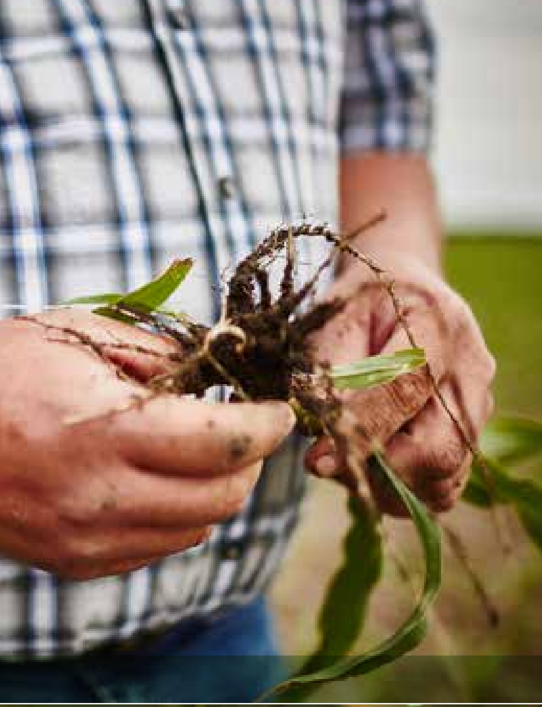
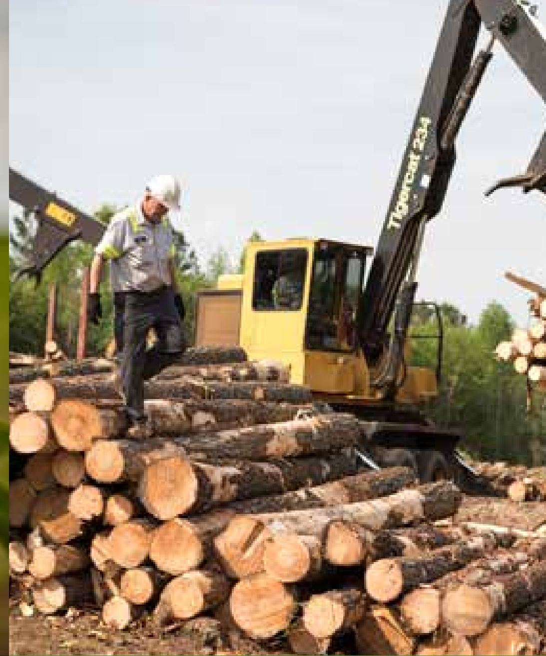
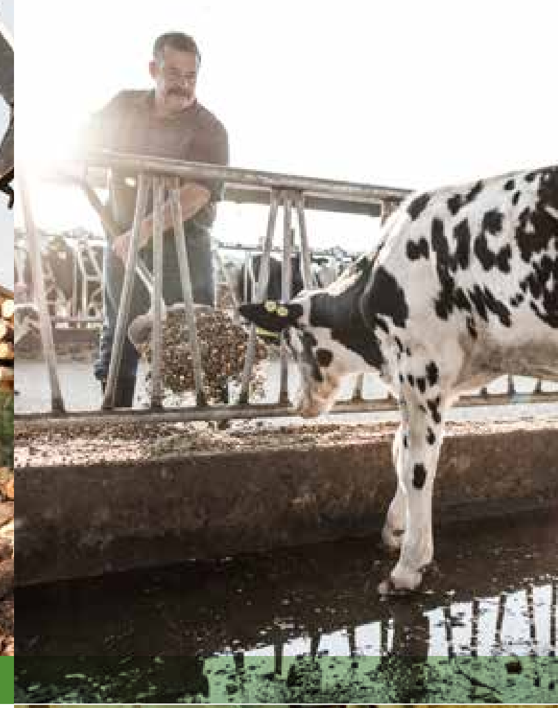
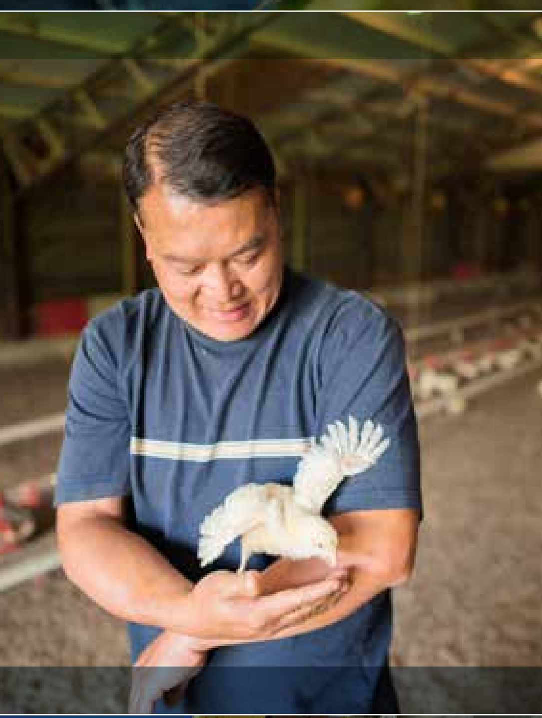
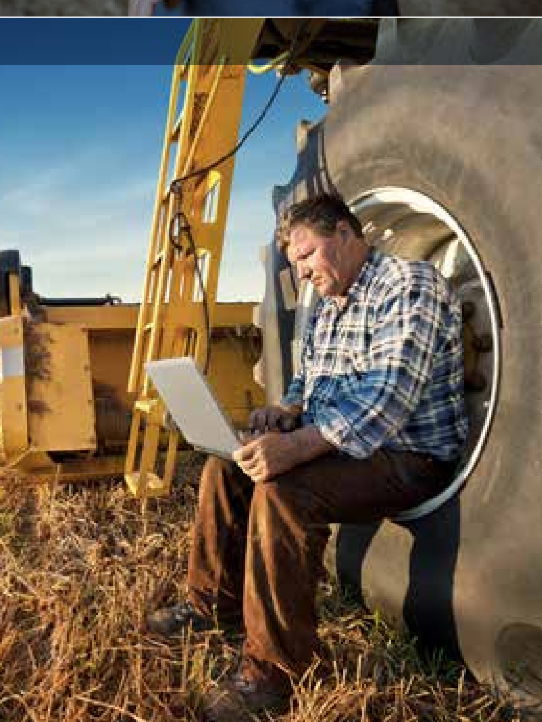
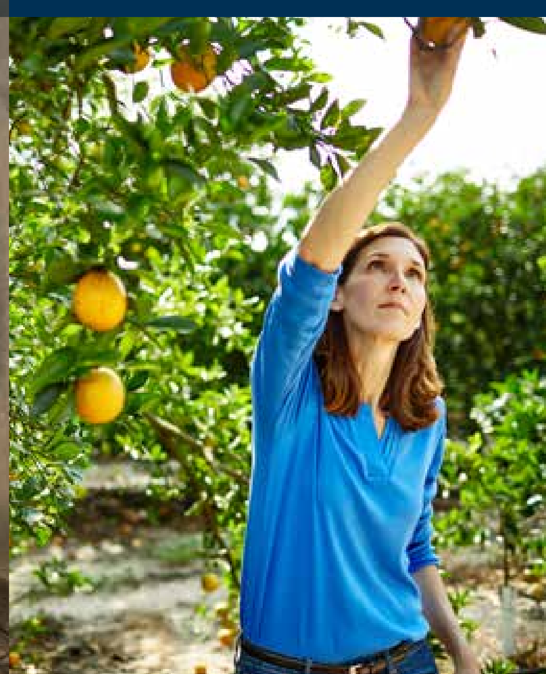
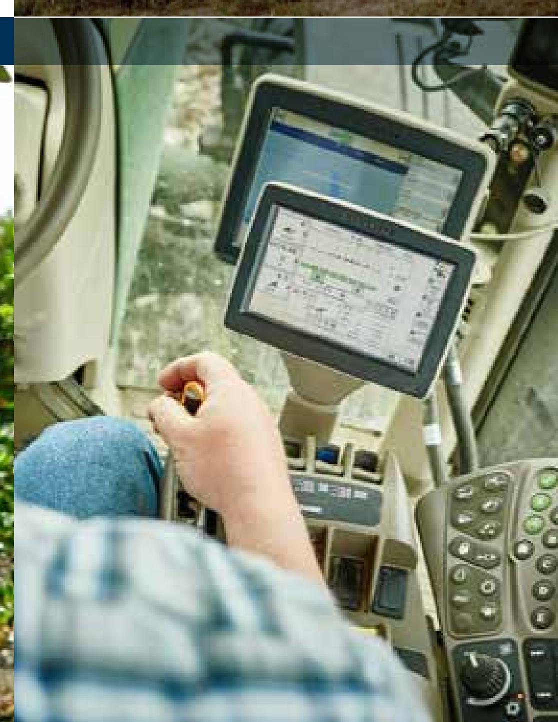



2018 FIRST QUARTER REPORT

AGFIRST
FARM CREDIT BANK

FIRST QUARTER 2018

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2018 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.

Curtis R. Hancock, Jr.
Chairman of the Board

Leon T. Amerson
Chief Executive Officer & President

Stephen Gilbert
Chief Financial Officer

May 9, 2018

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 March 31, 2018. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Bank's management concluded that as of March 31, 2018, 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 March 31, 2018.

Leon T. Amerson
Chief Executive Officer & President

Stephen Gilbert
Chief Financial Officer

May 9, 2018

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 month period ended March 31, 2018. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Financial Statements, and the 2017 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, results of operations for the three months may not 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 (including trade and tax policies), legal, regulatory, financial markets, and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural infrastructure, international, and farm-related business sectors, as well as in the general economy;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income of District borrowers;
- changes in United States government support of the agricultural industry and the Farm Credit System (System) as a government-sponsored enterprise (GSE), as well as investor and rating agency reactions to events involving the U.S. government, other GSEs and other financial institutions;
- actions taken by the Federal Reserve System in implementing monetary and fiscal policy, as well as other policies and actions of the federal government that impact the financial services industry and the debt markets;
- credit, interest rate and liquidity risk inherent in lending activities; and
- changes in the Bank's 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)*	**March 31, 2018**		**December 31, 2017**		**March 31, 2017**	
Direct Notes*	$ 15,314,932	67.10%	$ 15,838,709	67.81%	$ 14,875,442	66.56%
Capital Markets*	4,222,510	18.50	4,289,545	18.36	4,424,870	19.80
Correspondent Lending	3,148,987	13.80	3,099,334	13.27	2,926,256	13.09
Loans to OFIs	136,122	0.60	131,572	0.56	123,023	0.55
Total	$ 22,822,551	100.00%	$ 23,359,160	100.00%	$ 22,349,591	100.00%

**Net of participations sold.*

Total loans outstanding were $22.823 billion at March 31, 2018, a decrease of $536.6 million, or 2.30 percent, compared to total loans outstanding at December 31, 2017 and an increase of $473.0 million, or 2.12 percent, since March 31, 2017. Excluding Bank patronage payments to Associations of approximately $296.6 million which were applied to the Association Direct Notes at the beginning of 2018, loan volume at March 31, 2018 decreased 1.03 percent compared to 2017 year-end. Loan volume since year-end 2017 was negatively impacted by fewer capital markets transactions and a decrease in Direct Notes resulting from patronage paid as discussed above. The seasonal nature of Association lending activity also contributed to the decrease as borrowers typically pay down loans during the first quarter using proceeds from crop sales. Declines in the grains, timber, and swine segments were partially offset by increases in the rural home loan, nursery/greenhouse, and farm-related business segments. Compared to March 31, 2017, Bank loan demand increased due to improving economic conditions positively impacting borrowers in economically sensitive segments. Moderate demand in the rural home loans, poultry, and field crops segments contributed to the increase in loan volume compared to March 31, 2017. Fewer capital markets transactions coming to market and several large unscheduled payoffs and paydowns contributed to the lower capital markets volume in 2018 compared to March 31, 2017. Future Bank loan demand is difficult to predict; however, moderate growth is expected in 2018.

