $7.521 billion at September 30, 2016. Available-for-sale investments at September 30, 2016 included $242.4 million in U.S. Treasury securities, $4.207 billion in U.S. government guaranteed securities, $2.329 billion in U.S. government agency guaranteed securities, and $741.9 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, 2016, AgFirst exceeded all applicable regulatory liquidity requirements. FCA regulations require that the Bank have a liquidity policy that establishes a minimum total "coverage" level of 90 days and that short-term liquidity requirements must be met by certain high quality investments or cash. "Coverage" is defined as the number of days that maturing debt could be funded with eligible cash, cash equivalents, and available-for-sale investments maintained by the Bank.

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

At September 30, 2016, AgFirst met each of the individual level criteria above and had a total of 186 days of maturing debt coverage compared to 206 days at December 31, 2015. 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 Financial Statements for further information.

Capital Resources

Total shareholders' equity increased $195.2 million, or 8.65 percent, from December 31, 2015 to a total of $2.450 billion at September 30, 2016. This increase is primarily attributed to 2016 unallocated retained earnings from net income of $240.8 million, partially offset by redemption of preferred stock of $32.9 million and $12.2 million in unrealized losses on investment securities.

In March and April, 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 of $45.8 million. The effect of the repurchases on shareholders' equity was to reduce preferred stock outstanding by $45.8 million and to increase additional paid-in capital by $12.9 million. See Note 5, *Shareholders' Equity*, in the Notes to the Financial Statements for further information.

Regulatory Capital Ratios

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

	Regulatory Minimum	**9/30/16**	**12/31/15**	**9/30/15**
Permanent Capital Ratio	7.00%	20.91%	20.71%	21.43%
Total Surplus Ratio	7.00%	20.82%	20.64%	21.36%
Core Surplus Ratio	3.50%	18.68%	18.48%	19.12%
Net Collateral Ratio	103.00%	107.22%	106.93%	107.75%

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

For all periods presented, AgFirst exceeded minimum regulatory standards for all of the ratios. The Bank's permanent capital, total surplus, and core surplus ratios increased at September 30, 2016 as compared to December 31, 2015. The increase in these ratios resulted primarily from higher average capital balances at September 30, 2016. The Bank's ineligible available-for-sale investment securities, which are deducted from capital in the ratio calculations, were sold in August, 2016. This was the main reason for the increase in capital ratios for September 30, 2016 compared to December 31, 2015. Because these three capital ratios are calculated using a three month average daily balance for both capital and assets, the total 2015 Bank declared patronage was fully reflected in these three ratios at September 30, 2016. Bank patronage for 2015, which was primarily accrued at the end of the year, totaled $241.1 million and represented approximately 71.58 percent of 2015 net income. See the *Liquidity and Funding Sources* section above for further discussion of the sale of ineligible investment securities.

In March, 2016, the FCA adopted a final rule to modify the regulatory capital requirements for System banks and associations. The new capital requirements will be effective January 1, 2017. See *Regulatory Matters* section below for further discussion.

RESULTS OF OPERATIONS

Net income for the three months ended September 30, 2016 was $96.8 million compared to $85.6 million for the three months ended September 30, 2015, an increase of $11.2 million, or 13.07 percent. Net income for the nine months ended September 30, 2016 was $240.8 million compared to $253.5 million for the nine months ended September 30, 2015, a decrease of $12.7 million, or 5.01 percent. See below for further discussion of the change in net income by major components.

Key Results of Operations Comparisons

	Annualized for the nine months ended September 30, 2016	For the year ended December 31, 2015	Annualized for the nine months ended September 30, 2015
Return on average assets	1.03%	1.14%	1.16%
Return on average shareholders' equity	13.64%	14.36%	14.54%
Net interest margin	1.50%	1.59%	1.62%
Operating expense as a percentage of net interest income and noninterest income	29.63%	27.50%	27.12%
Net (charge-offs) recoveries to average loans	0.03%	0.01%	0.01%

The return on average assets and return on average shareholders' equity ratios declined in 2016 primarily due to a decrease in noninterest income. Net interest margin was negatively impacted by an increase in interest earning assets. For the operating expense as a percentage of net interest income and noninterest income ratio, operating expense consists primarily of noninterest expenses excluding losses (gains) from other property owned. This ratio also was negatively impacted by the decline in noninterest income as well as an increase in operating expenses. Net recoveries positively impacted the net (charge-offs) recoveries to average loans ratio for all periods presented. See *Allowance for Loan Losses*, *Net Interest Income*, *Noninterest Income*, and *Noninterest Expenses* sections for further discussion.

Net Interest Income

Net interest income for the three months ended September 30, 2016 was $119.4 million compared to $114.2 million for the same period of 2015, an increase of $5.2 million or 4.53 percent. For the nine months ended September 30, 2016, net interest income was $340.3 million compared to $341.8 million for the same period of 2015, a decrease of $1.5 million, or 0.45 percent. The net interest margin, which is net interest income as a percentage of average earning assets, was 1.54 percent and 1.50 percent, decreases of four and 12 basis points, respectively, for the three and nine month periods in 2016 compared to the prior year. The increase in net interest income for the three month period was primarily due to higher average loan balances. For the nine month period, the decrease in net interest income resulted primarily from higher rates paid on interest-bearing liabilities, significantly offset by higher average loan balances.

During the nine months ended September 30, 2016 and 2015, the Bank called debt totaling $15.973 billion and $4.869 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, 2016, as compared with the corresponding periods in 2015, are presented in the following table. The table distinguishes between the changes in interest income and interest expense related to average outstanding balances and to the levels of average interest rates. Accordingly, the benefit derived from funding earning assets with interest-free funds (principally capital) is reflected solely as a volume increase.

	For the three months ended September 30, 2016 vs. September 30, 2015			**For the nine months ended September 30, 2016 vs. September 30, 2015**		
	Increase (decrease) due to changes in:			**Increase (decrease) due to changes in:**		
(dollars in thousands)	**Volume**	**Rate**	**Total**	**Volume**	**Rate**	**Total**
Interest Income:						
Loans	$ 11,303	$ 4,232	$ 15,535	$ 33,634	$ 13,947	$ 47,581
Investments & Cash Equivalents	2,400	946	3,346	4,354	1,710	6,064
Total Interest Income	13,703	5,178	18,881	37,988	15,657	53,645
Interest Expense:						
Interest-Bearing Liabilities	6,952	6,754	13,706	17,195	37,997	55,192
Changes in Net Interest Income	$ 6,751	$ (1,576)	$ 5,175	$ 20,793	$ (22,340)	$ (1,547)

Provision for Loan Losses

AgFirst measures risks inherent in its loan portfolio on an ongoing basis and, as necessary, recognizes provision for loan loss expense so that appropriate allowances for loan losses are maintained. Loan loss provision was a net reversal of $5.7 million and $3.6 million for the three and nine months ended September 30, 2016, respectively, compared to a net reversal of $3.1 million and $2.1 million for the corresponding periods in 2015. For the three months ended September 30, 2016, the provision for loan losses included net provision reversals of $4.5 million for specific reserves (primarily resulting from a $4.5 million reversal related to one borrower in the other real estate segment) and $1.2 million for general reserves (primarily from $819 thousand reversals in the tree fruits and nuts segment). For the nine months ended September 30, 2016, net reversal of provision expense, which included a reversal of $5.8 million for specific reserves and expense of $2.2 million for general reserves, primarily related to borrowers in the other real estate ($4.6 million reversal), nursery/greenhouse ($864 thousand reversal) and rural home loan ($813 thousand expense). Provision expense for both periods in 2016 was impacted by the adoption of an updated System probability of default curve utilized in determining the amount of general allowance. This default curve contained higher probabilities of default, resulting in an increase in the general allowance. See Note 2, *Loans and Allowance for Loan Losses,* in the Notes to the Financial Statements for further information.

Noninterest Income

The following table illustrates the changes in noninterest income:

Change in Noninterest Income	**For the three months ended September 30,**			**For the nine months ended September 30,**		
(dollars in thousands)	**2016**	**2015**	**Increase/ (Decrease)**	**2016**	**2015**	**Increase/ (Decrease)**
Loan fees	$ 2,283	$ 1,917	$ 366	$ 6,805	$ 6,095	$ 710
Building lease income	882	815	67	2,607	2,607	–
Net impairment losses on investments	(13,217)	(1,191)	(12,026)	(14,947)	(1,404)	(13,543)
Gains (losses) on investments, net	23,202	–	23,202	23,822	1,126	22,696
Gains (losses) on called debt	(10,491)	(1,760)	(8,731)	(28,428)	(7,745)	(20,683)
Gains (losses) on other transactions	(436)	(497)	61	(116)	(577)	461
Other noninterest income	1,302	775	527	4,148	3,271	877
Total noninterest income (loss)	$ 3,525	$ 59	$ 3,466	$ (6,109)	$ 3,373	$ (9,482)

For the three and nine months ended September 30, 2016 compared to the corresponding periods in 2015, noninterest income increased $3.5 million and decreased $9.5 million, respectively. For both periods, the change resulted primarily from higher investment impairment and called debt losses, offset by higher gains on investments. Significant line item variances are discussed further below.

