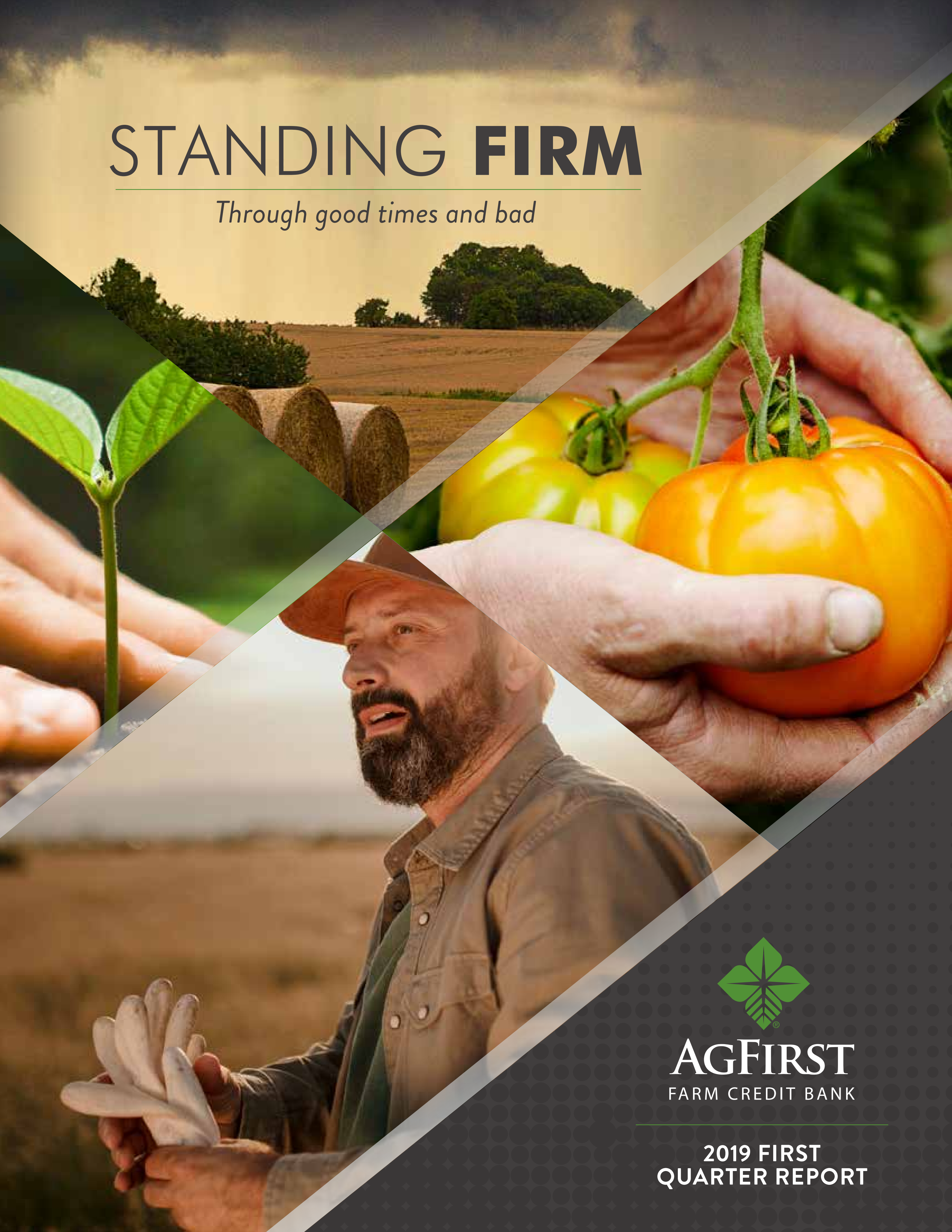
STANDING **FIRM**

Through good times and bad



AGFIRST
FARM CREDIT BANK

2019 FIRST QUARTER REPORT

FIRST QUARTER 2019

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2019 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, 2019

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, 2019. 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, 2019, 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, 2019.

Leon T. Amerson
Chief Executive Officer & President

Stephen Gilbert
Chief Financial Officer

May 9, 2019

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, 2019. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Financial Statements, and the 2018 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, the 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 policies), legal, regulatory, financial markets, and economic conditions and developments in the United States (U.S.) 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 which impact agricultural productivity and income of District borrowers;
- changes in U.S. 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, 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, 2019**		**December 31, 2018**		**March 31, 2018**	
Direct Notes*	$ 15,940,439	66.77%	$ 16,414,045	67.61%	$ 15,314,932	67.10%
Participations/Syndications Purchased, Net*	4,495,925	18.83	4,465,453	18.40	4,222,510	18.50
Correspondent Lending	3,310,969	13.87	3,261,996	13.44	3,148,987	13.80
Loans to OFIs	125,721	0.53	134,387	0.55	136,122	0.60
Total	$ 23,873,054	100.00%	$ 24,275,881	100.00%	$ 22,822,551	100.00%

**Net of participations sold.*

Total loans outstanding were $23.873 billion at March 31, 2019, a decrease of $402.8 million, or 1.66 percent, compared to total loans outstanding at December 31, 2018 and an increase of $1.051 billion, or 4.60 percent, since March 31, 2018. Excluding Bank patronage payments to Associations of approximately $282.4 million which were applied to the Association Direct Notes at the beginning of 2019, loan volume at March 31, 2019 decreased 0.50 percent compared to 2018 year end.

Loan volume since December 31, 2018 was negatively impacted primarily by a decrease in Direct Notes resulting from patronage paid as discussed above as well as the seasonal nature of Association lending activity as borrowers typically pay down loans during the first quarter using proceeds from crop sales. Declines in the cotton, grains, corn, field crops, and poultry segments were partially offset by increases in the forestry and nursery/greenhouse segments. Compared to March 31, 2018, Bank loan demand increased primarily due to moderate growth in the forestry, poultry, and rural home loans segments.

Credit Quality

Credit quality of AgFirst's loans is shown below:

	Total Loan Portfolio Credit Quality as of:		
Classification	**March 31, 2019**	**December 31, 2018**	**March 31, 2018**
Acceptable	93.73%	93.80%	99.67%
OAEM *	6.07%	6.07%	0.12%
Adverse **	0.20%	0.13%	0.21%

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

The decline in credit quality for March 31, 2019 compared to March 31, 2018 reflected in the table above was primarily due to a decline in the credit quality of a single Direct Note which is discussed in the *Direct Notes* section below. Bank credit quality, primarily in the participation/syndication and Correspondent Lending portfolios, is expected to slightly deteriorate given expected reduced farm income, higher farm debt, recent weather events, and uncertainty surrounding global trade issues.