Credit Quality

Credit quality of AgFirst's loans is shown below:

	Total Loan Portfolio Credit Quality as of:		
Classification	**March 31, 2018**	**December 31, 2017**	**March 31, 2017**
Acceptable	99.67%	99.60%	99.02%
OAEM *	0.12%	0.15%	0.51%
Adverse **	0.21%	0.25%	0.47%

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

Continued improvement in the general economy has resulted in strong credit quality for the Bank. Credit quality reflected in the table above is primarily influenced by credit quality of the Direct Notes which is discussed in the *Direct Notes* section below. District credit quality is expected to slightly deteriorate in 2018 given expected reduced farm income in certain sectors of the portfolio.

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 March 31, 2018, the total Direct Note volume outstanding was $15.315 billion, a decrease of $523.8 million, or 3.31 percent, compared to December 31, 2017. Excluding Bank patronage payments of approximately $296.6 million referenced in the *Loan Portfolio* section above, Direct Note volume decreased 1.43 percent when compared to 2017 year-end. See the *Loan Portfolio* section above for the primary reasons for the change in the Direct Note volume from December 2017 to March 2018.

All Associations were classified as acceptable at March 31, 2018, December 31, 2017, and March 31, 2017. 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. Virtually 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 March 31, 2018, no District Associations were operating under a written agreement with the FCA, and all District Associations were in compliance with GFA covenants.

Capital Markets

The Capital Markets portfolio consists primarily of loan participations and syndications. As of March 31, 2018, this portfolio totaled $4.223 billion, a decrease of $67.0 million, or 1.56 percent, from December 31, 2017. As discussed in the *Loan Portfolio* section above, the decrease is primarily due to fewer capital markets transactions coming to market.

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	**March 31, 2018**	**December 31, 2017**	**March 31, 2017**
Acceptable	98.41%	97.98%	95.17%
OAEM*	0.63%	0.82%	2.57%
Adverse**	0.96%	1.20%	2.26%

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

Favorable credit quality in the participations/syndications portfolio reflects improvement in general economic conditions.

Correspondent Lending

The Correspondent Lending portfolio consists primarily of first lien residential mortgages. As of March 31, 2018, the Correspondent Lending portfolio totaled $3.149 billion, an increase of $49.7 million, or 1.60 percent, from December 31, 2018.

As of March 31, 2018, $1.415 billion, or 44.93 percent, of loans in the Correspondent Lending portfolio were guaranteed and $1.734 billion, or 55.07 percent, were non-guaranteed. The guarantees from the Federal National Mortgage Association (Fannie Mae) and/or Federal Agricultural Mortgage Corporation (Farmer Mac) 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. Non-guaranteed loans are reflected in the Bank's allowance for loan losses methodology related to this portfolio.

At March 31, 2018, 99.75 percent of the Correspondent Lending portfolio was classified as acceptable and 0.25 percent was classified as substandard.

Rural home loans, combined with Rural Home Mortgage-backed Securities, are limited to 15.00 percent of the three-month average daily balance of total loans outstanding. Based on March 31, 2018 levels, the Bank has unused capacity of $14.2 million under a total limit of $3.496 billion. The Bank monitors and manages the rural home asset level within the regulatory limit. See Note 3, *Investments*, in the Notes to the Financial Statements for further discussion of Rural Home Mortgage-backed 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 $29.8 million at March 31, 2018, an increase of 39.86 percent compared to $21.3 million at December 31, 2017. The increase of $8.5 million resulted from $10.4 million of loan balances transferred to nonaccrual status, primarily one loan relationship in the field crops segment totaling $7.4 million. This increase was partially offset by $649 thousand of repayments and $946 thousand of Correspondent Lending loans sold to guarantors (see *Correspondent Lending* section above). At March 31, 2018, total nonaccrual loans were primarily classified in the rural home loan (46.58 percent of the total), field crops (31.94 percent), and forestry (20.30 percent) segments. Nonaccrual loans were 0.13 percent of total loans outstanding at March 31, 2018 and 0.09 percent at December 31, 2017.

Troubled Debt Restructurings

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank 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 increased $396 thousand since December 31, 2017 and totaled $25.4 million at March 31, 2018. TDRs at March 31, 2018 were comprised of $15.8 million of accruing restructured loans and $9.7 million of nonaccrual restructured loans. Restructured loans were primarily in the nursery/greenhouse (34.80 percent of the total), forestry (23.94 percent), and rural home loan (17.60 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 increased $115 thousand since December 31, 2017 and totaled $269 thousand at March 31, 2018 due to the transfer of one rural home property to OPO. At March 31, 2018, the OPO balance consisted of three rural home holdings.

Allowance for Loan Losses

The Bank maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan portfolio as of each reported balance sheet date. The allowance for loan losses was $15.8 million at March 31, 2018, as compared with $14.4 million at December 31, 2017. The allowance at March 31, 2018 included specific reserves of $2.6 million (16.54 percent of the total) and general reserves of $13.2 million (83.46 percent). The increase of $1.4 million from December 31, 2017 to March 31, 2018 resulted primarily from provision expense recorded related to one loan relationship in the field crops segment. See *Provision for Loan Losses* section below for additional details regarding loan loss provision expense and reversals. The general reserves at March 31, 2018 included $3.6 million of allowance provided by the Bank for non-guaranteed loans in the Correspondent Lending portfolio. See further discussion in the *Correspondent Lending* section above. None of the allowance relates to the Direct Note portfolio. See further discussion in the *Direct Notes* section above. The total allowance at March 31, 2018 was comprised primarily of reserves for the rural home loan (25.87 percent of the total), field crops (15.95 percent), other (13.69 percent), utilities (11.18 percent), processing (7.20 percent), and forestry (6.37 percent) segments. The allowance for loan losses was 0.07 percent and 0.06 percent of total loans outstanding at March 31, 2018 and December 31, 2017, respectively. See Note 2*, Loans and Allowance for Loan Losses,* in the Notes to the Financial Statements for further information.

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 securities repurchase agreement facilities. In addition, the System has established lines of credit in the event contingency funding is needed to meet obligations of System banks.

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

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

The System does not have a guaranteed line of credit from the U.S. Treasury or the Federal Reserve. However, the Farm Credit System Insurance Corporation (FCSIC) has an agreement with the Federal Financing Bank (FFB), a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the FFB could advance funds to the FCSIC. Under its existing statutory authority, the FCSIC may use these funds to provide assistance to the System banks in exigent market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to $10 billion and terminates on September 30, 2018, unless otherwise renewed. The decision whether to seek funds from the FFB is at the discretion of the FCSIC. Each funding obligation of the FFB is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by AgFirst or the System.

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

At March 31, 2018, AgFirst had $29.540 billion in total debt outstanding compared to $29.763 billion at December 31, 2017, a decrease of $223.5 million, or 0.75 percent. Debt decreased primarily due to lower balances of loans and investment securities as discussed elsewhere in this report.

Cash and cash equivalents, which increased $225.0 million from December 31, 2017 to a total of $938.3 million at March 31, 2018, consist primarily of cash on deposit and money market securities that are short-term in nature (from overnight maturities to maturities that range up to 90 days). Incremental movements in cash balances between reporting periods are due primarily to changes in liquidity needs in relation to upcoming debt maturities.

Investments in debt securities, which are primarily classified as being available-for-sale, totaled $7.920 billion, or 24.78 percent of total assets at March 31, 2018, compared to $8.122 billion, or 25.00 percent, as of December 31, 2017, a decrease of $202.3 million, or 2.49 percent. Management maintains the available-for-sale liquidity investment portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines which provide that a System bank may hold certain eligible available-for-sale investments in an amount not to exceed 35.00 percent of its total loans outstanding. Based upon FCA guidelines, at March 31, 2018, the Bank's eligible available-for-sale investments were 33.90 percent of the total loans outstanding.

Investments in debt securities classified as being available-for-sale totaled $7.476 billion at March 31, 2018. Available-for-sale investments at March 31, 2018 included $440.5 million in U.S. Treasury securities, $4.511 billion in U.S. government guaranteed securities, $1.935 billion in U.S. government agency guaranteed securities, and $589.3 million in non-agency asset-backed securities. Since the majority of the portfolio is invested in U.S. government guaranteed and agency securities, the portfolio is highly liquid and potential credit loss exposure is limited.

As of March 31, 2018, AgFirst exceeded all applicable regulatory liquidity requirements. FCA regulations require that the Bank have a liquidity policy that establishes a minimum total "coverage" level of 90 days and that short-term liquidity requirements must be met by certain high quality investments or cash. "Coverage" is defined as the number of days that maturing debt could be funded with eligible cash, cash equivalents, and available-for-sale investments maintained by the Bank.

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

At March 31, 2018, AgFirst met each of the individual level criteria above and had a total of 211 days of maturing debt coverage compared to 207 days at December 31, 2017. The increase resulted from a change in the timing of upcoming debt maturities. Cash provided by the Bank's operating activities is an additional source of liquidity for the Bank that is not reflected in the coverage calculation.

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

Capital Resources

Total shareholders' equity increased $38.8 million, or 1.73 percent, from December 31, 2017 to $2.282 billion at March 31, 2018. This increase is primarily attributed to 2018 unallocated retained earnings from net income of $79.2 million, partially offset by $37.0 million in unrealized losses on investments primarily due to an increase in interest rates lowering the fair value of existing available-for-sale fixed-rate investment securities.

Regulatory Capital Ratios

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

	Regulatory Minimum, Including Buffer*	3/31/18	12/31/17	3/31/17
Permanent Capital Ratio	7.00%	20.30%	22.21%	19.90%
Common Equity Tier 1 (CET1) Capital Ratio	7.00%	19.83%	21.73%	19.43%
Tier 1 Capital Ratio	8.50%	20.28%	22.18%	19.87%
Total Capital Ratio	10.50%	20.41%	22.31%	20.01%
Tier 1 Leverage Ratio	5.00%	7.08%	7.67%	7.06%
Unallocated Retained Earnings (URE) and URE Equivalents Leverage Ratio	1.50%	6.09%	6.72%	6.09%

**Includes fully phased-in capital conservation buffers which will be effective January 1, 2020.*

The FCA sets minimum regulatory capital adequacy requirements for System banks and associations. The requirements are based on regulatory ratios as defined by the FCA and include common equity tier 1 (CET1), tier 1, total capital, permanent capital, tier 1 leverage, and unallocated retained earnings (URE) and URE equivalents leverage ratios.