Loan fees for the nine month period increased $710 thousand due to an increase in fee income from the participation loan portfolio, primarily related to commitment and letter of credit fees.

Net impairment losses on investments increased $12.0 million and $13.5 million for the three and nine months ended September 30, 2016, respectively, compared to the corresponding periods in the prior year. The higher impairment losses for the 2016 periods resulted 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 securities. See further discussion in Note 3, *Investments*, in the Notes to the Financial Statements.

For the three and nine month periods, gains on investments increased $23.2 million and $22.7 million, respectively, compared to the same periods in 2015. Gains of $23.2 million were 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 March, 2015, the Bank sold agency mortgage-backed securities totaling $28.0 million which resulted in gains totaling $1.1 million. These transactions benefitted the Bank by reducing carrying costs and improving liquidity. See discussion of investments in *Liquidity and Funding Sources* section above and in Note 3, *Investments*, in the Notes to the Financial Statements.

Debt issuance expense is amortized over the life of the underlying debt security. When debt securities are called prior to maturity, any unamortized issuance cost is expensed. Losses on called debt increased $8.7 million for the three month period ended September 30, 2016 and $20.7 million for the nine month period ended September 30, 2016 compared to the same periods in the prior year. Call options were exercised on bonds totaling $6.867 billion and $15.973 billion for the three and nine month periods in 2016, respectively, compared to $1.465 billion and $4.869 billion for the same periods in 2015. 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.

Other noninterest income increased $527 thousand and $877 thousand for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. The increase was primarily due to forfeited earnest money on the sale of OPO properties of $203 thousand and $421 thousand in the three and nine month periods, respectively. Higher income from services provided to associations of $209 thousand in the three month period and $397 thousand in the nine month period also contributed to the increases.

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,**		
(dollars in thousands)	**2016**	**2015**	**Increase/ (Decrease)**	**2016**	**2015**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 14,779	$ 13,589	$ 1,190	$ 44,095	$ 42,311	$ 1,784
Occupancy and equipment	5,937	5,365	572	16,456	15,546	910
Insurance Fund premiums	4,457	2,934	1,523	11,951	8,699	3,252
Other operating expenses	8,800	9,811	(1,011)	26,528	27,055	(527)
Losses (gains) from other property owned	(2,238)	55	(2,293)	(2,050)	160	(2,210)
Total noninterest expenses	$ 31,735	$ 31,754	$ (19)	$ 96,980	$ 93,771	$ 3,209

Noninterest expenses for the three months ended September 30, 2016 decreased $19 thousand and for the nine months ended September 30, 2016 increased $3.2 million compared to the corresponding periods in 2015. For the three month period, an increase in gains from the sale of other property owned was offset by an increase in insurance fund premiums. The increase for the nine month period was primarily due to an increase in insurance fund premiums. Significant line item variances are discussed further below.

Salaries and employee benefits increased $1.2 million and $1.8 million for the three and nine month periods, respectively. These increases resulted primarily from increases of $1.1 million and $2.0 million, respectively, in salaries and incentives due mainly to normal salary administration.

Occupancy and equipment expense increased $572 thousand and $910 thousand for the three and nine month periods in 2016 compared to the same periods in 2015, respectively. The increase for both the quarter and nine month periods resulted primarily from accelerated amortization recorded in the third quarter of 2016 for a software license as a result of a contract termination.

Insurance Fund premiums increased $1.5 million and $3.3 million for the three and nine month periods ended September 30, 2016, respectively, compared to the same periods in 2015. These increases resulted primarily from an increase in the base annual premium rate to 16 basis points in the first and second quarters of 2016 and to 18 basis points in the third quarter of 2016 from 13 basis points in 2015. The FCSIC Board makes premium rate adjustments, as necessary, to maintain their secure base amount which is based upon insured debt outstanding at System banks.

Other operating expenses decreased $1.0 million and $527 thousand for the three and nine month periods, respectively. For both the three and nine month periods, the change was primarily due to the negotiated termination of a vendor's contract which resulted in the reversal in third quarter 2016 of $507 thousand of expenses accrued in prior quarters. See the occupancy and equipment expense variance discussion above for additional information.

Gains on other property owned increased $2.3 million and $2.2 million for the three and nine month periods, respectively. The increases 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.

REGULATORY MATTERS

On March 10, 2016, the FCA adopted a final regulation to modify the regulatory capital requirements for System banks and associations. The stated objectives of the rule are as follows:

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

The final rule will replace existing core surplus and total surplus requirements with Common Equity Tier 1, Tier 1 and Total Capital risk-based capital ratio requirements. The final rule will also replace the existing net collateral ratio with a Tier 1 Leverage ratio and is applicable to all banks and associations. The Permanent Capital Ratio will remain in effect with the final rule. The following sets forth the new regulatory capital ratios:

Ratio	Primary Components of Numerator	Denominator	Minimum Requirement	Minimum Requirement with Conservation Buffer
Common Equity Tier 1 (CET1) Capital	Unallocated retained earnings/surplus (URE), Common Stock (subject to certain conditions)	Risk-weighted assets	4.5%	7.0%
Tier 1 Capital	CET1 Capital, Non-cumulative perpetual preferred stock	Risk-weighted assets	6.0%	8.5%
Total Capital	Tier 1 Capital, Allowance for Loan Losses, other equity securities not included in Tier 1 Capital	Risk-weighted assets	8.0%	10.5%
Tier 1 Leverage	Tier 1 Capital (1.5% must be URE or URE equivalents)	Total assets	4.0%	5.0%

On July 28, 2016, the FCA published the final regulation in the Federal Register, and the effective date of the new capital requirements will be January 1, 2017, with a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. District institutions are expected to be in compliance with the new requirements at adoption.

On November 30, 2015, the FCA, along with four other federal agencies, published in the Federal Register a final rule to establish capital and margin requirements for covered swap entities as required by the Dodd-Frank Act. See below for further information regarding the Dodd-Frank Act. This rule is not expected to have a material impact for District institutions.

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 2016. The proposed investment regulations are expected to have a minimal impact for District institutions. 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.

FINANCIAL REGULATORY REFORM

See discussion of the Dodd-Frank Act in the *Financial Regulatory Reform* section of the 2015 Annual Report of AgFirst Farm Credit Bank.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2015 Annual Report of AgFirst Farm Credit Bank for recently issued accounting pronouncements.

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

Balance Sheets

(dollars in thousands)	**September 30, 2016**	**December 31, 2015**
	(unaudited)	*(audited)*
Assets		
Cash	**$ 1,379,893**	$ 461,068
Cash equivalents	**226,378**	211,554
Investment securities:		
Available for sale (amortized cost of $7,467,824 and $6,884,126, respectively)	**7,520,581**	6,949,112
Held to maturity (fair value of $559,955 and $576,764, respectively)	**533,461**	562,698
Total investment securities	**8,054,042**	7,511,810
Loans	**22,733,240**	22,140,758
Allowance for loan losses	**(16,340)**	(15,113)
Net loans	**22,716,900**	22,125,645
Accrued interest receivable	**69,696**	62,156
Accounts receivable	**73,818**	72,657
Investments in other Farm Credit System institutions	**69,798**	69,836
Premises and equipment, net	**58,791**	62,051
Other property owned	**4,381**	13,411
Other assets	**22,997**	30,412
Total assets	**$ 32,676,694**	$ 30,620,600
Liabilities		
Systemwide bonds payable	**$ 20,831,212**	$ 22,339,694
Systemwide notes payable	**9,263,871**	5,633,413
Accrued interest payable	**44,603**	56,340
Accounts payable	**36,675**	281,870
Other liabilities	**50,155**	54,262
Total liabilities	**30,226,516**	28,365,579
Commitments and contingencies (Note 8)		
Shareholders' Equity		
Perpetual preferred stock	**69,250**	115,000
Capital stock and participation certificates	**308,056**	307,483
Additional paid-in-capital	**52,858**	39,988
Retained earnings		
Allocated	**594**	656
Unallocated	**1,971,496**	1,731,972
Accumulated other comprehensive income	**47,924**	59,922
Total shareholders' equity	**2,450,178**	2,255,021
Total liabilities and equity	**$ 32,676,694**	$ 30,620,600