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, 2019, the total Direct Note volume outstanding was $15.940 billion, a decrease of $473.6 million, or 2.89 percent, compared to December 31, 2018. Excluding Bank patronage payments of approximately $282.4 million referenced in the *Loan Portfolio* section above, Direct Note volume decreased 1.16 percent when compared to 2018 year end due to normal first quarter paydowns from crop sale proceeds. Compared to March 31, 2018, Direct Note volume increased $625.5 million, or 4.08 percent. See the *Loan Portfolio* section above for the primary reasons for the change in Direct Note.

	Direct Note Credit Quality as of:					
	March 31, 2019		December 31, 2018		March 31, 2018	
Classification	% Total	# Total	% Total	# Total	% Total	# Total
Acceptable	91.30%	18	91.33%	18	100.00%	19
OAEM *	8.70%	1	8.67%	1	–%	–
Adverse **	–%	–	–%	–	–%	–

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

As reflected in the table above, one Direct Note was classified as OAEM at March 31, 2019 and December 31, 2018.

At March 31, 2019, no District Associations were operating under a written agreement with the FCA. As of March 31, 2019, one Association, which had total assets of $1.876 billion, was operating under a special credit agreement pursuant to its GFA. The GFA events of default are not expected to have a significant adverse impact on the Bank's or District's financial condition or results of operations.

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 any 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.

Participations/Syndications

The Participations/Syndications portfolio consists of loan participations and syndications purchased. As of March 31, 2019, this portfolio totaled $4.496 billion, an increase of $30.5 million, or 0.68 percent, from December 31, 2018 and an increase of $273.4 million, or 6.48 percent, from March 31, 2018. This increase is primarily due to additional 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, 2019**	**December 31, 2018**	**March 31, 2018**
Acceptable	97.74%	98.37%	98.41%
OAEM*	1.41%	1.17%	0.63%
Adverse**	0.85%	0.46%	0.96%

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

Favorable credit quality in the participations/syndications portfolio reflects continued positive general economic performance.

Correspondent Lending

The Correspondent Lending portfolio consists primarily of first lien residential mortgages purchased from Associations. As of March 31, 2019, the Correspondent Lending portfolio totaled $3.311 billion, an increase of $49.0 million, or 1.50 percent, from December 31, 2018 and an increase of $162.0 million, or 5.14 percent, from March 31, 2018.

As of March 31, 2019, $1.280 billion, or 38.66 percent, of loans in the Correspondent Lending portfolio were guaranteed and $2.031 billion, or 61.34 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, 2019, 99.70 percent of the Correspondent Lending portfolio was classified as acceptable and 0.30 percent was classified as adverse. There were no loans classified as OAEM.

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 $22.6 million at March 31, 2019, a decrease of 8.48 percent compared to $24.7 million at December 31, 2018. The decrease of $2.1 million resulted primarily from $2.0 million of repayments. At March 31, 2019, total nonaccrual loans were primarily classified in the rural home loan (62.12 percent of the total) and field crops (32.60 percent) segments. Nonaccrual loans were 0.09 percent of total loans outstanding at March 31, 2019 and 0.10 percent at December 31, 2018.

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 $1.8 million since December 31, 2018 and totaled $27.2 million at March 31, 2019. TDRs at March 31, 2019 were comprised of $17.2 million of accruing restructured loans and $10.0 million of nonaccrual restructured loans. Restructured loans were primarily in the nursery/greenhouse (29.75 percent of the total), field crops (27.30 percent), and rural home loan (20.96 percent) segments.

Other Property Owned

Other property owned (OPO) consists primarily of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank (or a lender group) in satisfaction of secured loans. OPO may be comprised of real estate, equipment, and equity interests in companies or partnerships. OPO decreased $65 thousand since December 31, 2018 and totaled $2.8 million at March 31, 2019 due to write-downs of two properties. At March 31, 2019, the OPO balance consisted primarily of one real estate holding in the forestry segment totaling $2.6 million (92.77 percent of the total OPO balance).

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 $18.0 million at both March 31, 2019 and December 31, 2018. The allowance at March 31, 2019 included specific reserves of $3.6 million (19.84 percent of the total) and general reserves of $14.4 million (80.16 percent). See *Provision for Loan Losses* section below for additional details regarding loan loss provision expense and reversals included in the net provision reversals of $91 thousand recorded during the first quarter of 2019. The general reserves at March 31, 2019 included $4.2 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, 2019 was comprised primarily of reserves for the rural home loan (25.56 percent of the total), field crops (20.54 percent), utilities (11.21 percent), and processing (8.41 percent) segments. The allowance for loan losses was 0.08 percent and 0.07 percent of total loans outstanding at March 31, 2019 and December 31, 2018, 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 principle sources of liquidity: the capacity to issue Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation; and cash and investments. The Bank also maintains several securities repurchase agreement facilities. In addition, the System has established lines of credit in the event contingency funding is needed to meet obligations of System banks.

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

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

The System does not have a guaranteed line of credit from the U.S. Treasury or the Federal Reserve. However, the Farm Credit System Insurance Corporation (FCSIC) has an agreement with the Federal Financing Bank (FFB), a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the FFB could advance funds to the FCSIC. Under its existing statutory authority, the FCSIC may use these funds to provide assistance to the System banks in exigent market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to $10 billion and terminates on September 30, 2019, unless otherwise renewed. The decision whether to seek funds from the FFB is at the discretion of the FCSIC. Each funding obligation of the FFB is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by AgFirst or the System.

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

At March 31, 2019, AgFirst had $30.217 billion in total debt outstanding compared to $30.382 billion at December 31, 2018, a decrease of $164.9 million, or 0.54 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 $141.7 million from December 31, 2018 to a total of $663.1 million at March 31, 2019, consist primarily of cash on deposit and money market securities that are short-term in nature (from overnight maturities to maturities that range up to 90 days). Incremental movements in cash balances between reporting periods are due primarily to changes in liquidity needs in relation to upcoming debt maturities.