The permanent capital, CET1, tier 1, and total capital ratios are calculated by dividing the three-month average daily balance of the capital numerator, as defined by the FCA, by a risk-adjusted asset base. Unlike these ratios, the tier 1 leverage and URE and URE equivalents leverage ratios do not incorporate any risk-adjusted weighting of assets. 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. The tier 1 leverage and URE and URE equivalents leverage ratios are calculated by dividing the three-month average daily balance of the capital numerator, as defined by the FCA, by the three-month average daily balance of total assets adjusted for regulatory deductions.

For all periods presented, AgFirst exceeded minimum regulatory standards for all of the ratios. The Bank's capital ratios declined at March 31, 2018 compared to December 31, 2017. Because these ratios are calculated using a three-month average daily balance for both capital and assets, total Bank declared patronage of $312.5 million in 2017, which represented approximately 90.63 percent of 2017 net income and was accrued at the end of 2017, was fully reflected in the ratios at March 31, 2018. Compared to March 31, 2017, the Bank's capital ratios improved due to higher average capital levels in the 2018 period. See *Regulatory Matters* section below for further discussion of capital ratios.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2018 was $79.2 million compared to $82.9 million for the three months ended March 31, 2017, a decrease of $3.8 million, or 4.54 percent. See below for further discussion of the change in net income by major components.

Key Results of Operations Comparisons

	Annualized for the three months ended March 31, 2018	For the year ended December 31, 2017	Annualized for the three months ended March 31, 2017
Return on average assets	1.01%	1.09%	1.07%
Return on average shareholders' equity	14.18%	14.36%	14.82%
Net interest margin	1.34%	1.44%	1.47%
Operating expense as a percentage of net interest income and noninterest income	29.56%	26.72%	27.54%
Net (charge-offs) recoveries to average loans	0.00%	0.00%	0.00%

The annualized return on average assets and return on average shareholders' equity ratios declined for the first quarter of 2018 compared to the same period in 2017 and to the year ended December 31, 2017 due primarily to lower annualized net income. The lower net interest margin ratio in the first quarter of 2018 compared to both prior periods presented was due primarily to lower net interest income resulting from higher debt costs in the 2018 period. For the operating expense as a percentage of net interest income and noninterest income ratio, operating expense consists primarily of noninterest expenses excluding losses (gains) from other property owned. This ratio was negatively impacted by an increase in operating expenses and a decrease in net interest income for the first quarter of 2018 compared to both prior periods. The net (charge-offs) recoveries to average loans ratio remained constant for all periods presented due to minimal net (charge-offs) recoveries. 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 March 31, 2018 was $102.6 million compared to $110.7 million for the same period of 2017, a decrease of $8.1 million or 7.31 percent. The net interest margin, which is net interest income as a percentage of average earning assets, was 1.34 percent, a decrease of 13 basis points for the first quarter of 2018 compared to the same period in the prior year. The decrease in net interest income resulted from higher rates paid on interest-bearing liabilities which more than offset the positive impact of higher yields and higher average balances for interest-earning assets.

No debt was called during the three months ended March 31, 2018. The Bank called debt totaling $500.0 million for the same period in the prior year, and was able to lower the cost of funds. Over time, as interest rates change and as assets prepay or reprice, the positive impact on the net interest margin that the Bank has experienced over the last several years from calling debt will continue to diminish.

The effects of changes in volume and interest rates on net interest income for the three months ended March 31, 2018, as compared with the corresponding period in 2017, are presented in the following table. The table distinguishes between the changes in interest income and interest expense related to average outstanding balances and to the levels of average interest rates. Accordingly, the benefit derived from funding earning assets with interest-free funds (principally capital) is reflected solely as a volume increase.

	For the three months ended March 31, 2018 vs. March 31, 2017		
	Increase (decrease) due to changes in:		
(dollars in thousands)	**Volume**	**Rate**	**Total**
Interest Income:			
Loans	$ 3,691	$ 15,649	$ 19,340
Investments & Cash Equivalents	479	9,694	10,173
Total Interest Income	4,170	25,343	29,513
Interest Expense:			
Interest-Bearing Liabilities	2,215	35,388	37,603
Changes in Net Interest Income	$ 1,955	$ (10,045)	$ (8,090)

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 reserves for loan losses are maintained. Loan loss provision was a net expense of $1.4 million for the three months ended March 31, 2018 compared to a net expense of $609 thousand for the corresponding period in 2017. For the three months ended March 31, 2018, the provision for loan losses included net provision expense of $1.9 million for specific reserves and net provision reversals of $499 thousand for general reserves. Both the provision expense for specific reserves and provision reversal for general reserves for the 2018 period were primarily driven by one loan relationship in the field crops segment which was transferred to nonaccrual in the first quarter of 2018. Total net provision expense for the three months ended March 31, 2018 primarily related to borrowers in the field crops ($1.1 million expense), other ($325 thousand expense), rural home loan ($208 thousand expense), and forestry ($220 thousand reversal) segments. For the three months ended March 31, 2017, the provision for loan losses included net provision reversals of $56 thousand for specific reserves and net provision expense of $665 thousand for general reserves. The total provision expense for the three months ended March 31, 2017 related primarily to borrowers in the field crops ($499 thousand expense), rural home loan ($228 thousand expense), nursery/greenhouse ($197 thousand expense), forestry ($244 thousand reversal), and utilities ($227 thousand reversal) segments. 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 March 31,**		
(dollars in thousands)	**2018**	**2017**	**Increase/ (Decrease)**
Loan fees	$ 1,933	$ 2,188	$ (255)
Building lease income	845	915	(70)
Gains (losses) on called debt	–	(440)	440
Gains (losses) on other transactions	619	220	399
Insurance premium refund	6,330	–	6,330
Other noninterest income	2,142	1,796	346
Total noninterest income	$ 11,869	$ 4,679	$ 7,190

For the three months ended March 31, 2018 compared to the corresponding period in 2017, noninterest income increased $7.2 million. The increase was primarily due to an insurance premium refund of $6.3 million from the Farm Credit Insurance Corporation (FCSIC) which insures the System's debt obligations. This refund is nonrecurring and resulted from the assets of the FCSIC exceeding the secure base amount as defined by the Farm Credit Act. As mentioned above, no debt has been called in 2018, resulting in a $440 thousand favorable variance compared to prior year. There were no other significant line item dollar variances for the three month period ended March 31, 2018 compared to the corresponding period in 2017.

Noninterest Expenses

The following table illustrates the changes in noninterest expenses:

Change in Noninterest Expenses	**For the three months ended March 31,**		
(dollars in thousands)	**2018**	**2017**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 16,222	$ 14,693	$ 1,529
Occupancy and equipment	5,756	5,425	331
Insurance Fund premiums	2,210	3,355	(1,145)
Other operating expenses	9,648	8,307	1,341
Losses (gains) from other property owned	57	60	(3)
Total noninterest expenses	$ 33,893	$ 31,840	$ 2,053

Noninterest expenses for the three months ended March 31, 2018 increased $2.1 million compared to the corresponding period in 2017. The increase resulted primarily from increases in salaries and employee benefits and other operating expenses partially offset by lower insurance fund premiums. Significant line item dollar variances are discussed below.

Salaries and employee benefits increased $1.5 million for the first three months of 2018 compared to the same period in 2017. This increase resulted primarily from a $1.1 million increase in salaries and incentives due to normal salary administration and a $293 thousand increase in pension expense which was primarily due to a decrease in the discount rate used to calculate net periodic pension costs.

Insurance Fund premiums decreased $1.1 million for the three months ended March 31, 2018 compared to the same period in 2017. This decrease resulted primarily from a decrease in the base annual premium rate to 9 basis points in 2018 from 15 basis points in the first quarter of 2017. The FCSIC Board makes premium rate adjustments, as necessary, to maintain their secure base amount which is based upon insured debt outstanding at System banks.

Other operating expenses increased $1.3 million for the first quarter of 2018 compared to the first quarter of 2017. The increase was primarily due to a $750 thousand increase in consultant and professional fees predominantly related to technology initiatives. Also contributing to the increase compared to prior year was a recovery of nonaccrual costs, primarily legal fees and property taxes, of $522 thousand in 2017.

REGULATORY MATTERS

Capital

The following quantitative disclosures contain regulatory disclosures as required for the Bank under Regulation 628.62 and 628.63 for risk-adjusted ratios: common equity tier 1, tier 1 capital and total capital ratios. As required, these disclosures are made available for at least three years and can be accessed via AgFirst's website at www.agfirst.com.

SCOPE OF APPLICATION

AgFirst Farm Credit Bank (AgFirst or the Bank) is one of the four banks of the Farm Credit System (System), a nationwide system of cooperatively owned Banks and Associations, established by Congress and subject to the provisions of the Farm Credit Act of 1971, as amended. The Bank prepares financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the financial services industry.

As of March 31, 2018, the AgFirst District consisted of the Bank and 19 District Associations. All 19 were structured as Agricultural Credit Association (ACA) holding companies, with Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries. AgFirst is owned by these 19 Associations. The Bank does not have any subsidiaries requiring consolidation; therefore, there are no consolidated entities for which the total capital requirement is deducted, there are no restrictions on transfer of funds or total capital with other consolidated entities and no subsidiary exists which is below the minimum total capital requirement individually or when aggregated at the Bank's level. In conjunction with other System entities, the Bank jointly owns certain service organizations: the Federal Farm Credit Banks Funding Corporation (Funding Corporation), the FCS Building Association (FCSBA), and the Farm Credit Association Captive Insurance Corporation (Captive). Certain of the Bank's investments in other System institutions, including the investment in the Funding Corporation and FCSBA, are deducted from capital as only the institution that issued the equities may count the amount as capital.

CAPITAL STRUCTURE

The table below outlines the Bank's capital structure for the capital adequacy calculations as of March 31, 2018:

(dollars in thousands)	3-Month Average Daily Balance
Common Equity Tier 1 Capital (CET1)	
Common Cooperative Equities:	
Statutory minimum purchased borrower stock	$ 23
Other required member purchased stock	128,560
Allocated equities:	
Qualified allocated equities subject to retirement	184,928
Nonqualified allocated equities subject to retirement	492
Nonqualified allocated equities not subject to retirement	–
Unallocated retained earnings	1,891,584
Paid-in capital	58,883
Regulatory adjustments and deductions made to CET1*	(68,955)
Total CET1	$ 2,195,515
Additional Tier 1 Capital (AT1)	
Non-cumulative perpetual preferred stock	$ 49,250
Regulatory adjustments and deductions made to AT1	–
Total AT1	$ 49,250
Total Tier 1 Capital	$ 2,244,765
Tier 2 Capital	
Allowance for Loan Losses	$ 14,392
Reserve for unfunded commitments	449
Regulatory adjustments and deductions made to total capital	–
Total Tier 2 Capital	$ 14,841
Total Capital	$ 2,259,606

**Primarily investments in other System institutions.*

CAPITAL ADEQUACY AND CAPITAL BUFFERS

The table below outlines the Bank's risk-weighted assets by exposure (including accrued interest of that exposure) as of March 31, 2018:

(dollars in thousands)	Risk-Weighted Assets
Exposures to:	
Government-sponsored entities, including Direct Notes to Associations	$ 3,828,941
Depository institutions	3,201
Corporate exposures, including borrower loans and leases	4,574,015
Residential mortgage loans	805,490
Past due > 90 days and nonaccrual loans	26,703
Securitizations	177,882
Equity investments	25,395
Exposures to obligors and other assets	114,557
Off-balance sheet exposures	1,514,242
Total risk-weighted assets	$ 11,070,426

As of March 31, 2018, the Bank was well-capitalized and exceeded all capital requirements to which it was subject, including applicable capital buffers. The Bank's capital conservation buffer was a minimum of 11.16 percent in excess of its risk-adjusted asset required minimum capital ratios. Additionally, the Bank's leverage ratio was 2.08 percent in excess of its required minimum leverage ratio, including the buffer. If the capital ratios fall below the minimum regulatory requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. The aggregate amount of eligible retained income was $26.6 million as of March 31, 2018.