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

Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2016	For the three months ended September 30, 2015	For the nine months ended September 30, 2016	For the nine months ended September 30, 2015
Interest Income				
Investment securities and other	**$ 31,267**	$ 27,921	**$ 92,301**	$ 86,237
Loans	**165,678**	150,143	**484,787**	437,206
Total interest income	**196,945**	178,064	**577,088**	523,443
Interest Expense	**77,562**	63,856	**236,808**	181,616
Net interest income	**119,383**	114,208	**340,280**	341,827
Provision for (reversal of allowance for) loan losses	**(5,667)**	(3,130)	**(3,618)**	(2,085)
Net interest income after provision for loan losses	**125,050**	117,338	**343,898**	343,912
Noninterest Income				
Loan fees	**2,283**	1,917	**6,805**	6,095
Building lease income	**882**	815	**2,607**	2,607
Total other-than-temporary impairment losses	**(4,665)**	—	**(4,665)**	—
Portion of loss recognized in other comprehensive income	**(8,552)**	(1,191)	**(10,282)**	(1,404)
Net other-than-temporary impairment losses	**(13,217)**	(1,191)	**(14,947)**	(1,404)
Gains (losses) on investments, net	**23,202**	—	**23,822**	1,126
Gains (losses) on called debt	**(10,491)**	(1,760)	**(28,428)**	(7,745)
Gains (losses) on other transactions	**(436)**	(497)	**(116)**	(577)
Other noninterest income	**1,302**	775	**4,148**	3,271
Total noninterest income	**3,525**	59	**(6,109)**	3,373
Noninterest Expenses				
Salaries and employee benefits	**14,779**	13,589	**44,095**	42,311
Occupancy and equipment	**5,937**	5,365	**16,456**	15,546
Insurance Fund premiums	**4,457**	2,934	**11,951**	8,699
Other operating expenses	**8,800**	9,811	**26,528**	27,055
Losses (gains) from other property owned	**(2,238)**	55	**(2,050)**	160
Total noninterest expenses	**31,735**	31,754	**96,980**	93,771
Net income	**$ 96,840**	$ 85,643	**$ 240,809**	$ 253,514

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

Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2016	For the three months ended September 30, 2015	For the nine months ended September 30, 2016	For the nine months ended September 30, 2015
Net income	**$ 96,840**	$ 85,643	**$ 240,809**	$ 253,514
Other comprehensive income:				
Unrealized gains (losses) on investments:				
Other-than-temporarily impaired	**(14,791)**	1,242	**(15,973)**	2,728
Not other-than-temporarily impaired	**(6,981)**	(4,348)	**3,745**	(19,499)
Change in value of cash flow hedges	**(85)**	(62)	**(22)**	(330)
Employee benefit plans adjustments	**84**	101	**252**	301
Other comprehensive income (Note 5)	**(21,773)**	(3,067)	**(11,998)**	(16,800)
Comprehensive income	**$ 75,067**	$ 82,576	**$ 228,811**	$ 236,714

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

Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Additional Paid-In-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2014	$ 125,250	$ 303,180	$ 36,580	$ 692	$ 1,639,757	$ 101,948	$ 2,207,407
Comprehensive income					253,514	(16,800)	236,714
Capital stock/participation certificates issued/(retired), net		248					248
Redemption of perpetual preferred stock (Note 5)	(10,250)		3,408				(6,842)
Dividends paid on perpetual preferred stock					(1,316)		(1,316)
Retained earnings retired				(36)			(36)
Patronage distribution adjustment					(53)		(53)
Balance at September 30, 2015	$ 115,000	$ 303,428	$ 39,988	$ 656	$ 1,891,902	$ 85,148	$ 2,436,122
Balance at December 31, 2015	$ 115,000	$ 307,483	$ 39,988	$ 656	$ 1,731,972	$ 59,922	$ 2,255,021
Comprehensive income					**240,809**	**(11,998)**	**228,811**
Capital stock/participation certificates issued/(retired), net		**560**					**560**
Redemption of perpetual preferred stock (Note 5)	**(45,750)**		**12,870**				**(32,880)**
Dividends paid on perpetual preferred stock					**(1,193)**		**(1,193)**
Retained earnings retired				**(62)**			**(62)**
Patronage distribution adjustment		**13**			**(92)**		**(79)**
Balance at September 30, 2016	**$ 69,250**	**$ 308,056**	**$ 52,858**	**$ 594**	**$ 1,971,496**	**$ 47,924**	**$ 2,450,178**

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the nine months ended September 30, 2016	2015
Cash flows from operating activities:		
Net income	**$ 240,809**	$ 253,514
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	**7,579**	6,084
Amortization of net deferred loan (fees) costs and premium amortization (discount accretion)	**1,146**	(411)
Premium amortization (discount accretion) on investment securities	**8,104**	6,207
(Premium amortization) discount accretion on bonds and notes	**17,843**	5,796
Provision for (reversal of allowance for) loan losses	**(3,618)**	(2,085)
(Gains) losses on other property owned, net	**(2,150)**	170
Net impairment losses on investments	**14,947**	1,404
(Gains) losses on investments, net	**(23,822)**	(1,126)
(Gains) losses on other transactions	**116**	577
Net change in loans held for sale	**5,935**	8,136
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	**(7,540)**	(1,890)
(Increase) decrease in accounts receivable	**(1,161)**	44,491
(Increase) decrease in other assets	**2,870**	4,636
Increase (decrease) in accrued interest payable	**(11,737)**	8,781
Increase (decrease) in accounts payable	**(4,192)**	34,151
Increase (decrease) in other liabilities	**(3,237)**	(5,975)
Total adjustments	**1,083**	108,946
Net cash provided by (used in) operating activities	**241,892**	362,460
Cash flows from investing activities:		
Investment securities purchased	**(2,390,324)**	(1,307,695)
Investment securities sold or matured	**1,836,613**	1,384,699
Net (increase) decrease in loans	**(595,730)**	(579,171)
(Increase) decrease in investments in other Farm Credit System institutions	**38**	43
Purchase of premises and equipment, net	**(4,987)**	(2,694)
Proceeds from sale of other property owned	**12,125**	2,325
Net cash provided by (used in) investing activities	**(1,142,265)**	(502,493)
Cash flows from financing activities:		
Bonds and notes issued	**30,065,834**	17,953,591
Bonds and notes retired	**(27,957,155)**	(17,368,338)
Capital stock and participation certificates issued/retired, net	**573**	248
Cash distribution to shareholders	**(241,095)**	(315,237)
Redemption of perpetual preferred stock	**(32,880)**	(6,842)
Dividends paid on perpetual preferred stock	**(1,193)**	(1,316)
Retained earnings retired	**(62)**	(36)
Net cash provided by (used in) financing activities	**1,834,022**	262,070
Net increase (decrease) in cash and cash equivalents	**933,649**	122,037
Cash and cash equivalents, beginning of period	**672,622**	847,350
Cash and cash equivalents, end of period	**$ 1,606,271**	$ 969,387
Supplemental schedule of non-cash activities:		
Receipt of property in settlement of loans	**$ 945**	$ 10,805
Change in unrealized gains (losses) on investments, net	**(12,228)**	(16,771)
Employee benefit plans adjustments	**(252)**	(301)
Non-cash changes related to interest rate hedging activities:		
Increase (decrease) in bonds and notes	**$ (4,546)**	$ (7,966)
Decrease (increase) in other assets	**4,546**	7,966
Supplemental information:		
Interest paid	**$ 230,703**	$ 167,039

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

Notes to the Financial Statements

(unaudited)

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

Organization
The accompanying financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst or Bank). AgFirst and its related Agricultural Credit Associations (Associations or District Associations) are collectively referred to as the AgFirst District (District). A complete description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations of the Bank as of and for the year ended December 31, 2015 are contained in the 2015 Annual Report to Shareholders. These unaudited interim financial statements should be read in conjunction with the latest Annual Report to Shareholders.

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

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

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

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

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

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

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

- In August, 2016, the FASB issued ASU 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). Stakeholders had indicated there was 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 the 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. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. 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.

- In June, 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The Update improves 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. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The Update will take effect for U.S. Securities and Exchange Commission (SEC) filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. 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. For all other organizations, the ASU will take effect for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.

- In May, 2016, the FASB issued ASU 2016-12 Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The guidance addresses certain issues identified by the Transition Resource Group (TRG) in the guidance on assessing collectibility, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09).

- In April, 2016, the FASB issued ASU 2016-10 Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The Update clarifies the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09).

- In March, 2016, the FASB issued ASU 2016-08 Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). The amendments clarify the implementation guidance on principal versus agent considerations. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09).

- In March, 2016, the FASB issued ASU 2016-07 Investments Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. To simplify the accounting for equity method investments, the amendments in the Update 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.

- In March, 2016, the FASB issued ASU 2016-06 Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments. Topic 815 requires that embedded derivatives be separated from the host contract and accounted for separately as derivatives if certain criteria are met, including the “clearly and closely related” criterion. The amendments in this Update 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. An entity performing the assessment under the amendments is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. The amendments apply to all entities that are issuers of or investors in debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded call (put) options. For public business entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The amendments are to be applied on a modified retrospective basis to existing debt instruments as of the beginning of the fiscal year for which the amendments are effective. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.

- 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. That change occurs for a variety of reasons, including financial institution mergers, intercompany transactions, an entity exiting a particular derivatives business or relationship, an entity managing against internal credit limits, or in response to laws or regulatory requirements. 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. For public business entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Entities have an option to apply the amendments on either a prospective basis or a modified retrospective basis. Early adoption is permitted, including adoption in an interim period.

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:

- 2016-02 Leases (Topic 842): In February, 2016, the FASB issued an update that requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The Bank is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2016-01 Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities: In January, 2016, the FASB issued an update that is intended to improve the recognition and measurement of financial instruments. The Bank is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2015-14 Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date: In August, 2015, the FASB issued an update that defers by one year the effective date of ASU 2014-09, Revenue from Contracts with Customers. The new ASU reflects decisions reached by the FASB at its meeting on July 9, 2015. The Bank is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

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

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

- 2015-07 Fair Value Measurement (Topic 820): Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) –The amendment was adopted prospectively. There were no changes to the Bank's statements of financial condition or results of operations as a result of this guidance. See Note 6, *Fair Value Measurement*, for the disclosures required by this guidance.