Investments in debt securities totaled $7.878 billion, or 24.08 percent of total assets at March 31, 2019, compared to $7.981 billion, or 24.13 percent, as of December 31, 2018, a decrease of $103.7 million, or 1.30 percent. The majority of investments, $7.837 billion as of March 31, 2019, are classified as being available for sale. Available-for-sale investments at March 31, 2019 included $341.2 million in U.S. Treasury securities, $4.485 billion in U.S. government guaranteed securities, $2.219 billion in U.S. government agency guaranteed securities, and $790.9 million in non-agency asset-backed securities. Since the majority of the portfolio is invested in U.S. government guaranteed and agency securities, the portfolio is highly liquid and potential credit loss exposure is limited.

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, 2019, the Bank's eligible available-for-sale investments were 33.94 percent of the total loans outstanding.

As of March 31, 2019, 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 most liquid. 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, 2019, AgFirst met each of the individual level criteria above and had a total of 226 days of maturing debt coverage compared to 217 days at December 31, 2018. 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 $106.2 million, or 4.77 percent, from December 31, 2018 to $2.330 billion at March 31, 2019. This increase is primarily attributed to 2019 unallocated retained earnings from net income of $67.4 million and a decrease in net unrealized losses of $41.3 million on investments primarily due to a decrease in interest rates increasing 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*	**3/31/19**	**12/31/18**	**3/31/18**
Permanent Capital Ratio	7.00%	19.26%	21.67%	20.30%
Common Equity Tier 1 (CET1) Capital Ratio	7.00%	18.81%	21.20%	19.83%
Tier 1 Capital Ratio	8.50%	19.23%	21.64%	20.28%
Total Regulatory Capital Ratio	10.50%	19.39%	21.79%	20.41%
Tier 1 Leverage Ratio	5.00%	6.87%	7.53%	7.08%
Unallocated Retained Earnings (URE) and URE Equivalents Leverage Ratio	1.50%	5.90%	6.58%	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 capital, total regulatory capital, permanent capital, tier 1 leverage, and unallocated retained earnings (URE) and URE equivalents leverage ratios.

The permanent capital, CET1, tier 1 capital, 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. Risk-adjusted assets refer to the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. Generally, higher credit conversion factors are applied to assets with more inherent risk. Unlike these ratios, the tier 1 leverage and URE and URE equivalents leverage ratios do not incorporate any risk-adjusted weighting of assets. 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, 2019 compared to December 31, 2018 and March 31, 2018. Because these ratios are calculated using a three-month average daily balance for both capital and assets, total Bank declared patronage of $298.2 million in 2018, which represented approximately 97.46 percent of 2018 net income and was accrued at the end of 2018, was not reflected in the December 31, 2018 ratios, but was fully reflected in the ratios at March 31, 2019. The decline in the capital ratios at March 31, 2019 compared to March 31, 2018 was primarily due to higher average risk-weighted asset and total asset levels in the 2019 period.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2019 was $67.4 million compared to $79.2 million for the three months ended March 31, 2018, a decrease of $11.8 million, or 14.87 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, 2019	For the Year Ended December 31, 2018	Annualized for the Three Months Ended March 31, 2018
Return on average assets	0.84%	0.95%	1.01%
Return on average shareholders' equity	12.05%	13.03%	14.18%
Net interest margin	1.22%	1.29%	1.34%
Operating expense as a percentage of net interest income and noninterest income	33.59%	30.61%	29.56%
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 2019 compared to the same period in 2018 and to the year ended December 31, 2018 due primarily to lower annualized net income. Higher average asset levels in the 2019 period also contributed to the decline in the return on average assets ratio compared to March 31, 2018. The lower net interest margin ratio in the first quarter of 2019 compared to both prior periods presented was due to higher earning asset levels and lower net interest income resulting from higher debt costs in the 2019 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 primarily by lower net interest income and noninterest income in the 2019 period 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, 2019 was $96.7 million compared to $102.6 million for the same period of 2018, a decrease of $5.9 million or 5.76 percent. The net interest margin, which is net interest income as a percentage of average earning assets, was 1.22 percent, a decrease of 12 basis points for the first quarter of 2019 compared to the same period in the prior year. The decrease in net interest income resulted from higher rates paid on interest-bearing liabilities, partially offset by the positive impact of higher yields on interest-earning assets.

The Bank called debt totaling $1.735 billion for the three months ended March 31, 2019 and was able to lower the cost of funds. No debt was called during the first three months of the prior year. 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, 2019, as compared with the corresponding periods in 2018, 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.

	For the Three Months Ended March 31, 2019 vs. March 31, 2018		
	Increase (decrease) due to changes in:		
(dollars in thousands)	**Volume**	**Rate**	**Total**
Interest Income:			
Loans	$ 9,537	$ 23,386	$ 32,923
Investments & Cash Equivalents	(1,222)	13,363	12,141
Other	1,305	–	1,305
Total Interest Income	9,620	36,749	46,369
Interest Expense:			
Interest-Bearing Liabilities	5,368	46,911	52,279
Changes in Net Interest Income	$ 4,252	$ (10,162)	$ (5,910)

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 reversal of $91 thousand for the three months ended March 31, 2019 compared to net provision expense of $1.4 million for the corresponding period in 2018. For both years, net loan loss provision (reversal) was primarily driven by changes in specific reserves on one loan relationship in the field crops segment which transferred to nonaccrual in the first quarter of 2018.

For the three month period ended March 31, 2019, the provision for loan losses included net provision reversals for specific reserves of $1.2 million and net provision expense for general reserves of $1.1 million. The total net provision reversal for the three months ended March 31, 2019 primarily related to borrowers in the field crops ($828 thousand reversal), utilities ($553 thousand expense), and processing ($372 thousand expense) segments.

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. 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.

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)	**2019**	**2018**	**Increase/ (Decrease)**
Loan fees	$ 1,983	$ 1,933	$ 50
Building lease income	700	845	(145)
Gains (losses) on debt extinguishment	(3,213)	–	(3,213)
Gains (losses) on other transactions	84	619	(535)
Insurance premium refund	2,620	6,330	(3,710)
Other noninterest income	2,581	2,142	439
Total noninterest income	$ 4,755	$ 11,869	$ (7,114)

For the three months ended March 31, 2019 compared to the corresponding period in 2018, noninterest income decreased $7.1 million primarily from lower insurance premium refunds received in 2019 and higher losses on debt extinguishment compared to the same period in the prior year. Significant line item dollar variances are discussed below.