The following sets forth the regulatory capital ratios as of March 31, 2018:

Ratio	Regulatory Minimum Requirement	Capital Conservation Buffer	Minimum Requirement, Including Buffer	Capital Ratios as of March 31, 2018
Risk-adjusted ratios:				
CET1 Capital*	4.50%	1.25%	5.75%	19.83%
Tier 1 Capital*	6.00%	1.25%	7.25%	20.28%
Total Capital*	8.00%	1.25%	9.25%	20.41%
Permanent Capital	7.00%	0.00%	7.00%	20.30%
Non-risk-adjusted ratios:				
Tier 1 Leverage	4.00%	1.00%	5.00%	7.08%
URE and URE Equivalents Leverage	1.50%	0.00%	1.50%	6.09%

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

CREDIT RISK

System entities have specific lending authorities within their chartered territories. The Bank is subject to credit risk by lending to the District's FLCAs, PCAs, and ACAs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which identifies loans that may be impaired based on characteristics such as probability of default (PD) and loss given default (LGD). Allowance needs by geographic region are only considered in rare circumstances that may not otherwise be reflected in the PD and LGD (flooding, drought, etc.). There was no allowance attributed to a geographic area as of March 31, 2018. See Note 2, *Loans and Allowance for Loan Losses*, and Note 3, *Investments*, in the Notes to the Financial Statements for quantitative disclosures related to the Bank's credit risk.

CREDIT RISK MITIGATION

Credit Risk Mitigation Related to Loans

The Bank uses various strategies to mitigate credit risk in its lending portfolio. As described in Note 1 of the Bank's Annual Report, a substantial portion of the loan balance is concentrated in notes receivable from the District Associations to fund their earning assets, which collateralize the notes. In addition, the earnings, capital and loan loss reserves of the Associations provide additional layers of protection against losses in their respective retail loan portfolios.

The following table illustrates credit risk mitigants within AgFirst's loan portfolio which reduce capital requirements.

	March 31, 2018		
(dollars in thousands)	Amortized Cost	Risk-Weighted Exposures	% of Total Loans
Loans with unconditional guarantee	$ 7,411	$ –	–%
Loans with conditional guarantee	1,414,456	287,543	6%
Direct Notes	15,353,366	3,061,822	67%
Total	$ 16,775,233	$ 3,349,365	73%

The following table illustrates AgFirst's loan portfolio by geographic distribution at March 31, 2018. The loan portfolio includes loans in all 50 states and Puerto Rico. This table excludes the Bank's Direct Notes and loans to OFI portfolios.

(dollars in thousands)		
North Carolina	$ 1,216,862	17%
Georgia	967,604	13
Florida	536,773	7
Virginia	536,765	7
Texas	394,110	5
South Carolina	369,570	5
Maryland	335,559	5
Pennsylvania	276,544	4
Minnesota	217,341	3
Kentucky	201,255	3
California	187,932	3
Missouri	177,066	2
New York	176,168	2
Ohio	167,341	2
New Jersey	110,947	2
All Other States	1,499,660	20
	$ 7,371,497	100%

The following table shows the various major commodity groups in the portfolio based on borrower eligibility and their percentage of the outstanding portfolio volume at March 31, 2018. This table excludes the Bank's Direct Notes and loans to OFI portfolios.

(dollars in thousands)		
Rural Home Loan	$ 2,998,660	41%
Forestry	834,232	11
Utilities	685,806	9
Processing	599,893	8
Field Crops	275,980	4
Tree Fruits and Nuts	240,327	3
Other Real Estate	206,136	3
Nursery/Greenhouse	191,839	3
Cattle	145,988	2
Dairy	115,961	2
Other	1,076,675	14
	$ 7,371,497	100%

The following table segregates loans based upon repayment dependency by commodity at March 31, 2018. This table excludes the Bank's Direct Notes and loans to OFI portfolios.

(dollars in thousands)		
Non-Farm Income	$ 3,322,131	45%
Timber	696,752	9
Rural Utilities	685,806	9
Grains	388,144	5
Fruit & Vegetables	374,571	5
Processing and Marketing	308,985	4
Swine	219,075	3
Farm Related Business	213,128	3
Dairy	160,979	2
Beef	145,953	2
Nursery	143,327	2
Wine	113,891	2
Poultry	113,074	2
Other	485,681	7
	$ 7,371,497	100%

The Bank does not use credit default swaps as part of its credit risk management approaches.

Credit Risk Mitigation Related to Investments

Credit risk in AgFirst's investment portfolio is largely mitigated by investing primarily in securities issued or guaranteed by the U.S. government or one of its agencies.

The following table shows the investment exposures covered by a guarantee:

	March 31, 2018			
(dollars in thousands)	**Amortized Cost**	**Fair Value**	**% of Total Investments**	**Risk-Weighted Exposures**
Unconditional Guarantee:				
U.S. Govt. Treasury Securities	$ 441,141	$ 440,458	6%	$ –
U.S. Govt. Guaranteed	4,535,544	4,510,813	57%	–
Conditional Guarantee:				
U.S. Govt. Agency Guaranteed	2,348,595	2,318,337	29%	479,575
Total	$ 7,325,280	$ 7,269,608	92%	$ 479,575

COUNTERPARTY CREDIT RISK

See Note 11, *Derivative Financial Instruments and Hedging Activities*, in the Notes to the Financial Statements for further information on counterparty exposures related to derivatives as of March 31, 2018.

SECURITIZATION

The Bank has elected to utilize the simplified supervisory formula risk-based capital approach (SSFA) for securitization exposures. As such, the Bank's asset-backed securities portfolio is risk weighted on an individual security level. As of March 31, 2018, the ABS risk-weights ranged from 20.00 percent to 109.16 percent, with a weighted average risk-weight of 28.02 percent.

As of March 31, 2018, the Bank did not hold any off-balance sheet securitization exposures nor were any securitization exposures deducted from capital.

Refer to Note 3, *Investments*, in the Notes to the Financial Statements for additional information related to purchases and sales of securitization exposures as well as the amortized cost, unrealized gains/(losses) and fair value of mortgage-backed securities (MBSs) and ABSs held in the investment portfolio.

EQUITIES

The Bank does not have significant exposure to equity investments. At March 31, 2018, the Bank has investments in money market funds of $115.8 million classified as equity investments. These balances are accounted for as investment securities but are classified as Cash Equivalents in the Balance Sheet and Statement of Cash Flows. The Bank applies a 20 percent risk-weight for these investments.

INTEREST RATE RISK

The following tables represent AgFirst's market value of equity and projected change over the next twelve months in net interest income for various rate movements as of March 31, 2018:

Net Interest Income
(dollars in thousands)

Scenarios	Net Interest Income	% Change
+4.0% Shock	$360,615	-11.62%
+2.0% Shock	$389,707	-4.49%
Base line **	$408,018	–%
-50% of 3M Tbill ***	$410,292	0.56%

Market Value of Equity
(dollars in thousands)

Scenarios	Assets	Liabilities*	Equity*	% Change
Book Value	$31,956,321	$29,723,971	$2,232,350	–%
+4.0% Shock	$28,716,077	$27,150,998	$1,565,079	-32.21%
+2.0% Shock	$30,157,253	$28,226,183	$1,931,070	-16.36%
Base line **	$31,695,978	$29,387,157	$2,308,821	–%
-50% of 3M Tbill ***	$32,332,389	$29,845,012	$2,487,377	7.73%

* *For interest rate risk management, the $49.3 million perpetual preferred stock is included in liabilities rather than equity.*
** *Base line uses rates as of the balance sheet date before application of any interest rate shocks.*
*** *When the three-month Treasury bill interest rate is less than 4 percent, both the minus 200 and minus 400 basis point shocks are replaced with a downward shock equal to one-half of the three-month Treasury bill rate which is 25 basis points.*

Other Regulatory Matters

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

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2017 Annual Report of AgFirst Farm Credit Bank for recently issued accounting pronouncements. Additional information is provided in the following table.

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

<table>
<tr><th>Summary of Guidance</th><th>Adoption and Potential Financial Statement Impact</th></tr>
<tr><td colspan="2">ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</td></tr>
<tr><td>• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets.
• Changes the present incurred loss impairment guidance for loans to a CECL model.
• The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit.
• Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets.
• Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.
• Effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.</td><td>• The Bank has begun implementation efforts by establishing a cross-discipline governance structure. The Bank is currently identifying key interpretive issues, and assessing existing credit loss forecasting models and processes against the new guidance to determine what modifications may be required.
• The Bank expects that the new guidance will result in an increase in its allowance for credit losses due to several factors, including:
1. The allowance related to loans and commitments will most likely increase to cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions,
2. An allowance will be established for estimated credit losses on debt securities,
3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans.
• The extent of the increase is under evaluation, but will depend upon the nature and characteristics of the Bank's portfolio at the adoption date, and the macroeconomic conditions and forecasts at that date.
• The Bank expects to adopt the guidance in first quarter 2021.</td></tr>
<tr><td colspan="2">ASU 2016-02 – Leases (Topic 842)</td></tr>
<tr><td>• Requires lessees to recognize leases on the balance sheet with lease liabilities and corresponding right-of-use assets based on the present value of lease payments.
• Lessor accounting activities are largely unchanged from existing lease accounting.
• The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification.
• Also, expands qualitative and quantitative disclosures of leasing arrangements.
• Requires adoption using a modified cumulative effect approach wherein the guidance is applied to all periods presented.
• Effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted.</td><td>• The practical expedients allow entities to largely account for existing leases consistent with current guidance, except for the incremental balance sheet recognition for lessees.
• The Bank has started its implementation of the Update which has included an initial evaluation of leasing contracts and activities.
• As a lessee the Bank is developing its methodology to estimate the right-of-use assets and lease liabilities, which is based on the present value of lease payments but does not expect a material change to the timing of expense recognition.
• Given the limited changes to lessor accounting, the Bank does not expect material changes to recognition or measurement, but it is early in the implementation process and the impact will continue to be evaluated.
• The Bank is evaluating existing disclosures and may need to provide additional information as a result of adopting the Update.
• The Bank expects to adopt the guidance in first quarter 2019 using the modified retrospective method and practical expedients for transition.</td></tr>
</table>

NOTE: Shareholder investment in a District Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, Controller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Combined information concerning AgFirst Farm Credit Bank and District Associations can also be obtained at the Bank's website, *www.agfirst.com*. AgFirst prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no quarterly report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Balance Sheets