- 2015-01 Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items – The amendment was adopted retrospectively. There were no changes to the Bank's statements of financial condition or results of operations as a result of this guidance.

- 2014-15 Income Statement – Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern: This amendment is effective for the annual reporting period ended December 31, 2016 and interim and annual periods thereafter. It may require additional disclosures but will not have a material impact on the Bank's financial condition or results of operations.

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

(dollars in thousands)	September 30, 2016	December 31, 2015
Direct notes	$ 15,286,329	$ 14,890,580
Real estate mortgage	1,269,995	1,188,460
Production and intermediate-term	1,095,679	1,158,432
Loans to cooperatives	437,310	217,610
Processing and marketing	847,120	1,015,066
Farm-related business	76,998	185,707
Communication	238,176	238,681
Energy and water/waste disposal	554,565	468,152
Rural residential real estate	2,715,808	2,593,981
International	67,435	66,205
Lease receivables	8,374	–
Loans to other financing institutions (OFIs)	126,045	108,020
Other (including Mission Related)	9,406	9,864
Total Loans	$ 22,733,240	$ 22,140,758

A substantial portion of the Bank's loan portfolio consists of notes receivable from District Associations (Direct Notes). These notes are used by the Associations to fund their loan portfolios, which collateralize the notes. Therefore, the Bank's concentration of credit risk in various agricultural commodities associated with these notes approximates that of the District as a whole. Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities, which would cause them to be similarly impacted by economic or other conditions. A substantial portion of the Associations' lending activities is collateralized, and their exposure to credit loss associated with lending activities is reduced accordingly, which further mitigates credit risk to the Bank.

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

	September 30, 2016							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Direct note	$ –	$ –	$ –	$ 688,887	$ –	$ –	$ –	$ 688,887
Real estate mortgage	977,335	72,841	322,709	59,965	–	–	1,300,044	132,806
Production and intermediate-term	656,798	311,579	744,899	118,422	126,806	–	1,528,503	430,001
Loans to cooperatives	187	94,585	498,587	–	34,000	–	532,774	94,585
Processing and marketing	118,123	313,820	422,087	259,926	885,629	3,000	1,425,839	576,746
Farm-related business	47,646	18,234	–	–	47,769	–	95,415	18,234
Communication	86	118,016	356,815	–	–	–	356,901	118,016
Energy and water/waste disposal	–	15,589	565,761	–	5,835	–	571,596	15,589
Rural residential real estate	172	–	–	–	–	–	172	–
International	–	34,127	101,670	–	–	–	101,670	34,127
Lease receivables	8,374	–	–	–	–	–	8,374	–
Other (including Mission Related)	9,547	–	–	–	–	–	9,547	–
Total	$ 1,818,268	$ 978,791	$ 3,012,528	$ 1,127,200	$ 1,100,039	$ 3,000	$ 5,930,835	$ 2,108,991

	December 31, 2015							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Direct notes	$ –	$ –	$ –	$ 449,660	$ –	$ –	$ –	$ 449,660
Real estate mortgage	963,088	53,072	271,563	54,252	–	–	1,234,651	107,324
Production and intermediate-term	884,552	239,287	550,286	188,962	135,318	10,375	1,570,156	438,624
Loans to cooperatives	6,929	2,070	209,255	–	4,000	–	220,184	2,070
Processing and marketing	113,046	441,053	704,194	274,193	925,387	8,700	1,742,627	723,946
Farm-related business	29,697	58,248	83,593	–	131,023	–	244,313	58,248
Communication	103	100,018	339,329	–	–	–	339,432	100,018
Energy and water/waste disposal	–	15,088	478,822	–	6,137	–	484,959	15,088
Rural residential real estate	–	–	–	–	–	–	–	–
International	–	3,849	70,078	–	–	–	70,078	3,849
Other (including Mission Related)	10,008	–	–	–	–	–	10,008	–
Total	$ 2,007,423	$ 912,685	$ 2,707,120	$ 967,067	$ 1,201,865	$ 19,075	$ 5,916,408	$ 1,898,827

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

	September 30, 2016			
(dollars in thousands)	Due less than 1 year	Due 1 through 5 years	Due after 5 years	Total
Direct notes	$ 646,996	$ 2,963,324	$ 11,676,009	$ 15,286,329
Real estate mortgage	66,088	386,099	817,808	1,269,995
Production and intermediate-term	149,475	537,409	408,795	1,095,679
Loans to cooperatives	15,488	183,145	238,677	437,310
Processing and marketing	44,285	546,633	256,202	847,120
Farm-related business	6,397	44,560	26,041	76,998
Communication	21,485	138,160	78,531	238,176
Energy and water/waste disposal	12,801	164,930	376,834	554,565
Rural residential real estate	49,468	10,227	2,656,113	2,715,808
International	14,751	34,920	17,764	67,435
Lease receivables	–	523	7,851	8,374
Loans to OFIs	126,045	–	–	126,045
Other (including Mission Related)	–	56	9,350	9,406
Total Loans	$ 1,153,279	$ 5,009,986	$ 16,569,975	$ 22,733,240
Percentage	5.07%	22.04%	72.89%	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, 2016	December 31, 2015
Direct notes:		
Acceptable	100.00%	99.22%
OAEM	–	0.78
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Real estate mortgage:		
Acceptable	94.41%	93.16%
OAEM	2.62	3.36
Substandard/doubtful/loss	2.97	3.48
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	89.49%	91.60%
OAEM	5.94	2.58
Substandard/doubtful/loss	4.57	5.82
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	98.09%	99.10%
OAEM	1.77	–
Substandard/doubtful/loss	0.14	0.90
	100.00%	100.00%
Processing and marketing:		
Acceptable	98.81%	100.00%
OAEM	1.19	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	74.08%	100.00%
OAEM	6.25	–
Substandard/doubtful/loss	19.67	–
	100.00%	100.00%
Communication:		
Acceptable	97.14%	97.15%
OAEM	2.86	2.85
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	September 30, 2016	December 31, 2015
Energy and water/waste disposal:		
Acceptable	91.76%	89.50%
OAEM	8.24	10.50
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	99.89%	99.90%
OAEM	–	–
Substandard/doubtful/loss	0.11	0.10
	100.00%	100.00%
International:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Lease receivables:		
Acceptable	100.00%	–%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	–%
Loans to OFIs:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Other (including Mission Related):		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total Loans:		
Acceptable	98.77%	98.40%
OAEM	0.76	1.09
Substandard/doubtful/loss	0.47	0.51
	100.00%	100.00%

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

	September 30, 2016					
(dollars in thousands)	**30 Through 89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**	**Recorded Investment 90 Days or More Past Due and Accruing Interest**
Direct notes	$ –	$ –	$ –	$ 15,318,626	$ 15,318,626	$ –
Real estate mortgage	981	4,497	5,478	1,273,143	1,278,621	–
Production and intermediate-term	1,853	–	1,853	1,098,812	1,100,665	–
Loans to cooperatives	–	–	–	438,482	438,482	–
Processing and marketing	–	–	–	849,237	849,237	–
Farm-related business	–	–	–	77,663	77,663	–
Communication	–	–	–	238,339	238,339	–
Energy and water/waste disposal	–	–	–	556,991	556,991	–
Rural residential real estate	4,418	2,788	7,206	2,715,122	2,722,328	–
International	–	–	–	67,800	67,800	–
Lease receivables	–	–	–	8,392	8,392	–
Loans to OFIs	–	–	–	126,243	126,243	–
Other (including Mission Related)	–	–	–	9,555	9,555	–
Total	$ 7,252	$ 7,285	$ 14,537	$ 22,778,405	$ 22,792,942	$ –

	December 31, 2015					
(dollars in thousands)	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Direct notes	$ –	$ –	$ –	$ 14,921,735	$ 14,921,735	$ –
Real estate mortgage	2,533	4,636	7,169	1,188,698	1,195,867	217
Production and intermediate-term	135	7,485	7,620	1,154,793	1,162,413	–
Loans to cooperatives	–	–	–	218,025	218,025	–
Processing and marketing	–	–	–	1,017,428	1,017,428	–
Farm-related business	–	–	–	186,327	186,327	–
Communication	–	–	–	238,950	238,950	–
Energy and water/waste disposal	–	–	–	469,084	469,084	–
Rural residential real estate	32,286	4,499	36,785	2,563,519	2,600,304	944
International	–	–	–	66,195	66,195	–
Loans to OFIs	–	–	–	108,181	108,181	–
Other (including Mission Related)	–	–	–	9,978	9,978	–
Total	$ 34,954	$ 16,620	$ 51,574	$ 22,142,913	$ 22,194,487	$ 1,161