Debt issuance expense is amortized over the life of the underlying debt security. When debt securities are called prior to maturity, any unamortized issuance cost is expensed. Losses on debt extinguishment increased $3.2 million for the three months ended March 31, 2019 compared to the same period in 2018. Call options were exercised on bonds totaling $1.735 billion for the three month period in 2019 compared to no debt called for the same period in 2018. Debt is called to take advantage of favorable market interest rate changes. The amount of debt issuance cost expensed is dependent upon both the volume and remaining maturity of the debt when called. Losses on called debt are more than offset by interest expense savings realized as called debt is replaced by new debt issued at a lower rate of interest.

For the three month period ended March 31, 2019, gains on other transactions decreased $535 thousand primarily due to a $472 thousand higher provision expense for unfunded commitments. Changes in the reserve for unfunded commitments result from fluctuations in both the balance and composition of unfunded commitments between periods.

The Bank received $2.6 million and $6.3 million for the three months ended March 31, 2019 and 2018, respectively, in insurance premium refunds from the FCSIC which insures the System's debt obligations. The FCSIC refunds are nonrecurring and resulted from the assets of the FCSIC exceeding the secure base amount as defined by the Farm Credit Act.

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)	**2019**	**2018**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 16,159	$ 16,222	$ (63)
Occupancy and equipment	6,012	5,756	256
Insurance Fund premiums	2,174	2,210	(36)
Other operating expenses	9,734	9,648	86
Losses (gains) from other property owned	73	57	16
Total noninterest expenses	$ 34,152	$ 33,893	$ 259

Noninterest expenses for the three months ended March 31, 2019 increased $259 thousand compared to the corresponding period in 2018. There were no significant line item variances for the three month period ended March 31, 2019 compared to the same period of the prior year.

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 regulatory 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 is one of the four banks of the 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, 2019, 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, 2019:

(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	127,843
Allocated equities:	
Allocated stock subject to retirement	187,748
Nonqualified allocated surplus subject to retirement	440
Unallocated retained earnings	1,889,671
Paid-in capital	58,883
Regulatory adjustments and deductions made to CET1*	(71,198)
Total CET1	$ 2,193,410
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	$ 2,242,660
Tier 2 Capital	
Allowance for loan losses	$ 18,048
Reserve for unfunded commitments	37
Regulatory adjustments and deductions made to total capital	–
Total Tier 2 Capital	$ 18,085
Total Regulatory Capital	$ 2,260,745

**Primarily investments in other System institutions.*

CAPITAL ADEQUACY AND CAPITAL BUFFERS

The table below outlines the Bank's risk-weighted assets by exposure calculated on a three-month average daily balance (including accrued interest of that exposure) as of March 31, 2019:

(dollars in thousands)		Risk-Weighted Assets
Exposures to:		
Government-sponsored entities, including Direct Notes to Associations	$	3,917,469
Depository institutions		47,627
Corporate exposures, including borrower loans and leases		4,820,217
Residential mortgage loans		944,066
Past due > 90 days and nonaccrual loans		21,122
Securitizations		285,456
Exposures to obligors and other assets		117,408
Off-balance sheet exposures		1,508,179
Total risk-weighted assets	$	11,661,544

As of March 31, 2019, the Bank was well-capitalized and exceeded all capital requirements to which it was subject, including applicable capital buffers. The Bank's risk-adjusted capital ratios exceeded the regulatory minimum levels, including the conservation buffer, by 9.52 percent. Additionally, the Bank's leverage ratio was 1.87 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 $78 thousand as of March 31, 2019.

The following sets forth the regulatory capital ratios as of March 31, 2019:

Ratio	Regulatory Minimum Requirement	Capital Conservation Buffer	Minimum Requirement, Including Buffer	Capital Ratios as of March 31, 2019
Risk-adjusted ratios:				
CET1 Capital*	4.50%	1.875%	6.375%	18.81%
Tier 1 Capital*	6.00%	1.875%	7.875%	19.23%
Total Regulatory Capital*	8.00%	1.875%	9.875%	19.39%
Permanent Capital	7.00%	0.00%	7.00%	19.26%
Non-risk-adjusted ratios:				
Tier 1 Leverage	4.00%	1.00%	5.00%	6.87%
URE and URE Equivalents Leverage	1.50%	0.00%	1.50%	5.90%

** 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 as well as Other Financing Institutions (OFIs). The Bank also purchases participations and syndications and first lien residential mortgage loans. 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, 2019. 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, 2019		
(dollars in thousands)	Amortized Cost	Risk-Weighted Exposures	% of Total Loans
Loans with unconditional guarantee	$ 5,919	$ –	–%
Loans with conditional guarantee	1,285,283	260,596	5%
Direct Notes	15,985,559	3,192,418	67%
Total	$ 17,276,761	$ 3,453,014	72%

The Bank's credit risk associated with its Direct Note portfolio approximates that of the total District Association portfolios as a whole. At March 31, 2019, the Bank's Direct Note portfolio totaled $15.940 billion and total District Association loan portfolios totaled $21.599 billion.

The following table illustrates the geographic distribution of the total loan portfolios for AgFirst District Associations as of March 31, 2019:

AgFirst Total District Associations
Loan Portfolios by State

	Percent of Portfolio
North Carolina	16 %
Georgia	11
Virginia	10
Pennsylvania	10
Ohio	8
Florida	8
Maryland	7
South Carolina	6
Alabama	5
Kentucky	4
Mississippi	3
Delaware	2
Louisiana	2
All Other States	8
	100 %

The following table illustrates the various major commodity groups in the total District Association loan portfolios based on borrower eligibility and the percentage of the total outstanding District Association loan volume at March 31, 2019:

AgFirst Total District Associations
Loan Portfolios by Commodity Group

	Percent of Portfolio
Forestry	15 %
Poultry	14
Field Crops	12
Cattle	9
Grains	8
Corn	6
Dairy	5
Other Real Estate	5
Tree Fruits and Nuts	3
Nursery/Greenhouse	3
Cotton	3
Swine	3
Rural Home Loan	2
Processing	2
Other	10
	100 %

The following table illustrates the total District Association loan portfolios based upon repayment dependency by commodity and the percentage of the total outstanding District Association loan volume at March 31, 2019:

AgFirst Total District Associations
Loan Portfolios by Commodity Group

	Percent of Portfolio
Non-Farm Income	32 %
Grains	14
Poultry	14
Timber	6
Dairy	5
Beef	5
Fruit and Vegetables	4
Cotton	3
Swine	3
Landlords	2
Farm-Related Business	2
Nursery	2
Tobacco	2
Other	6
	100 %

The following table illustrates AgFirst's loan portfolio by geographic distribution at March 31, 2019. 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.