(dollars in thousands)	March 31, 2018	December 31, 2017
	(unaudited)	(audited)
Assets		
Cash	**$ 697,494**	$ 440,768
Cash equivalents	**240,762**	272,519
Investments in debt securities:		
Available for sale (amortized cost of $7,532,644, $7,863,631, respectively)	**7,475,614**	7,663,605
Held to maturity (fair value of $440,840, $463,340, respectively)	**444,283**	458,623
Total investments in debt securities	**7,919,897**	8,122,228
Loans	**22,822,551**	23,359,160
Allowance for loan losses	**(15,787)**	(14,381)
Net loans	**22,806,764**	23,344,779
Accrued interest receivable	**78,132**	74,979
Accounts receivable	**57,935**	80,267
Equity investments in other Farm Credit institutions	**73,048**	72,593
Premises and equipment, net	**58,493**	59,369
Other property owned	**269**	154
Other assets	**23,527**	19,801
Total assets	**$ 31,956,321**	$ 32,487,457
Liabilities		
Systemwide bonds payable	**$ 24,478,412**	$ 24,829,679
Systemwide notes payable	**5,061,110**	4,933,312
Accrued interest payable	**92,131**	81,471
Accounts payable	**12,540**	356,446
Other liabilities	**30,528**	43,734
Total liabilities	**29,674,721**	30,244,642
Commitments and contingencies (Note 8)		
Shareholders' Equity		
Perpetual preferred stock	**49,250**	49,250
Capital stock and participation certificates	**310,140**	313,752
Additional paid-in-capital	**58,883**	58,883
Retained earnings		
Allocated	**492**	492
Unallocated	**1,923,898**	1,845,194
Accumulated other comprehensive income (loss)	**(61,063)**	(24,756)
Total shareholders' equity	**2,281,600**	2,242,815
Total liabilities and equity	**$ 31,956,321**	$ 32,487,457

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

Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2018	2017
Interest Income		
Investment securities and other	**$ 44,025**	$ 33,852
Loans	**186,276**	166,936
Total interest income	**230,301**	200,788
Interest Expense	**127,696**	90,093
Net interest income	**102,605**	110,695
Provision for loan losses	**1,423**	609
Net interest income after provision for loan losses	**101,182**	110,086
Noninterest Income		
Loan fees	**1,933**	2,188
Building lease income	**845**	915
Gains (losses) on called debt	**—**	(440)
Gains (losses) on other transactions	**619**	220
Insurance premium refund	**6,330**	—
Other noninterest income	**2,142**	1,796
Total noninterest income	**11,869**	4,679
Noninterest Expenses		
Salaries and employee benefits	**16,222**	14,693
Occupancy and equipment	**5,756**	5,425
Insurance Fund premiums	**2,210**	3,355
Other operating expenses	**9,648**	8,307
Losses (gains) from other property owned	**57**	60
Total noninterest expenses	**33,893**	31,840
Net income	**$ 79,158**	$ 82,925

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

Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2018	2017
Net income	**$ 79,158**	$ 82,925
Other comprehensive income:		
Unrealized gains (losses) on investments	**(37,004)**	(4,413)
Change in value of cash flow hedges	**572**	83
Employee benefit plans adjustments	**125**	92
Other comprehensive income (Note 5)	**(36,307)**	(4,238)
Comprehensive income	**$ 42,851**	$ 78,687

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, 2016	$ 49,250	$ 301,905	$ 58,883	$ 559	$ 1,817,004	$ (2,353)	$ 2,225,248
Comprehensive income					82,925	(4,238)	78,687
Capital stock/participation certificates issued/(retired), net		1,118					1,118
Dividends paid on perpetual preferred stock					(258)		(258)
Retained earnings retired				(4)			(4)
Patronage distribution adjustment		2			(8)		(6)
Balance at March 31, 2017	$ 49,250	$ 303,025	$ 58,883	$ 555	$ 1,899,663	$ (6,591)	$ 2,304,785
Balance at December 31, 2017	**$ 49,250**	**$ 313,752**	**$ 58,883**	**$ 492**	**$ 1,845,194**	**$ (24,756)**	**$ 2,242,815**
Comprehensive income					**79,158**	**(36,307)**	**42,851**
Capital stock/participation certificates issued/(retired), net		**(3,612)**					**(3,612)**
Dividends paid on perpetual preferred stock					**(335)**		**(335)**
Patronage distribution adjustment					**(119)**		**(119)**
Balance at March 31, 2018	**$ 49,250**	**$ 310,140**	**$ 58,883**	**$ 492**	**$ 1,923,898**	**$ (61,063)**	**$ 2,281,600**

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2018	2017
Cash flows from operating activities:		
Net income	**$ 79,158**	$ 82,925
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	**2,123**	1,991
Amortization of net deferred loan (fees) costs and premium amortization (discount accretion)	**382**	146
Premium amortization (discount accretion) on investment securities	**1,294**	3,320
(Premium amortization) discount accretion on bonds and notes	**19,035**	12,179
Provision for loan losses	**1,423**	609
(Gains) losses on other property owned, net	**29**	64
(Gains) losses on called debt	**—**	440
(Gains) losses on other transactions	**(619)**	(220)
Net change in loans held for sale	**1,198**	2,393
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	**(3,153)**	(1,048)
(Increase) decrease in accounts receivable	**22,332**	25,474
Increase (decrease) in accrued interest payable	**10,660**	7,300
Increase (decrease) in accounts payable	**(33,071)**	(37,520)
Change in other, net	**(16,188)**	(15,256)
Total adjustments	**5,445**	(128)
Net cash provided by (used in) operating activities	**84,603**	82,797
Cash flows from investing activities:		
Investment securities purchased	**(443,167)**	(591,208)
Investment securities sold or matured	**607,772**	692,893
Net (increase) decrease in loans	**534,868**	562,416
(Increase) decrease in investments in other Farm Credit System institutions	**(455)**	(287)
Purchase of premises and equipment, net	**(1,247)**	(2,005)
Proceeds from sale of other property owned	**—**	632
Net cash provided by (used in) investing activities	**697,771**	662,441
Cash flows from financing activities:		
Bonds and notes issued	**3,750,206**	4,421,609
Bonds and notes retired	**(3,992,710)**	(5,231,000)
Capital stock and participation certificates issued/retired, net	**(3,612)**	1,118
Cash distribution to shareholders	**(310,954)**	(251,816)
Dividends paid on perpetual preferred stock	**(335)**	(258)
Retained earnings retired	**—**	(4)
Net cash provided by (used in) financing activities	**(557,405)**	(1,060,351)
Net increase (decrease) in cash and cash equivalents	**224,969**	(315,113)
Cash and cash equivalents, beginning of period	**713,287**	811,748
Cash and cash equivalents, end of period	**$ 938,256**	$ 496,635
Supplemental schedule of non-cash activities:		
Receipt of property in settlement of loans	**$ 144**	$ —
Change in unrealized gains (losses) on investments, net	**(37,004)**	(4,413)
Employee benefit plans adjustments	**(125)**	(92)
Non-cash changes related to interest rate hedging activities:		
Increase (decrease) in bonds and notes	**$ —**	$ (92)
Decrease (increase) in other assets	**—**	92
Supplemental information:		
Interest paid	**$ 98,001**	$ 70,614

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, 2017 are contained in the 2017 Annual Report to Shareholders. These unaudited interim financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation
In the opinion of management, the accompanying 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 year end:

- In February 2018, the FASB issued ASU 2018-03 Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this Update include items brought to the Board's attention by stakeholders. The amendments clarify certain aspects of the guidance issued in Update 2016-01 as described below. The amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. All entities may early adopt these amendments for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, as long as they have adopted Update 2016-01.

- In February 2018, the FASB issued ASU 2018-02 Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and are intended to improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The Update also requires certain disclosures about stranded tax effects. The guidance is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted.

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

Potential effects of ASUs issued in previous periods:

- In August 2017, the FASB issued ASU 2017-12—Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The Update is intended to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. In addition to that main objective, the amendments make certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Bank early adopted this guidance effective January 1, 2018. There was no impact on the statements of financial condition and results of operations.

- In March 2017, the FASB issued ASU 2017-08 Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The guidance relates to certain callable debt securities and shortens the amortization period for any premium to the earliest call date. The Update will be effective for interim and annual periods beginning after December 15, 2018 for public business entities. Early adoption is permitted. The Bank is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to better estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Bank is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

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

- In March 2017, the FASB issued ASU 2017-07 Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. The amendments were effective January 1, 2018 for the Bank. Adoption in 2018 did not have a material effect on the Bank's financial statements, but did require reclassification of certain periodic pension costs to Other Operating Expenses.

- In February 2017, the FASB issued ASU 2017-05 Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The Update clarifies whether certain transactions are within the scope of the guidance on derecognition and the accounting for partial sales of nonfinancial assets, and defines the term in substance nonfinancial asset. The amendments conform the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue standard. The amendments were effective January 1, 2018 for the Bank. Adoption in 2018 had no impact on the statements of financial condition and results of operations of the Bank.

- In January 2017, the FASB issued ASU 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments provide a more robust framework to use in determining when a set of assets and activities is a business. They also support more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable. The ASU was effective January 1, 2018 for the Bank. The amendments were applied prospectively. Adoption of the guidance in 2018 had no impact on the statements of financial condition and results of operations.

- In January 2016, the FASB issued ASU 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The Update was intended to improve the recognition and measurement of financial instruments. The new guidance makes targeted improvements to existing GAAP.

  <u>Transition Information</u>

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

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

Transition Information

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

Note 2 — Loans and Allowance for Loan Losses

The 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 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)	March 31, 2018	December 31, 2017
Direct notes	$ 15,314,932	$ 15,838,709
Real estate mortgage	1,061,686	1,096,159
Production and intermediate-term	958,980	1,123,633
Loans to cooperatives	582,281	527,654
Processing and marketing	843,435	763,024
Farm-related business	60,155	71,471
Communication	228,830	226,371
Power and water/waste disposal	556,200	556,165
Rural residential real estate	2,998,814	2,956,332
International	62,318	52,637
Lease receivables	10,238	6,752
Loans to other financing institutions (OFIs)	136,122	131,572
Other (including Mission Related)	8,560	8,681
Total loans	$ 22,822,551	$ 23,359,160

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. The risk funds of an Association, including both capital and the allowance for loan losses, also protect the interest of 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. During 2018, the Bank purchased $127.3 million of residential mortgage loans from various System associations which are not included in the table below. The following tables present the principal balance of participation loans at periods ended:

	March 31, 2018							
	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	$ –	$ –	$ –	$ 1,012,488	$ –	$ –	$ –	$ 1,012,488
Real estate mortgage	791,333	123,783	310,832	62,244	–	–	1,102,165	186,027
Production and intermediate-term	533,186	232,312	601,635	123,832	184,447	–	1,319,268	356,144
Loans to cooperatives		87,910	670,870	–	–	–	670,870	87,910
Processing and marketing	342,980	356,751	332,859	362,294	888,495	–	1,564,334	719,045
Farm-related business	36,977	11,470	–	–	34,785	–	71,762	11,470
Communication	–	135,247	364,738	–	–	–	364,738	135,247
Power and water/waste disposal		55,454	613,108	–	–	–	613,108	55,454
Rural residential real estate	154	–	–	–	–	–	154	–
International	–	36,569	99,034	–	–	–	99,034	36,569
Lease receivables	10,238	–	–	–	–	–	10,238	–
Other (including Mission Related)	8,698	–	–	–	–	–	8,698	–
Total	$ 1,723,566	$1,039,496	$ 2,993,076	$ 1,560,858	$ 1,107,727	$ –	$ 5,824,369	$ 2,600,354