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

(dollars in thousands)	September 30, 2016	December 31, 2015
Nonaccrual loans:		
Real estate mortgage	$ 9,187	$ 12,697
Production and intermediate-term	13,139	9,208
Rural residential real estate	5,596	4,744
Total	$ 27,922	$ 26,649
Accruing restructured loans:		
Real estate mortgage	$ 2,092	$ 6,795
Production and intermediate-term	9,535	2,046
Rural residential real estate	1,464	1,150
Other (including Mission Related)	4,330	4,406
Total	$ 17,421	$ 14,397
Accruing loans 90 days or more past due:		
Real estate mortgage	$ –	$ 217
Rural residential real estate	–	944
Total	$ –	$ 1,161
Total nonperforming loans	$ 45,343	$ 42,207
Other property owned	4,381	13,411
Total nonperforming assets	$ 49,724	$ 55,618
Nonaccrual loans as a percentage of total loans	0.12%	0.12%
Nonperforming assets as a percentage of total loans and other property owned	0.22%	0.25%
Nonperforming assets as a percentage of capital	2.03%	2.47%

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

(dollars in thousands)	September 30, 2016	December 31, 2015
Impaired nonaccrual loans:		
Current as to principal and interest	$ 17,848	$ 10,054
Past due	10,074	16,595
Total	27,922	26,649
Impaired accrual loans:		
Restructured	17,421	14,397
90 days or more past due	–	1,161
Total	17,421	15,558
Total impaired loans	$ 45,343	$ 42,207
Additional commitments to lend	$ –	$ 3,857

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

(dollars in thousands)	September 30, 2016			Quarter Ended September 30, 2016		Nine Months Ended September 30, 2016	
Impaired Loans	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:							
Real estate mortgage	$ 1,097	$ 1,381	$ 149	$ 930	$ –	$ 1,203	$ –
Production and intermediate-term	–	–	–	–	–	2,982	–
Rural residential real estate	499	499	74	63	–	44	–
Other (including Mission Related)	4,330	4,267	153	4,267	66	4,309	201
Total	$ 5,926	$ 6,147	$ 376	$ 5,260	$ 66	$ 8,538	$ 201
With no related allowance for credit losses:							
Real estate mortgage	$ 10,182	$ 13,432	$ –	$ 11,027	$ 56	$ 15,572	$ 321
Production and intermediate-term	22,674	31,410	–	14,183	453	13,290	2,477
Rural residential real estate	6,561	6,543	–	6,399	58	5,953	194
Other (including Mission Related)	–	–	–	–	–	421	–
Total	$ 39,417	$ 51,385	$ –	$ 31,609	$ 567	$ 35,236	$ 2,992
Total:							
Real estate mortgage	$ 11,279	$ 14,813	$ 149	$ 11,957	$ 56	$ 16,775	$ 321
Production and intermediate-term	22,674	31,410	–	14,183	453	16,272	2,477
Rural residential real estate	7,060	7,042	74	6,462	58	5,997	194
Other (including Mission Related)	4,330	4,267	153	4,267	66	4,730	201
Total	$ 45,343	$ 57,532	$ 376	$ 36,869	$ 633	$ 43,774	$ 3,193

(dollars in thousands)	December 31, 2015			Year Ended December 31, 2015	
Impaired Loans	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 3,427	$ 3,796	$ 378	$ 7,613	$ –
Production and intermediate-term	6,837	16,683	749	9,918	–
Processing and marketing	–	–	–	–	–
Farm-related business	–	–	–	832	–
Rural residential real estate	168	169	56	147	–
Other (including Mission Related)	4,359	4,313	153	4,310	273
Total	$ 14,791	$ 24,961	$ 1,336	$ 22,820	$ 273
With no related allowance for credit losses:					
Real estate mortgage	$ 16,282	$ 19,589	$ –	$ 15,262	$ 1,915
Production and intermediate-term	4,417	5,916	–	6,239	354
Processing and marketing	–	828	–	–	–
Farm-related business	–	–	–	1,454	–
Rural residential real estate	6,670	6,623	–	3,833	184
Other (including Mission Related)	47	48	–	131	2
Total	$ 27,416	$ 33,004	$ –	$ 26,919	$ 2,455
Total:					
Real estate mortgage	$ 19,709	$ 23,385	$ 378	$ 22,875	$ 1,915
Production and intermediate-term	11,254	22,599	749	16,157	354
Processing and marketing	–	828	–	–	–
Farm-related business	–	–	–	2,286	–
Rural residential real estate	6,838	6,792	56	3,980	184
Other (including Mission Related)	4,406	4,361	153	4,441	275
Total	$ 42,207	$ 57,965	$ 1,336	$ 49,739	$ 2,728

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows. Prior to issuance of the Bank's 2015 Annual Report, management identified errors in classification of the loan portfolio among the various FCA loan type categories that are used to report disaggregated loan information in footnote disclosures. As discussed in Note 3, *Loans and Allowance for Loan Losses*, of the Bank's 2015 Annual Report, FCA loan type classifications prior to December 31, 2015 have been revised as necessary to reflect these loan type classifications, as adjusted. In the table below, activity for the quarter and nine months ended September 30, 2015 is presented as revised.

(dollars in thousands)	Direct Note	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	International	Lease receivables	Other**	Total
Activity related to the allowance for credit losses:											
Balance at June 30, 2016	$ –	$ 3,281	$ 4,964	$ 3,451	$ 997	$ 2,231	$ 2,232	$ 136	$ –	$ 232	$ 17,524
Charge-offs	–	–	(8)	–	–	–	(15)	–	–	–	(23)
Recoveries	–	4,506	–	–	–	–	–	–	–	–	4,506
Provision for loan losses	–	(4,581)	(778)	(212)	(78)	(241)	255	(50)	14	4	(5,667)
Balance at September 30, 2016	$ –	$ 3,206	$ 4,178	$ 3,239	$ 919	$ 1,990	$ 2,472	$ 86	$ 14	$ 236	$ 16,340
Balance at December 31, 2015	$ –	$ 3,615	$ 4,779	$ 2,243	$ 777	$ 1,646	$ 1,770	$ 79	$ –	$ 204	$ 15,113
Charge-offs	–	(55)	(8)	–	–	–	(110)	–	–	–	(173)
Recoveries	–	4,511	194	313	–	–	–	–	–	–	5,018
Provision for loan losses	–	(4,865)	(787)	683	142	344	812	7	14	32	(3,618)
Balance at September 30, 2016	$ –	$ 3,206	$ 4,178	$ 3,239	$ 919	$ 1,990	$ 2,472	$ 86	$ 14	$ 236	$ 16,340
Balance at June 30, 2015	$ –	$ 3,937	$ 4,226	$ 4,293	$ 612	$ 1,417	$ 1,312	$ 68	$ –	$ 202	$ 16,067
Charge-offs	–	–	(284)	(668)	–	–	(27)	–	–	–	(979)
Recoveries	–	3,329	–	–	–	–	–	–	–	–	3,329
Provision for loan losses	–	(3,742)	457	(294)	139	53	251	3	–	3	(3,130)
Loan type reclassification	–	–	–	–	–	–	–	–	–	–	–
Balance at September 30, 2015	$ –	$ 3,524	$ 4,399	$ 3,331	$ 751	$ 1,470	$ 1,536	$ 71	$ –	$ 205	$ 15,287
Balance at December 31, 2014	$ –	$ 5,989	$ 3,585	$ 2,785	$ 579	$ 1,332	$ 919	$ 54	$ –	$ 292	$ 15,535
Charge-offs	–	(254)	(452)	(668)	–	–	(131)	–	–	–	(1,505)
Recoveries	–	3,342	–	–	–	–	–	–	–	–	3,342
Provision for loan losses	–	(3,800)	182	545	172	138	748	17	–	(87)	(2,085)
Loan type reclassification	–	(1,753)	1,084	669	–	–	–	–	–	–	–
Balance at September 30, 2015	$ –	$ 3,524	$ 4,399	$ 3,331	$ 751	$ 1,470	$ 1,536	$ 71	$ –	$ 205	$ 15,287
Allowance on loans evaluated for impairment:											
Individually	$ –	$ 149	$ –	$ –	$ –	$ –	$ 74	$ –	$ –	$ 153	$ 376
Collectively	–	3,057	4,178	3,239	919	1,990	2,398	86	14	83	15,964
Balance at September 30, 2016	$ –	$ 3,206	$ 4,178	$ 3,239	$ 919	$ 1,990	$ 2,472	$ 86	$ 14	$ 236	$ 16,340
Individually	$ –	$ 378	$ 749	$ –	$ –	$ –	$ 56	$ –	$ –	$ 153	$ 1,336
Collectively	–	3,237	4,030	2,243	777	1,646	1,714	79	–	51	13,777
Balance at December 31, 2015	$ –	$ 3,615	$ 4,779	$ 2,243	$ 777	$ 1,646	$ 1,770	$ 79	$ –	$ 204	$ 15,113
Recorded investment in loans evaluated for impairment:											
Individually	$ 15,318,626	$ 114,454	$ 22,674	$ –	$ –	$ –	$ 1,625,956	$ –	$ –	$ 4,330	$ 17,086,040
Collectively	–	1,164,167	1,077,991	1,365,382	238,339	556,991	1,096,372	67,800	8,392	131,468	5,706,902
Balance at September 30, 2016	$ 15,318,626	$ 1,278,621	$ 1,100,665	$ 1,365,382	$ 238,339	$ 556,991	$ 2,722,328	$ 67,800	$ 8,392	$ 135,798	$ 22,792,942
Individually	$ 14,921,735	$ 104,515	$ 11,246	$ –	$ –	$ –	$ 1,785,135	$ –	$ –	$ 4,359	$ 16,826,990
Collectively	–	1,091,352	1,151,167	1,421,780	238,950	469,084	815,169	66,195	–	113,800	5,367,497
Balance at December 31, 2015	$ 14,921,735	$ 1,195,867	$ 1,162,413	$ 1,421,780	$ 238,950	$ 469,084	$ 2,600,304	$ 66,195	$ –	$ 118,159	$ 22,194,487

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. The tables do not include any purchased credit impaired loans. In the tables below, activity for the quarter and nine months ended September 30, 2015 is presented as revised for FCA loan type reclassifications discussed above.