AgFirst Participations and Correspondent Lending Portfolios by State

(dollars in thousands)	Total Loans	Percent of Total
North Carolina	$ 1,419,020	18 %
Georgia	959,592	12
Florida	572,951	7
Virginia	571,621	7
South Carolina	430,470	5
Texas	429,736	5
Maryland	321,277	4
California	234,429	3
Pennsylvania	228,958	3
Kentucky	210,371	3
Ohio	210,307	3
Missouri	203,384	3
Minnesota	202,095	3
New York	200,516	3
Kansas	133,597	2
All Other States	1,478,570	19
	$ 7,806,894	100 %

The following table shows the various major commodity groups in the portfolio based on borrower eligibility and the percentage of the outstanding portfolio volume at March 31, 2019. This table excludes the Bank's Direct Notes and loans to OFI portfolios.

AgFirst Participations and Correspondent Lending Portfolios by Commodity Group

(dollars in thousands)	Total Loans	Percent of Total
Rural Home Loan	$ 3,153,665	40 %
Forestry	893,804	11
Utilities	762,813	10
Processing	715,007	9
Field Crops	279,040	4
Nursery/Greenhouse	229,063	3
Tree Fruits and Nuts	221,858	3
Other Real Estate	216,683	3
Dairy	185,954	2
Swine	164,709	2
Cattle	163,748	2
Other	820,550	11
	$ 7,806,894	100 %

The following table segregates loans based upon repayment dependency by commodity at March 31, 2019. This table excludes the Bank's Direct Notes and loans to OFI portfolios.

AgFirst Participations and Correspondent Lending Portfolios by Commodity Group

(dollars in thousands)	Total Loans	Percent of Total
Non-Farm Income	$ 3,471,632	44 %
Rural Utilities	762,813	10
Timber	760,758	10
Fruit and Vegetables	382,482	5
Grains	351,309	5
Swine	318,043	4
Processing and Marketing	299,600	4
Farm-Related Business	217,635	3
Dairy	186,142	2
Nursery	177,109	2
Beef	166,804	2
Poultry	141,445	2
Other	571,122	7
	$ 7,806,894	100 %

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

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, 2019			
(dollars in thousands)	**Amortized Cost**	**Fair Value**	**% of Total Investments**	**Risk-Weighted Exposures**
Unconditional Guarantee:				
U.S. Govt. Treasury Securities	$ 341,142	$ 341,180	4%	$ –
U.S. Govt. Guaranteed	4,480,099	4,485,047	57%	–
Conditional Guarantee:				
U.S. Govt. Agency Guaranteed	2,232,298	2,221,066	28%	464,455
Total	$ 7,053,539	$ 7,047,293	89%	$ 464,455

COUNTERPARTY CREDIT RISK

See Note 10, *Derivative Financial Instruments and Hedging Activities*, in the Notes to the Financial Statements for further information on any counterparty exposures related to derivatives as of March 31, 2019.

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 (ABS) portfolio is risk weighted on an individual security level. As of March 31, 2019, the ABS risk-weights ranged from 20.00 percent to 131.92 percent, with a weighted average risk-weight of 35.52 percent.

The following table shows the risk-weight distribution as of March 31, 2019 for ABS securities which are risk weighted using the SSFA approach:

	Fair Value by SSFA Risk Weight Classification		
(dollars in thousands)	**Automobile ABSs**	**Credit Card ABSs**	**Total**
0% – 50%	$ 163,204	$ 458,366	$ 621,570
Greater than 50% – 100%	145,262	–	145,262
Greater than 100% – 150%	25,998	–	25,998
Total Exposure	$ 334,464	$ 458,366	$ 792,830

As of March 31, 2019, the Bank did not hold any off-balance sheet securitization exposures nor were any securitization exposures deducted from capital. For the three months ended March 31, 2019, there were no sales of ABS securities that resulted in realized gains or losses.

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

At March 31, 2019, the Bank had no equity 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, 2019:

Net Interest Income
(dollars in thousands)

Scenarios	Net Interest Income	% Change
+4.0% Shock	$357,846	-4.57%
+2.0% Shock	$375,888	0.24%
Base line **	$375,000	–%
-1.0% Shock	$392,417	4.64%
-50% of 3M Tbill ***	$400,393	6.77%

Market Value of Equity
(dollars in thousands)

Scenarios	Assets	Liabilities*	Equity*	% Change
Book Value	$32,714,802	$30,434,175	$2,280,627	–%
+4.0% Shock	$29,840,904	$28,160,056	$1,680,848	-29.99%
+2.0% Shock	$31,310,958	$29,260,800	$2,050,158	-14.60%
Base line **	$32,775,990	$30,375,210	$2,400,780	–%
-1.0% Shock	$33,309,363	$30,727,271	$2,582,092	7.55%
-50% of 3M Tbill ***	$33,382,585	$30,758,960	$2,623,625	9.28%

**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 which is equal to one-half of the three-month Treasury bill rate. At March 31, 2019, this downward shock was 119 basis points.*

Other Regulatory Matters

On April 3, 2019, the Farm Credit Administration issued a proposed rule that would clarify the factors that System institutions should consider when categorizing high-risk loans and placing them in nonaccrual status. The rule would also revise the criteria by which loans are reinstated to accrual status, and would revise the application of the criteria to certain loans in nonaccrual status to distinguish between the types of risk that cause loans to be placed in nonaccrual status. The public comment period ends on June 3, 2019.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2018 Annual Report of AgFirst Farm Credit Bank for recently issued accounting pronouncements.

The following Accounting Standards Update (ASU) was issued by the Financial Accounting Standards Board (FASB) but has not yet been adopted:

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to a CECL model. • The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.	• Implementation efforts have begun by establishing a cross-discipline governance structure. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. • The new guidance is expected to result in an increase in 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 any debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of the increase is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts at the adoption date. • The guidance is expected to be adopted in first quarter 2021.