	December 31, 2017							
	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	$ –	$ –	$ –	$ 1,015,836	$ –	$ –	$ –	$ 1,015,836
Real estate mortgage	740,241	99,921	354,871	45,621	–	–	1,095,112	145,542
Production and intermediate-term	747,486	323,438	689,174	200,016	222,698	–	1,659,358	523,454
Loans to cooperatives	–	62,825	591,369	–	–	–	591,369	62,825
Processing and marketing	277,271	335,175	302,906	316,193	836,019	–	1,416,196	651,368
Farm-related business	53,036	7,387	–	–	25,970	–	79,006	7,387
Communication	–	132,807	359,838	–	–	–	359,838	132,807
Power and water/waste disposal	–	54,654	594,342	–	18,026	–	612,368	54,654
Rural residential real estate	157	–	–	–	–	–	157	–
International	–	34,127	86,919	–	–	–	86,919	34,127
Lease receivables	6,752	–	–	–	–	–	6,752	–
Other (including Mission Related)	8,819	–	–	–	–	–	8,819	–
Total	$ 1,833,762	$1,050,334	$ 2,979,419	$ 1,577,666	$ 1,102,713	$ –	$ 5,915,894	$ 2,628,000

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:

	March 31, 2018			
(dollars in thousands)	Due less than 1 year	Due 1 through 5 years	Due after 5 years	Total
Direct notes	$ 495,210	$ 2,667,126	$ 12,152,596	$ 15,314,932
Real estate mortgage	20,122	281,373	760,191	1,061,686
Production and intermediate-term	123,094	599,372	236,514	958,980
Loans to cooperatives	14,236	461,091	106,954	582,281
Processing and marketing	39,442	594,395	209,598	843,435
Farm-related business	2,514	38,679	18,962	60,155
Communication	5,506	173,816	49,508	228,830
Power and water/waste disposal	45,136	132,908	378,156	556,200
Rural residential real estate	79,098	12,389	2,907,327	2,998,814
International	–	55,343	6,975	62,318
Lease receivables	74	10,164	–	10,238
Loans to OFIs	128,755	7,367	–	136,122
Other (including Mission Related)	126	2,603	5,831	8,560
Total loans	$ 953,313	$ 5,036,626	$ 16,832,612	$ 22,822,551
Percentage	4.18%	22.07%	73.75%	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:

	March 31, 2018	December 31, 2017
Direct notes:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Real estate mortgage:		
Acceptable	97.29%	97.62%
OAEM	0.99	0.28
Substandard/doubtful/loss	1.72	2.10
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	99.03%	96.17%
OAEM	0.37	2.86
Substandard/doubtful/loss	0.60	0.97
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	98.74%	98.43%
OAEM	–	–
Substandard/doubtful/loss	1.26	1.57
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	83.67%	86.12%
OAEM	–	–
Substandard/doubtful/loss	16.33	13.88
	100.00%	100.00%
Communication:		
Acceptable	94.47%	100.00%
OAEM	5.53	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	March 31, 2018	December 31, 2017
Power and water/waste disposal:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	99.75%	99.78%
OAEM	–	–
Substandard/doubtful/loss	0.25	0.22
	100.00%	100.00%
International:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Lease receivables:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Loans to OFIs:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Other (including Mission Related):		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	99.67%	99.60%
OAEM	0.12	0.15
Substandard/doubtful/loss	0.21	0.25
	100.00%	100.00%

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

	March 31, 2018				
(dollars in thousands)	**30 Through 89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**
Direct notes	$ –	$ –	$ –	$ 15,353,366	$ 15,353,366
Real estate mortgage	1,532	3,428	4,960	1,063,141	1,068,101
Production and intermediate-term	1,506	629	2,135	962,174	964,309
Loans to cooperatives	–	–	–	583,344	583,344
Processing and marketing	–	–	–	845,582	845,582
Farm-related business	–	–	–	60,547	60,547
Communication	–	–	–	229,142	229,142
Power and water/waste disposal	–	–	–	559,756	559,756
Rural residential real estate	36,214	3,344	39,558	2,966,364	3,005,922
International	–	–	–	62,520	62,520
Lease receivables	–	–	–	10,261	10,261
Loans to OFIs	–	–	–	136,388	136,388
Other (including Mission Related)	–	–	–	8,702	8,702
Total	$ 39,252	$ 7,401	$ 46,653	$ 22,841,287	$ 22,887,940

	December 31, 2017				
(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**
Direct notes	$ –	$ –	$ –	$ 15,877,300	$ 15,877,300
Real estate mortgage	1,701	3,438	5,139	1,097,541	1,102,680
Production and intermediate-term	1,481	714	2,195	1,125,718	1,127,913
Loans to cooperatives	–	–	–	528,662	528,662
Processing and marketing	–	–	–	765,412	765,412
Farm-related business	–	–	–	71,735	71,735
Communication	–	–	–	226,553	226,553
Power and water/waste disposal	–	–	–	558,562	558,562
Rural residential real estate	50,249	4,807	55,056	2,908,490	2,963,546
International	–	–	–	52,815	52,815
Lease receivables	–	–	–	6,766	6,766
Loans to OFIs	–	–	–	131,818	131,818
Other (including Mission Related)	–	–	–	8,785	8,785
Total	$ 53,431	$ 8,959	$ 62,390	$ 23,360,157	$ 23,422,547

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

(dollars in thousands)	**March 31, 2018**	**December 31, 2017**
Nonaccrual loans:		
Real estate mortgage	$ 7,823	$ 7,761
Production and intermediate-term	2,277	2,364
Loans to cooperatives	7,374	–
Rural residential real estate	12,320	11,178
Total	$ 29,794	$ 21,303
Accruing restructured loans:		
Real estate mortgage	$ 722	$ 1,042
Production and intermediate-term	8,846	8,768
Rural residential real estate	1,849	1,866
Other (including Mission Related)	4,348	4,302
Total	$ 15,765	$ 15,978
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 45,559	$ 37,281
Other property owned	269	154
Total nonperforming assets	$ 45,828	$ 37,435
Nonaccrual loans as a percentage of total loans	0.13%	0.09%
Nonperforming assets as a percentage of total loans and other property owned	0.20%	0.16%
Nonperforming assets as a percentage of capital	2.01%	1.67%

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)	**March 31, 2018**	**December 31, 2017**
Impaired nonaccrual loans:		
Current as to principal and interest	$ 16,451	$ 6,709
Past due	13,343	14,594
Total	$ 29,794	$ 21,303
Impaired accrual loans:		
Restructured	$ 15,765	$ 15,978
90 days or more past due	–	–
Total	$ 15,765	$ 15,978
Total impaired loans	$ 45,559	$ 37,281
Additional commitments to lend	$ –	$ –

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)	March 31, 2018			Three Months Ended March 31, 2018	
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	$ 111	$ 111	$ 16	$ 17	$ –
Production and intermediate-term	169	169	33	169	–
Loans to cooperatives	7,374	7,414	1,930	7,853	45
Rural residential real estate	2,484	2,485	479	498	–
Other (including Mission Related)	4,348	4,287	153	4,288	66
Total	$ 14,486	$ 14,466	$ 2,611	$ 12,825	$ 111
With no related allowance for credit losses:					
Real estate mortgage	$ 8,434	$ 11,857	$ –	$ 5,554	$ 25
Production and intermediate-term	10,954	19,285	–	6,298	150
Loans to cooperatives	–	–	–	–	–
Rural residential real estate	11,685	11,497	–	13,021	154
Other (including Mission Related)	–	–	–	–	–
Total	$ 31,073	$ 42,639	$ –	$ 24,873	$ 329
Total:					
Real estate mortgage	$ 8,545	$ 11,968	$ 16	$ 5,571	$ 25
Production and intermediate-term	11,123	19,454	33	6,467	150
Loans to cooperatives	7,374	7,414	1,930	7,853	45
Rural residential real estate	14,169	13,982	479	13,519	154
Other (including Mission Related)	4,348	4,287	153	4,288	66
Total	$ 45,559	$ 57,105	$ 2,611	$ 37,698	$ 440

(dollars in thousands)	December 31, 2017			Year Ended December 31, 2017	
Impaired Loans	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 182	$ 182	$ 25	$ 126	$ –
Production and intermediate-term	169	169	33	148	–
Rural residential real estate	2,820	2,820	495	57	–
Other (including Mission Related)	4,302	4,290	153	4,330	267
Total	$ 7,473	$ 7,461	$ 706	$ 4,661	$ 267
With no related allowance for credit losses:					
Real estate mortgage	$ 8,621	$ 12,045	$ –	$ 8,902	$ 297
Production and intermediate-term	10,963	19,358	–	13,236	1,964
Rural residential real estate	10,224	10,057	–	9,454	396
Other (including Mission Related)	–	–	–	–	–
Total	$ 29,808	$ 41,460	$ –	$ 31,592	$ 2,657
Total:					
Real estate mortgage	$ 8,803	$ 12,227	$ 25	$ 9,028	$ 297
Production and intermediate-term	11,132	19,527	33	13,384	1,964
Rural residential real estate	13,044	12,877	495	9,511	396
Other (including Mission Related)	4,302	4,290	153	4,330	267
Total	$ 37,281	$ 48,921	$ 706	$ 36,253	$ 2,924

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

(dollars in thousands)	Direct Note	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Other**	Total
Activity related to the allowance for credit losses:										
Balance at December 31, 2017	$ –	$ 1,635	$ 3,040	$ 3,633	$ 744	$ 1,128	$ 3,908	$ 28	$ 265	$ 14,381
Charge-offs	–	–	–	–	–	–	(37)	–	–	(37)
Recoveries	–	–	–	14	–	–	6	–	–	20
Provision for loan losses	–	(131)	(470)	1,597	56	(37)	208	6	194	1,423
Balance at March 31, 2018	$ –	$ 1,504	$ 2,570	$ 5,244	$ 800	$ 1,091	$ 4,085	$ 34	$ 459	$ 15,787
Balance at December 31, 2016	$ –	$ 2,569	$ 3,039	$ 3,287	$ 899	$ 1,997	$ 2,688	$ 58	$ 246	$ 14,783
Charge-offs	–	–	–	–	–	–	(25)	–	–	(25)
Recoveries	–	33	–	–	–	–	–	–	–	33
Provision for loan losses	–	(295)	281	644	37	(263)	227	(17)	(5)	609
Loan type reclassification	–	(33)	33	–	–	–	–	–	–	–
Balance at March 31, 2017	$ –	$ 2,274	$ 3,353	$ 3,931	$ 936	$ 1,734	$ 2,890	$ 41	$ 241	$ 15,400
Allowance on loans evaluated for impairment:										
Individually	$ –	$ 16	$ 33	$ 1,930	$ –	$ –	$ 479	$ –	$ 153	$ 2,611
Collectively	–	1,488	2,537	3,314	800	1,091	3,606	34	306	13,176
Balance at March 31, 2018	$ –	$ 1,504	$ 2,570	$ 5,244	$ 800	$ 1,091	$ 4,085	$ 34	$ 459	$ 15,787
Individually	$ –	$ 25	$ 33	$ –	$ –	$ –	$ 495	$ –	$ 153	$ 706
Collectively	–	1,610	3,007	3,633	744	1,128	3,413	28	112	13,675
Balance at December 31, 2017	$ –	$ 1,635	$ 3,040	$ 3,633	$ 744	$ 1,128	$ 3,908	$ 28	$ 265	$ 14,381
Recorded investment in loans evaluated for impairment:										
Individually	$ 15,353,366	$ 155,603	$ 11,123	$ 8,342	$ –	$ –	$ 1,388,034	$ –	$ 4,348	$ 16,920,816
Collectively	–	912,498	953,186	1,481,131	229,142	559,756	1,617,888	62,520	151,003	5,967,124
Balance at March 31, 2018	$ 15,353,366	$ 1,068,101	$ 964,309	$ 1,489,473	$ 229,142	$ 559,756	$ 3,005,922	$ 62,520	$ 155,351	$ 22,887,940
Individually	$ 15,877,300	$ 149,853	$ 13,102	$ –	$ –	$ –	$ 1,422,934	$ –	$ 4,302	$ 17,467,491
Collectively	–	952,827	1,114,811	1,365,809	226,553	558,562	1,540,612	52,815	143,067	5,955,056
Balance at December 31, 2017	$ 15,877,300	$ 1,102,680	$ 1,127,913	$ 1,365,809	$ 226,553	$ 558,562	$ 2,963,546	$ 52,815	$ 147,369	$ 23,422,547