(dollars in thousands)	Three months ended September 30, 2016				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification					
Rural residential real estate	$ 202	$ –	$ –	$ 202	
Total	$ 202	$ –	$ –	$ 202	
Post-modification					
Rural residential real estate	$ 205	$ –	$ –	$ 205	$ –
Total	$ 205	$ –	$ –	$ 205	$ –

(dollars in thousands)	Nine months ended September 30, 2016				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification					
Real estate mortgage	$ –	$ 467	$ –	$ 467	
Rural residential real estate	401	92	–	493	
Total	$ 401	$ 559	$ –	$ 960	
Post-modification					
Real estate mortgage	$ –	$ 467	$ –	$ 467	$ –
Rural residential real estate	411	96	–	507	–
Total	$ 411	$ 563	$ –	$ 974	$ –

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

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	**2015 (as revised)**	**2016**	**2015 (as revised)**
Defaulted troubled debt restructurings:				
Rural residential real estate	$ –	$ 419	$ 209	$ 419
Total	$ –	$ 419	$ 209	$ 419

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

	Total TDRs		Nonaccrual TDRs	
(dollars in thousands)	**September 30, 2016**	**December 31, 2015**	**September 30, 2016**	**December 31, 2015**
Real estate mortgage	$ 9,412	$ 14,881	$ 7,320	$ 8,086
Production and intermediate-term	10,497	9,891	962	7,845
Rural residential real estate	2,433	2,202	969	1,052
Other (including Mission Related)	4,330	4,406	–	–
Total Loans	$ 26,672	$ 31,380	$ 9,251	$ 16,983
Additional commitments to lend	$ –	$ 3,263		

The following table presents foreclosure information as of period end:

	September 30, 2016	December 31, 2015
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	$ 1,144	$ 723
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ 1,042	$ –

Note 3 — Investments

Investment Securities

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

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

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

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

In its Conditions of Approval for the program, the FCA considers an RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9. The FCA requires System institutions to provide notification when a security becomes ineligible. At September 30, 2016, the Bank 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. In 2015, the Bank purchased $42.4 million in U.S. Treasury securities which are held for that purpose. The remainder of the compensating balance is held in cash in a demand deposit account. These securities are excluded when calculating the amount of eligible liquidity investments.

During the first nine months of 2016, proceeds from sales of investments were $155.3 million and realized gains were $23.8 million. During the first nine months of 2015, proceeds from sales of investments were $29.1 million and realized gains were $1.1 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, 2016				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. Treasury Securities	$ 242,331	$ 115	$ (1)	$ 242,445	0.55%
U.S. Govt. Guaranteed	4,161,375	52,183	(6,355)	4,207,203	1.58
U.S. Govt. Agency Guaranteed	2,322,861	14,759	(8,593)	2,329,027	1.30
Non-Agency ABSs	741,257	807	(158)	741,906	1.13
Total	$ 7,467,824	$ 67,864	$ (15,107)	$ 7,520,581	1.41%

	December 31, 2015				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. Treasury Securities	$ 42,405	$ –	$ –	$ 42,405	0.68%
U.S. Govt. Guaranteed	3,924,073	55,715	(9,198)	3,970,590	1.69
U.S. Govt. Agency Guaranteed	2,123,526	16,050	(7,688)	2,131,888	0.98
Non-Agency CMOs (a)	140,516	51	(13,707)	126,860	0.75
Non-Agency ABSs	653,606	25,084	(1,321)	677,369	1.24%
Total	$ 6,884,126	$ 96,900	$ (31,914)	$ 6,949,112	1.40%

(a)Gross unrealized losses included non-credit related other-than temporary impairment included in AOCI of $9.2 million for Non-Agency CMOs.

Held-to-maturity

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

	September 30, 2016				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. Agency Guaranteed	$ 448,865	$ 18,148	$ (96)	$ 466,917	3.08%
RABs and Other	84,596	8,600	(158)	93,038	6.05
Total	$ 533,461	$ 26,748	$ (254)	$ 559,955	3.55%

	December 31, 2015				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. Agency Guaranteed	$ 465,073	$ 14,891	$ (5,978)	$ 473,986	3.50%
RABs and Other	97,625	5,945	(792)	102,778	6.06
Total	$ 562,698	$ 20,836	$ (6,770)	$ 576,764	3.94%

A summary of the contractual maturity, estimated fair value and amortized cost of investment securities at September 30, 2016 follows:

Available-for-sale

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Treasury Securities	$ 214,921	0.50 %	$ 27,524	0.94 %	$ –	– %	$ –	– %	$ 242,445	0.55 %
U.S. Govt. Guaranteed	–	0.76	7	1.00	86,157	1.16	4,121,039	1.59	4,207,203	1.58
U.S. Govt. Agency Guaranteed	12,507	0.61	192,111	1.27	134,270	1.38	1,990,139	1.30	2,329,027	1.30
Non-Agency ABSs	–	–	699,842	1.12	42,064	1.36	–	–	741,906	1.13
Total fair value	$ 227,428	0.51 %	$ 919,484	1.14 %	$ 262,491	1.30 %	$ 6,111,178	1.49 %	$ 7,520,581	1.41 %
Total amortized cost	$ 227,385		$ 917,858		$ 261,772		$ 6,060,809		$ 7,467,824	

Held-to-maturity

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Agency Guaranteed	$ –	– %	$ 115	4.43 %	$ –	– %	$ 448,750	3.08 %	$ 448,865	3.08 %
RABs and Other	5,150	5.82	24,223	6.19	15,176	6.12	40,047	5.97	84,596	6.05
Total amortized cost	$ 5,150	5.82 %	$ 24,338	6.18 %	$ 15,176	6.12 %	$ 488,797	3.32 %	$ 533,461	3.55 %
Total fair value	$ 5,300		$ 25,208		$ 16,600		$ 512,847		$ 559,955	

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

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

	September 30, 2016					
	Less than 12 Months		12 Months or Greater		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Treasury Securities	$ 12,500	$ (1)	$ –	$ –	$ 12,500	$ (1)
U.S. Govt. Guaranteed	938,361	(3,478)	505,926	(2,877)	1,444,287	(6,355)
U.S. Govt. Agency Guaranteed	692,106	(3,364)	617,691	(5,325)	1,309,797	(8,689)
Non-Agency ABSs	163,806	(140)	22,365	(18)	186,171	(158)
RABs and Other	3,070	(1)	8,547	(157)	11,617	(158)
Total	$ 1,809,843	$ (6,984)	$ 1,154,529	$ (8,377)	$ 2,964,372	$ (15,361)

	December 31, 2015					
	Less than 12 Months		12 Months or Greater		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Guaranteed	$ 1,110,754	$ (5,606)	$ 449,637	$ (3,592)	$ 1,560,391	$ (9,198)
U.S. Govt. Agency Guaranteed	925,228	(6,849)	478,018	(6,817)	1,403,246	(13,666)
Non-Agency CMOs	753	(2)	121,417	(13,705)	122,170	(13,707)
Non-Agency ABSs	600,067	(955)	2,064	(366)	602,131	(1,321)
RABs and Other	10,644	(614)	3,604	(178)	14,248	(792)
Total	$ 2,647,446	$ (14,026)	$ 1,054,740	$ (24,658)	$ 3,702,186	$ (38,684)

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

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

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

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

Following are the assumptions used for December 31, 2015. Based on the credit reviews discussed above, none of the securities currently in the Bank's portfolio were determined to be other-than-temporarily impaired.

Assumptions Used	MBSs	ABSs
Default rate by range	1.24% to 25.28%	24.03% to 39.76%
Prepayment rate by range	3.11% to 15.56%	2.35% to 10.41%
Loss severity by range	4.37% to 59.66%	86.04% to 100.65%

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

Because the Bank changed its intention to sell its ineligible available-for-sale securities, $14.9 million of credit-related OTTI was recognized for 2016, and is included in Net Other-than-temporary Impairment Losses in the Statements of Income.

For the nine months ended September 30, 2016, net unrealized gains of $3.7 million were recognized in other comprehensive income on available-for-sale investments that are not other-than-temporarily impaired.