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, 2019	December 31, 2018
	(unaudited)	*(audited)*
Assets		
Cash	**$ 513,138**	$ 421,485
Cash equivalents	**150,000**	100,000
Investments in debt securities:		
Available-for-sale (amortized cost of $7,844,718 and $7,988,624, respectively)	**7,836,579**	7,939,196
Held-to-maturity (fair value of $44,355 and $44,894, respectively)	**40,940**	42,052
Total investments in debt securities	**7,877,519**	7,981,248
Loans	**23,873,054**	24,275,881
Allowance for loan losses	**(17,952)**	(18,049)
Net loans	**23,855,102**	24,257,832
Accrued interest receivable	**94,443**	90,794
Accounts receivable	**61,448**	71,061
Equity investments in other Farm Credit institutions	**75,358**	74,798
Premises and equipment, net	**58,154**	55,865
Other property owned	**2,777**	2,842
Other assets	**26,863**	22,537
Total assets	**$ 32,714,802**	$ 33,078,462
Liabilities		
Systemwide bonds payable	**$ 25,938,507**	$ 25,807,367
Systemwide notes payable	**4,278,338**	4,574,334
Lease obligations	**3,327**	—
Accrued interest payable	**114,304**	109,659
Accounts payable	**19,809**	327,610
Other liabilities	**30,640**	35,795
Total liabilities	**30,384,925**	30,854,765
Commitments and contingencies (Note 8)		
Shareholders' Equity		
Perpetual preferred stock	**49,250**	49,250
Capital stock and participation certificates	**315,975**	317,840
Additional paid-in-capital	**58,883**	58,883
Retained earnings		
Allocated	**440**	440
Unallocated	**1,915,660**	1,848,936
Accumulated other comprehensive income (loss)	**(10,331)**	(51,652)
Total shareholders' equity	**2,329,877**	2,223,697
Total liabilities and equity	**$ 32,714,802**	$ 33,078,462

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, 2019	For the Three Months Ended March 31, 2018
Interest Income		
Investment securities	**$ 56,166**	$ 44,025
Loans	**219,199**	186,276
Other	**1,305**	—
Total interest income	**276,670**	230,301
Interest Expense	**179,975**	127,696
Net interest income	**96,695**	102,605
Provision for (reversal of allowance for) loan losses	**(91)**	1,423
Net interest income after provision for (reversal of allowance for) loan losses	**96,786**	101,182
Noninterest Income		
Loan fees	**1,983**	1,933
Building lease income	**700**	845
Gains (losses) on debt extinguishment	**(3,213)**	—
Gains (losses) on other transactions	**84**	619
Insurance premium refund	**2,620**	6,330
Other noninterest income	**2,581**	2,142
Total noninterest income	**4,755**	11,869
Noninterest Expenses		
Salaries and employee benefits	**16,159**	16,222
Occupancy and equipment	**6,012**	5,756
Insurance Fund premiums	**2,174**	2,210
Other operating expenses	**9,734**	9,648
Losses (gains) from other property owned	**73**	57
Total noninterest expenses	**34,152**	33,893
Net income	**$ 67,389**	$ 79,158

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, 2019	2018
Net income	**$ 67,389**	$ 79,158
Other comprehensive income:		
Unrealized gains (losses) on investments	**41,289**	(37,004)
Change in value of cash flow hedges	**(50)**	572
Employee benefit plans adjustments	**82**	125
Other comprehensive income (Note 5)	**41,321**	(36,307)
Comprehensive income	**$ 108,710**	$ 42,851

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, 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
Balance at December 31, 2018	$ 49,250	$ 317,840	$ 58,883	$ 440	$ 1,848,936	$ (51,652)	$ 2,223,697
Cumulative effect of change in accounting principle					**(150)**		**(150)**
Comprehensive income					**67,389**	**41,321**	**108,710**
Capital stock/participation certificates issued/(retired), net		**(2,177)**					**(2,177)**
Dividends paid on perpetual preferred stock					**(472)**		**(472)**
Patronage distribution adjustment		**312**			**(43)**		**269**
Balance at March 31, 2019	**$ 49,250**	**$ 315,975**	**$ 58,883**	**$ 440**	**$ 1,915,660**	**$ (10,331)**	**$ 2,329,877**

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, 2019	2018
Cash flows from operating activities:		
Net income	**$ 67,389**	$ 79,158
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	**2,066**	2,123
Amortization of net deferred loan (fees) costs and premium amortization (discount accretion)	**391**	382
Premium amortization (discount accretion) on investment securities	**(84)**	1,294
(Premium amortization) discount accretion on bonds and notes	**28,959**	19,035
Provision for loan losses	**(91)**	1,423
(Gains) losses on other property owned, net	**65**	29
(Gains) losses on debt extinguishment	**3,213**	—
(Gains) losses on other transactions	**(84)**	(619)
Net change in loans held for sale	**1,182**	1,198
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	**(3,649)**	(3,153)
(Increase) decrease in accounts receivable	**9,613**	22,332
Increase (decrease) in accrued interest payable	**4,645**	10,660
Increase (decrease) in accounts payable	**(13,379)**	(33,071)
Change in other, net	**(6,140)**	(16,188)
Total adjustments	**26,707**	5,445
Net cash provided by (used in) operating activities	**94,096**	84,603
Cash flows from investing activities:		
Investment securities purchased	**(378,761)**	(443,167)
Investment securities sold or matured	**523,813**	607,772
Net (increase) decrease in loans	**401,250**	534,868
(Increase) decrease in investments in other Farm Credit System institutions	**(560)**	(455)
Purchase of premises and equipment, net	**(4,355)**	(1,247)
Net cash provided by (used in) investing activities	**541,387**	697,771
Cash flows from financing activities:		
Bonds and notes issued	**5,011,981**	3,750,206
Bonds and notes retired	**(5,209,009)**	(3,992,710)
Capital stock and participation certificates issued/retired, net	**(2,177)**	(3,612)
Distribution to shareholders	**(294,153)**	(310,954)
Dividends paid on perpetual preferred stock	**(472)**	(335)
Net cash provided by (used in) financing activities	**(493,830)**	(557,405)
Net increase (decrease) in cash and cash equivalents	**141,653**	224,969
Cash and cash equivalents, beginning of period	**521,485**	713,287
Cash and cash equivalents, end of period	**$ 663,138**	$ 938,256
Supplemental schedule of non-cash activities:		
Receipt of property in settlement of loans	**$ —**	$ 144
Change in unrealized gains (losses) on investments, net	**41,289**	(37,004)
Employee benefit plans adjustments	**(82)**	(125)
Supplemental information:		
Interest paid	**$ 146,371**	$ 98,001