**Includes the loan types: Loans to cooperatives, Processing and marketing, and Farm-related business.*
***Includes the loan types: Mission Related Loans, Loans to OFIs, and Lease Receivables.*

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

(dollars in thousands)	Three months ended March 31, 2018				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification					
Real estate mortgage	$ 69	$ –	$ –	$ 69	
Rural residential real estate	–	542	–	542	
Total	$ 69	$ 542	$ –	$ 611	
Post-modification					
Real estate mortgage	$ 69	$ –	$ –	$ 69	$ –
Rural residential real estate	–	562	–	562	–
Total	$ 69	$ 562	$ –	$ 631	$ –

(dollars in thousands)	Three months ended March 31, 2017				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification					
Rural residential real estate	$ 194	$ –	$ –	$ 194	
Total	$ 194	$ –	$ –	$ 194	
Post-modification					
Rural residential real estate	$ 228	$ –	$ –	$ 228	$ –
Total	$ 228	$ –	$ –	$ 228	$ –

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

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

	Three months ended March 31,	
	2018	2017
Defaulted troubled debt restructurings:		
Rural residential real estate	$ 86	$ 433
Total	$ 86	$ 433

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)	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Real estate mortgage	$ 6,988	$ 7,363	$ 6,266	$ 6,321
Production and intermediate-term	9,612	9,606	766	838
Rural residential real estate	4,476	3,757	2,627	1,891
Other (including Mission Related)	4,348	4,302	–	–
Total	$ 25,424	$ 25,028	$ 9,659	$ 9,050
Additional commitments to lend	$ –	$ –		

The following table presents foreclosure information as of period end:

	March 31, 2018
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	$ 269
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ 1,824

Note 3 — Investments

Equity Investments in Other Farm Credit System Institutions

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

Investments in Debt Securities

AgFirst's investments in debt securities consist primarily of mortgage-backed securities (MBSs) collateralized by U.S. government or U.S. agency guaranteed residential and commercial mortgages (agency securities). 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 in debt securities are non-agency securities which must meet the applicable FCA regulatory guidelines that require them to be high quality, senior class, and rated in the top category (AAA/Aaa) by Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. To achieve these ratings, the securities may have a guarantee of timely payment of principal and interest, credit enhancements achieved through over-collateralization or other means, priority of payments for senior classes over junior classes, or bond insurance. All of the non-agency securities owned have one or more credit enhancement features.

The FCA considers a non-agency security ineligible if it falls below AAA/Aaa credit rating criteria and requires Farm Credit System (System) institutions to provide notification to the FCA when a security becomes ineligible. At March 31, 2018, the Bank held no ineligible available-for-sale investments in debt securities.

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

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 March 31, 2018, the Bank held one RAB whose credit quality had deteriorated beyond the program limits.

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

An agreement with a commercial bank requires AgFirst to maintain $50.0 million as a compensating balance. At March 31, 2018, the Bank held $41.8 million in U.S. Treasury securities for that purpose. The remainder of the compensating balance was held in cash in a demand deposit account. These securities are excluded when calculating the amount of eligible liquidity investments.

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

The Bank did not sell any investments during the first three months of 2018 or 2017.

Available-for-sale

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

	March 31, 2018				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Treasury Securities	$ 441,141	$ 3	$ (686)	$ 440,458	1.47%
U.S. Govt. Guaranteed	4,535,544	32,842	(57,573)	4,510,813	2.28
U.S. Govt. Agency Guaranteed	1,959,477	6,046	(30,446)	1,935,077	2.11
Non-Agency ABSs	596,482	102	(7,318)	589,266	1.78
Total	$ 7,532,644	$ 38,993	$ (96,023)	$ 7,475,614	2.15%

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

Held-to-maturity

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

(dollars in thousands)	March 31, 2018 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	$ 389,118	$ 6,468	$ (12,326)	$ 383,260	3.21%
RABs and Other	55,165	2,562	(147)	57,580	6.12
Total	$ 444,283	$ 9,030	$ (12,473)	$ 440,840	3.57%

(dollars in thousands)	December 31, 2017 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	$ 401,810	$ 7,438	$ (6,166)	$ 403,082	3.25%
RABs and Other	56,813	3,628	(183)	60,258	6.68
Total	$ 458,623	$ 11,066	$ (6,349)	$ 463,340	3.68%

A summary of the contractual maturity, estimated fair value and amortized cost of investment securities at March 31, 2018 follows:

Available-for-sale

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Treasury Securities	$ 413,548	1.48%	$ 26,910	1.28%	$ –	–%	$ –	–%	$ 440,458	1.47%
U.S. Govt. Guaranteed	–	–	12,236	2.60	145,295	2.73	4,353,282	2.26	4,510,813	2.28
U.S. Govt. Agency Guaranteed	–	2.44	231,869	2.11	162,795	1.99	1,540,413	2.12	1,935,077	2.11
Non-Agency ABSs	17,102	1.91	439,733	1.68	132,431	2.10	–	–	589,266	1.78
Total fair value	$ 430,650	1.50%	$ 710,748	1.82%	$ 440,521	2.27%	$ 5,893,695	2.22%	$ 7,475,614	2.15%
Total amortized cost	$ 430,833		$ 716,675		$ 443,306		$ 5,941,830		$ 7,532,644	

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	$ –	–%	$ 29	4.15%	$ –	–%	$ 389,089	3.21%	$ 389,118	3.21%
RABs and Other	2,971	5.75	13,800	6.44	12,819	6.12	25,575	5.99	55,165	6.12
Total amortized cost	$ 2,971	5.75%	$ 13,829	6.44%	$ 12,819	6.12%	$ 414,664	3.38%	$ 444,283	3.57%
Total fair value	$ 2,977		$ 14,148		$ 13,530		$ 410,185		$ 440,840	

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.

	March 31, 2018					
	Less than 12 Months		12 Months or Greater		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Treasury Securities	$ 363,755	$ (363)	$ 27,168	$ (323)	$ 390,923	$ (686)
U.S. Govt. Guaranteed	1,552,702	(25,756)	1,391,338	(31,817)	2,944,040	(57,573)
U.S. Govt. Agency Guaranteed	468,804	(4,372)	1,295,006	(38,400)	1,763,810	(42,772)
Non-Agency ABSs	423,806	(6,363)	118,221	(955)	542,027	(7,318)
RABs and Other	304	(2)	2,642	(145)	2,946	(147)
Total	$ 2,809,371	$ (36,856)	$ 2,834,375	$ (71,640)	$ 5,643,746	$ (108,496)

	December 31, 2017					
	Less than 12 Months		12 Months or Greater		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Treasury Securities	$ 413,053	$ (182)	$ 27,193	$ (293)	$ 440,246	$ (475)
U.S. Govt. Guaranteed	1,356,044	(14,059)	1,415,892	(22,561)	2,771,936	(36,620)
U.S. Govt. Agency Guaranteed	334,739	(1,454)	1,380,697	(26,564)	1,715,436	(28,018)
Non-Agency ABSs	438,392	(2,569)	162,935	(815)	601,327	(3,384)
RABs and Other	341	–	3,450	(183)	3,791	(183)
Total	$ 2,542,569	$ (18,264)	$ 2,990,167	$ (50,416)	$ 5,532,736	$ (68,680)

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.

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.

For the three months ended March 31, 2018, net unrealized losses of $37.0 million were recognized in OCI on available-for-sale investments in debt securities that are not other-than-temporarily impaired.

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.

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

	Three months ended March 31,	
(dollars in thousands)	**2018**	**2017**
Net gains (losses) on equity securities		
Net gains (losses) recognized	$ 292	$ –
Less realized net gains (losses)	174	–
Unrealized gains (losses)	$ 118	$ –

Note 4 — Debt

Bonds and Notes

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

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

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

	March 31, 2018					
(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	$ 6,475,283	1.44%	$ 5,061,110	1.56%	$ 11,536,393	1.49%
Greater than one year to two years	5,718,474	1.50	–	–	5,718,474	1.50
Greater than two years to three years	3,015,367	1.64	–	–	3,015,367	1.64
Greater than three years to four years	1,963,541	1.93	–	–	1,963,541	1.93
Greater than four years to five years	1,776,204	1.99	–	–	1,776,204	1.99
Greater than five years	5,529,543	2.72	–	–	5,529,543	2.72
Total	$ 24,478,412	1.85%	$ 5,061,110	1.56%	$ 29,539,522	1.80%

Discount notes are issued with maturities ranging from 1 to 365 days. The average maturity of discount notes at March 31, 2018 was 124 days.

Note 5 — Shareholders' Equity

Perpetual Preferred Stock

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

Accumulated Other Comprehensive Income

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

	Changes in Accumulated Other Comprehensive Income by Component *(a)*	
	For the three months ended March 31,	
(dollars in thousands)	2018	2017
Investment Securities:		
Balance at beginning of period	$ (20,026)	$ 2,561
Other comprehensive income before reclassifications	(37,004)	(4,413)
Amounts reclassified from AOCI	–	–
Net current period other comprehensive income	(37,004)	(4,413)
Balance at end of period	$ (57,030)	$ (1,852)
Cash Flow Hedges:		
Balance at beginning of period	$ 18	$ (838)
Other comprehensive income before reclassifications	(15)	(12)
Amounts reclassified from AOCI	587	95
Net current period other comprehensive income	572	83
Balance at end of period	$ 590	$ (755)
Employee Benefit Plans:		
Balance at beginning of period	$ (4,748)	$ (4,076)
Other comprehensive income before reclassifications	–	–
Amounts reclassified from AOCI	125	92
Net current period other comprehensive income	125	92
Balance at end of period	$ (4,623)	$ (3,984)
Total Accumulated Other Comprehensive Income:		
Balance at beginning of period	$ (24,756)	$ (2,353)
Other comprehensive income before reclassifications	(37,019)	(4,425)
Amounts reclassified from AOCI	712	187
Net current period other comprehensive income	(36,307)	(4,238)
Balance at end of period	$ (61,063)	$ (6,591)

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*		
	For the three months ended March 31,		
(dollars in thousands)	2018	2017	Income Statement Line Item
Investment Securities:			
Sales gains & losses	$ –	$ –	Gains (losses) on investments, net
Holding gains & losses	–	–	Net other-than-temporary impairment
Net amounts reclassified	–	–	
Cash Flow Hedges:			
Interest income	(572)	(83)	See Note 11.
Gains (losses) on other transactions	(15)	(12)	See Note 11.
Net amounts reclassified	(587)	(95)	
Employee Benefit Plans:			
Periodic pension costs	(125)	(92)	See Note 7.
Net amounts reclassified	(125)	(92)	
Total reclassifications for period	$ (712)	$ (187)	

(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.