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

	For the three months ended September 30,		For the nine months ended September 30,	
(dollars in thousands)	**2016**	**2015**	**2016**	**2015**
Amount related to credit loss-beginning balance	$ 56,943	$ 56,839	$ 56,692	$ 57,459
Additions for initial credit impairments	4,665	–	4,665	–
Additions for subsequent credit impairments	8,552	1,191	10,282	1,404
Reductions for increases in expected cash flows	(335)	(756)	(1,814)	(1,589)
Reductions for securities sold/settled/matured	(69,825)	–	(69,825)	–
Amount related to credit loss-ending balance	–	57,274	–	57,274
Life to date incurred credit losses	–	(20,553)	–	(20,553)
Remaining unrealized credit losses	$ –	$ 36,721	$ –	$ 36,721

For all other impaired investments, the Bank has not recognized any credit losses as the impairments are deemed temporary and result from non-credit related factors. The Bank has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities. Substantially all of these investments were in U.S. government agency securities and the Bank expects these securities would not be settled at a price less than their amortized cost.

Note 4 — Debt

Bonds and Notes

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

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

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

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

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

The following table provides a summary of AgFirst's participation in outstanding Systemwide Debt Securities by maturity. Weighted average interest rates include the effect of related derivative financial instruments.

	September 30, 2016					
(dollars in thousands)	Bonds		Discount Notes		Total	
Maturities	**Amortized Cost**	**Weighted Average Interest Rate**	**Amortized Cost**	**Weighted Average Interest Rate**	**Amortized Cost**	**Weighted Average Interest Rate**
One year or less	$ 4,756,983	0.88%	$ 9,263,871	0.59%	$ 14,020,854	0.69%
Greater than one year to two years	6,922,300	0.78	–	–	6,922,300	0.78
Greater than two years to three years	2,604,224	1.08	–	–	2,604,224	1.08
Greater than three years to four years	1,717,240	1.42	–	–	1,717,240	1.42
Greater than four years to five years	1,356,776	1.53	–	–	1,356,776	1.53
Greater than five years	3,473,689	2.14	–	–	3,473,689	2.14
Total	$ 20,831,212	1.17%	$ 9,263,871	0.59%	$ 30,095,083	0.99%

Discount notes are issued with maturities ranging from 1 to 365 days. The average maturity of discount notes at September 30, 2016 was 148 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.

In April, 2016, the Bank repurchased through a privately negotiated transaction, and subsequently cancelled, Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with a par value of $41.8 million. The effect of the repurchase on shareholders' equity was to reduce preferred stock outstanding by $41.8 million and to increase additional paid-in capital by $11.7 million.

In March, 2016, the Bank repurchased through a privately negotiated transaction, and subsequently cancelled, Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with a par value of $4.0 million. The effect of the repurchase on shareholders' equity was to reduce preferred stock outstanding by $4.0 million and to increase additional paid-in capital by $1.2 million.

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

Accumulated Other Comprehensive Income

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

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

(dollars in thousands)	For the three months ended September 30, 2016	For the three months ended September 30, 2015	For the nine months ended September 30, 2016	For the nine months ended September 30, 2015
Investment Securities:				
Balance at beginning of period	$ 74,529	$ 93,982	$ 64,985	$ 107,647
Other comprehensive income before reclassifications	(11,787)	(4,297)	(3,353)	(17,049)
Amounts reclassified from AOCI	(9,985)	1,191	(8,875)	278
Net current period other comprehensive income	(21,772)	(3,106)	(12,228)	(16,771)
Balance at end of period	$ 52,757	$ 90,876	$ 52,757	$ 90,876
Cash Flow Hedges:				
Balance at beginning of period	$ (894)	$ (816)	$ (957)	$ (548)
Other comprehensive income before reclassifications	(2)	(3)	3	102
Amounts reclassified from AOCI	(83)	(59)	(25)	(432)
Net current period other comprehensive income	(85)	(62)	(22)	(330)
Balance at end of period	$ (979)	$ (878)	$ (979)	$ (878)
Employee Benefit Plans:				
Balance at beginning of period	$ (3,938)	$ (4,951)	$ (4,106)	$ (5,151)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	84	101	252	301
Net current period other comprehensive income	84	101	252	301
Balance at end of period	$ (3,854)	$ (4,850)	$ (3,854)	$ (4,850)
Total Accumulated Other Comprehensive Income:				
Balance at beginning of period	$ 69,697	$ 88,215	$ 59,922	$ 101,948
Other comprehensive income before reclassifications	(11,789)	(4,300)	(3,350)	(16,947)
Amounts reclassified from AOCI	(9,984)	1,233	(8,648)	147
Net current period other comprehensive income	(21,773)	(3,067)	(11,998)	(16,800)
Balance at end of period	$ 47,924	$ 85,148	$ 47,924	$ 85,148

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

(dollars in thousands)	For the three months ended September 30, 2016	For the three months ended September 30, 2015	For the nine months ended September 30, 2016	For the nine months ended September 30, 2015	Income Statement Line Item
Investment Securities:					
Sales gains & losses	$ 23,202	$ –	$ 23,822	$ 1,126	Gains (losses) on investments, net
Holding gains & losses	(13,217)	(1,191)	(14,947)	(1,404)	Net other-than-temporary impairment
Net amounts reclassified	9,985	(1,191)	8,875	(278)	
Cash Flow Hedges:					
Interest income	85	62	22	330	See Note 10.
Gains (losses) on other transactions	(2)	(3)	3	102	See Note 10.
Net amounts reclassified	83	59	25	432	
Employee Benefit Plans:					
Periodic pension costs	(84)	(101)	(252)	(301)	See Note 7.
Net amounts reclassified	(84)	(101)	(252)	(301)	
Total reclassifications for period	$ 9,984	$ (1,233)	$ 8,648	$ (147)	

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

Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

In 2009, the Bank began adjusting the pricing it received for the Non-Agency ABS and CMO securities from the third party pricing service with that obtained from an investment analysis consultant due to the inherent illiquidity and dislocation in the market for these bonds. At that time, these securities were also reclassified and reported as Level 3 fair value measurements because of this market unobservable pricing input. Over time, this valuation input was discontinued because of a reduction in volatilities and risk, as measured by the pricing differences and changes over time, for these bonds. Documentation from the third party pricing service indicates market observable inputs are used in their valuations of these securities. On June 30, 2015, the Non-Agency ABS and CMO bonds were transferred to Level 2 of the fair value hierarchy.

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

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

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

	At or for the Nine Months Ended September 30, 2016					
(dollars in thousands)	**Total Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**	**Fair Value Effects On Earnings**
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. Treasury Securities	$ 242,445	$ –	$ 242,445	$ –	$ 242,445	
U.S. Govt. Guaranteed	4,207,203	–	4,207,203	–	4,207,203	
U.S. Govt. Agency Guaranteed	2,329,027	–	2,329,027	–	2,329,027	
Non-Agency ABSs	741,906	–	741,906	–	741,906	
Total investments available-for-sale	7,520,581	–	7,520,581	–	7,520,581	
Federal funds sold, securities purchased under resale agreements, and other	226,378	–	226,378	–	226,378	
Interest rate swaps and other derivative instruments	629	–	629	–	629	
Assets held in trust funds	10,296	10,296	–	–	10,296	
Recurring Assets	$ 7,757,884	$ 10,296	$ 7,747,588	$ –	$ 7,757,884	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	–	–	–	–	–	
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 44,967	$ –	$ –	$ 44,967	$ 44,967	$ 5,805
Other property owned	4,381	–	–	4,819	4,819	2,150
Nonrecurring Assets	$ 49,348	$ –	$ –	$ 49,786	$ 49,786	$ 7,955
Other Financial Instruments						
Assets:						
Cash	$ 1,379,893	$ 1,379,893	$ –	$ –	$ 1,379,893	
Investments held to maturity	533,461	–	466,917	93,038	559,955	
Loans	22,671,933	–	–	22,934,090	22,934,090	
Other Financial Assets	$ 24,585,287	$ 1,379,893	$ 466,917	$ 23,027,128	$ 24,873,938	
Liabilities:						
Systemwide debt securities	$ 30,095,083	$ –	$ –	$ 30,208,410	$ 30,208,410	
Other Financial Liabilities	$ 30,095,083	$ –	$ –	$ 30,208,410	$ 30,208,410	

	At or for the Year Ended December 31, 2015					
(dollars in thousands)	**Total Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**	**Fair Value Effects On Earnings**
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. Treasury Securities	$ 42,405	$ –	$ 42,405	$ –	$ 42,405	
U.S. Govt. Guaranteed	3,970,590	–	3,970,590	–	3,970,590	
U.S. Govt. Agency Guaranteed	2,131,888	–	2,131,888	–	2,131,888	
Non-Agency CMOs	126,860	–	126,860	–	126,860	
Non-Agency ABSs	677,369	–	677,369	–	677,369	
Total investments available-for-sale	6,949,112	–	6,949,112	–	6,949,112	
Federal funds sold, securities purchased under resale agreements, and other	211,554	–	211,554	–	211,554	
Interest rate swaps and other derivative instruments	5,174	–	5,174	–	5,174	
Assets held in trust funds	8,697	8,697	–	–	8,697	
Recurring Assets	$ 7,174,537	$ 8,697	$ 7,165,840	$ –	$ 7,174,537	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	–	–	–	–	–	
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 40,871	$ –	$ –	$ 40,871	$ 40,871	$ 5,337
Other property owned	13,411	–	–	15,180	15,180	(318)
Nonrecurring Assets	$ 54,282	$ –	$ –	$ 56,051	$ 56,051	$ 5,019
Other Financial Instruments						
Assets:						
Cash	$ 461,068	$ 461,068	$ –	$ –	$ 461,068	
Investments held to maturity	562,698	–	473,986	102,778	576,764	
Loans	22,084,774	–	–	22,029,490	22,029,490	
Other Financial Assets	$ 23,108,540	$ 461,068	$ 473,986	$ 22,132,268	$ 23,067,322	
Liabilities:						
Systemwide debt securities	$ 27,973,107	$ –	$ –	$ 27,956,673	$ 27,956,673	
Other Financial Liabilities	$ 27,973,107	$ –	$ –	$ 27,956,673	$ 27,956,673	