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, 2018 are contained in the 2018 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 may 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 ASU was issued by the Financial Accounting Standards Board (FASB) since the most recent year end:

- In March 2019, the FASB issued ASU 2019-01 Leases (Topic 842): Codification Improvements. The Update addresses potential implementation issues that could arise as organizations implement Topic 842. The amendments in the Update include the following items brought to the FASB's attention through interactions with stakeholders: 1. Determining the fair value of the underlying asset by lessors that are not manufacturers or dealers; 2. Presentation on the statement of cash flows—sales-type and direct financing leases; 3. Transition disclosures related to Topic 250, Accounting Changes and Error Corrections. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

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 2018, the FASB issued ASU 2018-15 Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this Update. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period, for all entities. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

- In August 2018, the FASB issued ASU 2018-14 Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans. The amendments in this Update remove disclosures that are no longer considered cost beneficial, clarify the specific requirements of certain disclosures, and add new disclosure requirements identified as relevant. Although narrow in scope, the amendments are considered an important part of the FASB's efforts to improve the effectiveness of disclosures in the notes to financial statements by applying concepts in the Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements. The amendments are effective for fiscal years ending after December 15, 2020, for public business entities. Early adoption is permitted. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

- In August 2018, the FASB issued ASU 2018-13 Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments are part of the FASB's disclosure framework project. The project's objective and primary focus are to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by GAAP that is most important to users of each entity's financial statements. The amendments remove, modify or add certain disclosures contained in the financial statement footnotes related to fair value. Additionally, the guidance is intended to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Certain amendments should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance. Entities are permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. The removed disclosures were adopted effective with the 2018 Annual Report. Evaluation of any possible effects the additional and modified disclosures guidance may have on the statements of financial condition and results of operations is in progress.

- In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update, and subsequent clarifying guidance issued, 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 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 31, 2018. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

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 October 2018, the FASB issued ASU 2018-16 Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes. The amendments in this Update permit use of the OIS rate based on SOFR as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815 in addition to the UST, the LIBOR swap rate, the OIS rate based on the Fed Funds Effective Rate, and the SIFMA Municipal Swap Rate. For public business entities, the amendments were effective upon the adoption of Update 2017-12. Refer to ASU 2017-12 below for further information.

- 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 were effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Adoption of this guidance had 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 was effective for interim and annual periods beginning after December 15, 2018 for public business entities. Adoption of this guidance had no impact 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. 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. The amendments were effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for public business entities.

  Transition Information

  - The guidance was adopted using the optional modified retrospective method and practical expedients for transition. Under this transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.
  - The package of practical expedients was elected, which allowed existing leases to be largely accounted for consistent with current guidance, except for the incremental balance sheet recognition for lessees.
  - There will not be a material change to the timing of future expense recognition.
  - Upon adoption, a cumulative-effect adjustment to equity of approximately $(150) thousand was recorded. In addition, a Right of Use Asset in the amount of $963 thousand and Lease Liability in the amount of $1.1 million were recognized.
  - Given the limited changes to lessor accounting, there were no material changes to recognition or measurement.

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, 2019	December 31, 2018
Direct notes	$ 15,940,439	$ 16,414,045
Real estate mortgage	1,071,485	1,107,077
Production and intermediate-term	1,055,010	1,137,422
Loans to cooperatives	536,247	441,510
Processing and marketing	998,993	977,274
Farm-related business	42,659	51,393
Communication	296,721	295,833
Power and water/waste disposal	572,672	532,649
Rural residential real estate	3,153,664	3,104,737
International	71,153	71,141
Lease receivables	391	385
Loans to other financing institutions (OFIs)	125,721	134,387
Other (including Mission Related)	7,899	8,028
Total loans	$ 23,873,054	$ 24,275,881

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 2019, one Association canceled its participation in the Capitalized Participation Pool program with the Bank. As a result, the Association repurchased $26.3 million of participations previously sold to AgFirst. During 2019, the Bank purchased $116.7 million of residential mortgage loans from various Farm Credit System (System) associations and sold $863 thousand from the portfolio. These amounts are not included in the table below. The following tables present the principal balance of participation loans at periods ended:

	March 31, 2019							
	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	$ –	$ –	$ –	$ 1,054,215	$ –	$ –	$ –	$ 1,054,215
Real estate mortgage	731,710	194,230	430,428	49,925	–	–	1,162,138	244,155
Production and intermediate-term	741,975	269,187	609,074	292,499	268,013	–	1,619,062	561,686
Loans to cooperatives	–	101,641	643,068	–	–	–	643,068	101,641
Processing and marketing	377,708	371,170	447,996	315,892	862,247	–	1,687,951	687,062
Farm-related business	37,774	–	–	–	5,000	–	42,774	–
Communication	–	108,694	405,591	–	–	–	405,591	108,694
Power and water/waste disposal	–	59,647	633,637	–	–	–	633,637	59,647
International	–	34,127	105,375	–	–	–	105,375	34,127
Lease receivables	–	–	391	–	–	–	391	–
Other (including Mission Related)	7,946	–	–	–	–	–	7,946	–
Total	$ 1,897,113	$ 1,138,696	$ 3,275,560	$ 1,712,531	$ 1,135,260	$ –	$ 6,307,933	$ 2,851,227

	December 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 notes	$ –	$ –	$ –	$ 1,044,500	$ –	$ –	$ –	$ 1,044,500
Real estate mortgage	749,214	173,032	422,769	45,352	–	–	1,171,983	218,384
Production and intermediate-term	837,130	269,025	598,501	297,424	270,739	–	1,706,370	566,449
Loans to cooperatives	–	66,879	499,682	–	–	–	499,682	66,879
Processing and marketing	374,181	312,768	350,108	299,783	867,310	–	1,591,599	612,551
Farm-related business	46,458	–	–	–	5,000	–	51,458	–
Communication	–	119,032	415,116	–	–	–	415,116	119,032
Power and water/waste disposal	–	53,082	587,092	–	–	–	587,092	53,082
Rural residential real estate	145	–	–	–	–	–	145	–
International	–	34,127	105,375	–	–	–	105,375	34,127
Lease receivables	–	–	385	–	–	–	385	–
Other (including Mission Related)	8,076	–	–	–	–	–	8,076	–
Total	$ 2,015,204	$ 1,027,945	$ 2,979,028	$ 1,687,059	$ 1,143,049	$ –	$ 6,137,281	$ 2,715,004