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

	March 31, 2018				
(dollars in thousands)	**Total Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Recurring Measurements					
Assets:					
Investments in debt securities available-for-sale:					
U.S. Govt. Treasury Securities	$ 440,458	$ –	$ 440,458	$ –	$ 440,458
U.S. Govt. Guaranteed	4,510,813	–	4,510,813	–	4,510,813
U.S. Govt. Agency Guaranteed	1,935,077	–	1,935,077	–	1,935,077
Non-Agency ABSs	589,266	–	589,266	–	589,266
Total investments in debt securities available-for-sale	7,475,614	–	7,475,614	–	7,475,614
Federal funds sold, securities purchased under resale agreements, and other	125,000	–	125,000	–	125,000
Interest rate swaps and other derivative instruments	–	–	–	–	–
Money market funds	115,762	115,762	–	–	115,762
Assets held in trust funds	14,329	14,329	–	–	14,329
Recurring Assets	$ 7,730,705	$ 130,091	$ 7,600,614	$ –	$ 7,730,705
Liabilities:					
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –
Collateral liabilities	–	–	–	–	–
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 11,875	$ –	$ –	$ 11,875	$ 11,875
Other property owned	269	–	–	299	299
Nonrecurring Assets	$ 12,144	$ –	$ –	$ 12,174	$ 12,174
Other Financial Instruments					
Assets:					
Cash	$ 697,494	$ 697,494	$ –	$ –	$ 697,494
Investments in debt securities held-to-maturity	444,283	–	383,260	57,580	440,840
Loans	22,794,889	–	–	22,437,578	22,437,578
Other Financial Assets	$ 23,936,666	$ 697,494	$ 383,260	$ 22,495,158	$ 23,575,912
Liabilities:					
Systemwide debt securities	$ 29,539,522	$ –	$ –	$ 29,225,095	$ 29,225,095
Other Financial Liabilities	$ 29,539,522	$ –	$ –	$ 29,225,095	$ 29,225,095

	December 31, 2017				
(dollars in thousands)	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Investments in debt securities available-for-sale:					
U.S. Govt. Treasury Securities	$ 490,097	$ –	$ 490,097	$ –	$ 490,097
U.S. Govt. Guaranteed	4,535,213	–	4,535,213	–	4,535,213
U.S. Govt. Agency Guaranteed	2,006,843	–	2,006,843	–	2,006,843
Non-Agency ABSs	631,452	–	631,452	–	631,452
Total investments in debt securities available-for-sale	7,663,605	–	7,663,605	–	7,663,605
Federal funds sold, securities purchased under resale agreements, and other	150,000	–	150,000	–	150,000
Interest rate swaps and other derivative instruments	–	–	–	–	–
Money market funds	122,519	122,519	–	–	122,519
Assets held in trust funds	13,086	13,086	–	–	13,086
Recurring Assets	$ 7,949,210	$ 135,605	$ 7,813,605	$ –	$ 7,949,210
Liabilities:					
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –
Collateral liabilities	–	–	–	–	–
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 6,767	$ –	$ –	$ 6,767	$ 6,767
Other property owned	154	–	–	168	168
Nonrecurring Assets	$ 6,921	$ –	$ –	$ 6,935	$ 6,935
Other Financial Instruments					
Assets:					
Cash	$ 440,768	$ 440,768	$ –	$ –	$ 440,768
Investments in debt securities held-to-maturity	458,623	–	403,082	60,258	463,340
Loans	23,338,012	–	–	23,201,602	23,201,602
Other Financial Assets	$ 24,237,403	$ 440,768	$ 403,082	$ 23,261,860	$ 24,105,710
Liabilities:					
Systemwide debt securities	$ 29,762,991	$ –	$ –	$ 29,619,713	$ 29,619,713
Other Financial Liabilities	$ 29,762,991	$ –	$ –	$ 29,619,713	$ 29,619,713

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

Investments in Debt Securities

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

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

Derivative Instruments

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

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

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

Inputs to Valuation Techniques

Management determines the 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

(dollars in thousands)	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 12,174	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

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

Information about Other Financial Instrument Fair Value Measurements

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

** Ranges for this type of input are not useful because each collateral property is unique.*
*** The inputs used to estimate fair value for assets and liabilities that are obtained from third party vendors are not included in the table as the specific inputs applied are not provided by the vendor.*

Note 7 — Employee Benefit Plans

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

(dollars in thousands)	For the three months ended March 31, 2018	2017
Pension	$ 1,796	$ 1,477
401k	754	681
Other postretirement benefits	256	257
Total	$ 2,806	$ 2,415

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, 2017.

(dollars in thousands)	Actual YTD Through 3/31/18	Projected Contributions for Remainder of 2018	Projected Total Contributions 2018
Pensions	$ 139	$ 6,418	$ 6,557
Other postretirement benefits	256	738	994
Total	$ 395	$ 7,156	$ 7,551

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

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

Note 8 — Commitments and Contingencies

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

Federal Register, the agreement prescribes the payment mechanisms to be employed in the event one of the banks is unable to meet its debt obligations.

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

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

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

(dollars in billions)		**3/31/18**		**12/31/17**
Total System bonds and notes	$	269.401	$	265.169
AgFirst bonds and notes	$	29.540	$	29.763

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 - Revenue from Contracts with Customers

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

The Bank maintains contracts with customers, primarily other System entities, to provide support services in various areas such as accounting, lending transactions, consulting, insurance, and information technology. The Bank does not generally incur costs to obtain contracts. As most of the contracts are to provide access to expertise or system capacity that the Bank maintains, there are no material incremental costs to fulfill these contracts that should be capitalized. Total revenue recognized from contracts with customers was $1.4 million for the three months ended March 31, 2018.

Note 10 — Additional Financial Information

Offsetting of Financial and Derivative Assets

(dollars in thousands)	March 31, 2018	December 31, 2017
Derivatives	$ –	$ –
Reverse repurchase and similar arrangements	125,000	150,000
Gross Amount of Recognized Assets	125,000	150,000
Derivatives	–	–
Reverse repurchase and similar arrangements	–	–
Gross Amounts Offset in the Balance Sheets	–	–
Net Amounts of Assets Presented in the Balance Sheets	$ 125,000	$ 150,000
Financial Instruments	(125,000)	(150,000)
Cash Collateral Received	–	–
Gross Amounts Not Offset in the Balance Sheets	(125,000)	(150,000)
Net Amount	$ –	$ –

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 11, *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' First Quarter 2018 Report and 2017 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 Sheets (dollars in thousands)	March 31, 2018	December 31, 2017
Cash and investments in debt securities	$ 81,101	$ 122,448
Loans	20,752,125	20,970,757
Allowance for loan losses	(175,584)	(178,686)
Net loans	20,576,541	20,792,071
Other assets	728,541	992,530
Total assets	$ 21,386,183	$ 21,907,049
Direct note	$ 16,327,772	$ 16,854,904
Other liabilities	440,601	519,562
Total liabilities	16,768,373	17,374,466
Capital stock and participation certificates	191,047	187,568
Additional paid-in-capital	23,691	23,691
Retained earnings	4,433,881	4,352,783
Accumulated other comprehensive income (loss)	(30,809)	(31,459)
Total shareholders' equity	4,617,810	4,532,583
Total liabilities and shareholders' equity	$ 21,386,183	$ 21,907,049

Statements of Income *(dollars in thousands)*	**For the three months ended March 31, 2018**	**2017**
Interest income	$ 268,138	$ 245,428
Interest expense	118,514	102,279
Net interest income	149,624	143,149
Provision for (reversal of allowance for) loan losses	401	1,023
Net interest income after provision for (reversal of allowance for) loan losses	149,223	142,126
Noninterest income	60,896	44,291
Noninterest expenses		
Salaries and employee benefits	66,681	65,164
Occupancy and equipment	5,022	4,794
Insurance Fund premiums	3,422	5,397
Other operating expenses	21,406	20,655
Losses (gains) from other property owned	(157)	321
Total noninterest expenses	96,374	96,331
Income (loss) before taxes	113,745	90,086
Provision for income taxes	78	119
Net income	$ 113,667	$ 89,967

Note 11 — 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 three Months Ended March 31, 2018		**2017**	
Notional Amounts *(dollars in millions)*	**Receive-Fixed Swaps**	**Forward Contracts**	**Receive-Fixed Swaps**	**Forward Contracts**
Balance at beginning of period	$ –	$ –	$ 50	$ 1
Additions	–	1	–	2
Maturities/amortization	–	(1)	(50)	(2)
Terminations	–	–	–	–
Balance at end of period	$ –	$ –	$ –	$ 1

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.

Counterparty exposure related to derivatives at:

(dollars in millions)	**March 31, 2018**	**December 31, 2017**
Estimated Gross Credit Risk	$–	$–
Percent of Notional	–%	–%

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

The 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. During the three months ended March 31, 2018, there were no gains or losses recognized related to interest rate swaps. Gains and losses on each derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

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

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

Fair Values of Derivative Instruments

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

(dollars in thousands)	Balance Sheet Classification – Assets	3/31/18 Fair Value	Balance Sheet Classification – Liabilities	3/31/18 Fair Value
Receive-fixed swaps	Other Assets	$ –	Other Liabilities	$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		$ –		$ –

(dollars in thousands)	Balance Sheet Classification – Assets	12/31/17 Fair Value	Balance Sheet Classification – Liabilities	12/31/17 Fair Value
Receive-fixed swaps	Other Assets	$ –	Other Liabilities	$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		$ –		$ –

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

(dollars in thousands)	Location of Gain or (Loss) Recognized in, or Reclassified from AOCI into, Income	Amount of Gain or (Loss) Recognized in, or Reclassified from AOCI into, Income *		Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)		Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	
		2018	2017	2018	2017	2018	2017
Fair Value Hedges:							
Receive-fixed swaps	Noninterest income	$ –	$ –				
Cash Flow Hedges:							
Firm Commitments	Interest Income	$ (572)	$ (83)	$ –	$ –	$ –	$ –
Forward Contracts	Gains (Losses) on Other Transactions	(15)	(12)	–	–	(15)	(12)

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

Note 12 — Subsequent Events

The Bank evaluated subsequent events and determined there were none requiring disclosure through May 9, 2018, which was the date the financial statements were issued.