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

Investment Securities

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

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

Derivative Instruments

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

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

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

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Forward contracts – when-issued securities	$ –	Broker/Consensus pricing	Offered quotes	None outstanding
Impaired loans and other property owned	$ 49,786	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

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

Information about Other Financial Instrument Fair Value Measurements

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

Note 7 — Employee Benefit Plans

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

	For the three months ended September 30,		For the nine months ended September 30,	
(dollars in thousands)	2016	2015	2016	2015
Pension	$ 2,255	$ 2,270	$ 6,765	$ 6,811
401k	656	581	1,900	1,798
Other postretirement benefits	356	450	1,069	1,347
Total	$ 3,267	$ 3,301	$ 9,734	$ 9,956

Following are retirement and other postretirement benefit contributions for the Bank. Projections are based upon actuarially determined amounts as of the most recent measurement date of December 31, 2015.

(dollars in thousands)	Actual YTD Through 9/30/16	Projected Contributions for Remainder of 2016	Projected Total Contributions 2016
Pensions	$ 433	$ 4,477	$ 4,910
Other postretirement benefits	719	249	968
Total	$ 1,152	$ 4,726	$ 5,878

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Bank participates. These amounts may change when a total funding amount and allocation is determined by the respective Plans' Sponsor Committees. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2016.

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

Note 8 — Commitments and Contingencies

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

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

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

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

(dollars in billions)	**9/30/16**	**12/31/15**
Total System bonds and notes	$ 251.992	$ 243.335
AgFirst bonds and notes	$ 30.095	$ 27.973

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

Note 9 — Additional Financial Information

Offsetting of Financial and Derivative Assets

	September 30, 2016					
				Gross Amounts Not Offset in the Balance Sheets		
(dollars in thousands)	**Gross Amounts of Recognized Assets**	**Gross Amounts Offset in the Balance Sheets**	**Net Amounts of Assets Presented in the Balance Sheets**	**Financial Instruments**	**Cash Collateral Received**	**Net Amount**
Derivatives	$ 629	$ –	$ 629	$ –	$ –	$ 629
Reverse repurchase and similar arrangements	226,378	–	226,378	(226,378)	–	–
Total	$ 227,007	$ –	$ 227,007	$ (226,378)	$ –	$ 629

	December 31, 2015					
				Gross Amounts Not Offset in the Balance Sheets		
(dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets Presented in the Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	$ 5,174	$ –	$ 5,174	$ –	$ –	$ 5,174
Reverse repurchase and similar arrangements	211,554	–	211,554	(211,554)	–	–
Total	$ 216,728	$ –	$ 216,728	$ (211,554)	$ –	$ 5,174

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

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

The reverse repurchase agreements are accounted for as collateralized lending.

Combined ACA Only Financial Data (Unaudited)
Condensed financial information for the combined District Associations follows. All significant transactions and balances between the Associations are eliminated in combination.

Combined financial statements of the District Associations and the Bank are included in the AgFirst Farm Credit Bank and District Associations' Third Quarter 2016 Report and 2015 Annual Report. Eliminations for all significant transactions and balances between the Bank and the District Associations are reflected in the combined financial statements included in that report. In addition, the multiemployer structure of certain of the District's retirement and benefit plans results in the recording of these plans only in the District's combined financial statements.

Balance Sheet *(dollars in thousands)*	September 30, 2016	December 31 2015
Cash and investment securities	$ 108,654	$ 155,625
Loans	19,773,053	18,934,719
Allowance for loan losses	(166,828)	(163,504)
Net loans	19,606,225	18,771,215
Other assets	867,676	979,153
Total assets	$ 20,582,555	$ 19,905,993
Direct note	$ 15,975,887	$ 15,340,972
Other liabilities	345,541	511,010
Total liabilities	16,321,428	15,851,982
Capital stock and participation certificates	200,097	192,467
Additional paid-in-capital	23,691	23,691
Retained earnings	4,065,457	3,868,053
Accumulated other comprehensive income (loss)	(28,118)	(30,200)
Total shareholders' equity	4,261,127	4,054,011
Total liabilities and shareholders' equity	$ 20,582,555	$ 19,905,993

Statements of Income *(dollars in thousands)*	**For the nine months ended September 30,** 2016	2015
Interest income	$ 714,126	$ 667,127
Interest expense	290,797	259,611
Net interest income	423,329	407,516
Provision for (reversal of allowance for) loan losses	2,333	4,054
Net interest income after provision for (reversal of allowance for) loan losses	420,996	403,462
Noninterest income	139,067	130,068
Noninterest expenses		
Salaries and employee benefits	197,979	196,055
Occupancy and equipment	14,957	14,639
Insurance Fund premiums	17,751	12,900
Other operating expenses	57,751	56,449
Losses (gains) from other property owned	1,841	699
Total noninterest expenses	290,279	280,742
Income (loss) before taxes	269,784	252,788
Provision for income taxes	328	849
Net income	$ 269,456	$ 251,939

Note 10 — Derivative Financial Instruments and Hedging Activities

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

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

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

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

	For the Nine Months Ended September 30,			
	2016		**2015**	
Notional Amounts *(dollars in millions)*	**Receive-Fixed Swaps**	**Forward Contracts**	**Receive-Fixed Swaps**	**Forward Contracts**
Balance at beginning of period	$ 150	$ –	$ 250	$ 1
Additions	–	1	–	4
Maturities/amortization	(100)	(1)	–	(5)
Terminations	–	–	–	–
Balance at end of period	$ 50	$ –	$ 250	$ –

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

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

Counterparty exposure related to derivatives at:

(dollars in millions)	**September 30, 2016**	**December 31, 2015**
Estimated Gross Credit Risk	$0.6	$5.2
Percent of Notional	1.26%	3.45%
Cash Collateral Held *(on balance sheet)*	$–	$–
Securities Collateral Held *(off balance sheet)*	$–	$–
Cash Collateral Posted *(off balance sheet)*	$–	$–
Securities Collateral Posted *(on balance sheet)*	$–	$–

The Bank's derivative activities are monitored by its Asset-Liability Management Committee (ALCO) as part of the Committee's oversight of the Bank's asset/liability and treasury functions. The ALCO is responsible for approving hedging strategies that are developed within parameters established by the Bank's Board of Directors through the analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the Bank's overall interest rate risk-management strategies.

Fair Value Hedges

For derivative instruments designated as fair value hedges, the gains or losses on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings. The Bank includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. The amount of the loss on interest rate swaps recognized in interest expense for the nine months ended September 30, 2016 was $4.5 million, while the amount of the gain on the Systemwide Debt Securities was $4.5 million. The amount of the loss on interest rate swaps recognized in interest expense for the nine months ended September 30, 2015 was $8.0 million, while the amount of the gain on the Systemwide Debt Securities was $8.0 million. Gains and losses on each derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Cash Flow Hedges

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

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

Fair Values of Derivative Instruments

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

(dollars in thousands)	Balance Sheet Classification – Assets	9/30/16 Fair Value	Balance Sheet Classification – Liabilities	9/30/16 Fair Value
Receive-fixed swaps	Other Assets	$ 629	Other Liabilities	$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		$ 629		$ –

(dollars in thousands)	Balance Sheet Classification – Assets	12/31/15 Fair Value	Balance Sheet Classification – Liabilities	12/31/15 Fair Value
Receive-fixed swaps	Other Assets	$ 5,174	Other Liabilities	$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		$ 5,174		$ –

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

(dollars in thousands)	Location of Gain or (Loss) Recognized in, or Reclassified from AOCI into, Income	Amount of Gain or (Loss) Recognized in, or Reclassified from AOCI into, Income *		Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)		Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	
		2016	2015	2016	2015	2016	2015
Fair Value Hedges:							
Receive-fixed swaps	Noninterest income	$ –	$ –				
Cash Flow Hedges:							
Firm Commitments	Interest Income	$ 22	$ 330	$ –	$ –	$ –	$ –
Forward Contracts	Gains (Losses) on Other Transactions	3	102	–	–	3	102

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

Note 11 — Subsequent Events

The Bank evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through November 8, 2016, which was the date the financial statements were issued.

On October 17, 2016, the Bank's Board of Directors declared a special patronage distribution totaling $100.0 million to be paid January 1, 2017.