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, 2019			
(dollars in thousands)	Due Less Than 1 Year	Due 1 Through 5 Years	Due After 5 Years	Total
Direct notes	$ 489,524	$ 2,595,444	$ 12,855,471	$ 15,940,439
Real estate mortgage	8,708	249,475	813,302	1,071,485
Production and intermediate-term	168,060	577,204	309,746	1,055,010
Loans to cooperatives	71,815	348,081	116,351	536,247
Processing and marketing	100,224	564,380	334,389	998,993
Farm-related business	15,787	8,393	18,479	42,659
Communication	–	154,402	142,319	296,721
Power and water/waste disposal	12,755	237,576	322,341	572,672
Rural residential real estate	100,197	11,605	3,041,862	3,153,664
International	–	49,175	21,978	71,153
Lease receivables	–	55	336	391
Loans to OFIs	120,576	2,917	2,228	125,721
Other (including Mission Related)	–	2,223	5,676	7,899
Total loans	$ 1,087,646	$ 4,800,930	$ 17,984,478	$ 23,873,054
Percentage	4.56%	20.11%	75.33%	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, 2019	December 31, 2018
Direct notes:		
Acceptable	91.30%	91.33%
OAEM	8.70	8.67
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Real estate mortgage:		
Acceptable	96.04%	97.34%
OAEM	3.40	2.04
Substandard/doubtful/loss	0.56	0.62
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	96.87%	97.81%
OAEM	2.53	1.61
Substandard/doubtful/loss	0.60	0.58
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	98.70%	98.31%
OAEM	–	–
Substandard/doubtful/loss	1.30	1.69
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Communication:		
Acceptable	100.00%	96.18%
OAEM	–	3.82
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	March 31, 2019	December 31, 2018
Power and water/waste disposal:		
Acceptable	96.63%	100.00%
OAEM	–	–
Substandard/doubtful/loss	3.37	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	99.70%	99.68%
OAEM	–	–
Substandard/doubtful/loss	0.30	0.32
	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	93.73%	93.80%
OAEM	6.07	6.07
Substandard/doubtful/loss	0.20	0.13
	100.00%	100.00%

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

	March 31, 2019				
(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	$ –	$ –	$ –	$ 15,985,559	$ 15,985,559
Real estate mortgage	945	371	1,316	1,076,950	1,078,266
Production and intermediate-term	2	388	390	1,060,716	1,061,106
Loans to cooperatives	–	–	–	537,434	537,434
Processing and marketing	–	–	–	1,002,266	1,002,266
Farm-related business	–	–	–	42,916	42,916
Communication	–	–	–	296,968	296,968
Power and water/waste disposal	–	–	–	576,455	576,455
Rural residential real estate	38,068	3,898	41,966	3,119,774	3,161,740
International	–	–	–	71,459	71,459
Lease receivables	–	–	–	393	393
Loans to OFIs	–	–	–	126,036	126,036
Other (including Mission Related)	–	–	–	8,034	8,034
Total	$ 39,015	$ 4,657	$ 43,672	$ 23,904,960	$ 23,948,632

(dollars in thousands)	December 31, 2018 30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Direct notes	$ –	$ –	$ –	$ 16,459,760	$ 16,459,760
Real estate mortgage	1,419	790	2,209	1,112,905	1,115,114
Production and intermediate-term	3	363	366	1,142,038	1,142,404
Loans to cooperatives	–	–	–	442,294	442,294
Processing and marketing	–	–	–	980,507	980,507
Farm-related business	–	–	–	51,538	51,538
Communication	–	–	–	295,908	295,908
Power and water/waste disposal	–	–	–	534,774	534,774
Rural residential real estate	39,508	7,136	46,644	3,065,415	3,112,059
International	–	–	–	71,650	71,650
Lease receivables	–	–	–	387	387
Loans to OFIs	–	–	–	134,721	134,721
Other (including Mission Related)	–	–	–	8,127	8,127
Total	$ 40,930	$ 8,289	$ 49,219	$ 24,300,024	$ 24,349,243

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

(dollars in thousands)	March 31, 2019	December 31, 2018
Nonaccrual loans:		
Real estate mortgage	$ 1,215	$ 1,460
Production and intermediate-term	368	453
Loans to cooperatives	6,996	7,492
Rural residential real estate	14,065	15,338
Total	$ 22,644	$ 24,743
Accruing restructured loans:		
Real estate mortgage	$ 1,014	$ 750
Production and intermediate-term	8,870	8,011
Rural residential real estate	3,195	2,929
Other (including Mission Related)	4,141	4,092
Total	$ 17,220	$ 15,782
Accruing loans 90 days or more past due:		
Rural residential real estate	$ –	$ 145
Total	$ –	$ 145
Total nonperforming loans	$ 39,864	$ 40,670
Other property owned	2,777	2,842
Total nonperforming assets	$ 42,641	$ 43,512
Nonaccrual loans as a percentage of total loans	0.09%	0.10%
Nonperforming assets as a percentage of total loans and other property owned	0.18%	0.18%
Nonperforming assets as a percentage of capital	1.83%	1.96%

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, 2019	December 31, 2018
Impaired nonaccrual loans:		
Current as to principal and interest	$ 12,626	$ 11,727
Past due	10,018	13,016
Total impaired loans	$ 22,644	$ 24,743
Impaired accrual loans:		
Restructured	$ 17,220	$ 15,782
90 days or more past due	–	145
Total impaired loans	$ 17,220	$ 15,927
Total impaired loans	$ 39,864	$ 40,670
Additional commitments to lend	$ 1,364	$ 1,687

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, 2019			Three Months Ended March 31, 2019	
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	$ 108	$ 108	$ 5	$ 107	$ –
Production and intermediate-term	–	–	–	–	–
Loans to cooperatives	6,996	7,666	3,123	7,067	1
Rural residential real estate	3,407	3,352	342	3,361	–
Other (including Mission Related)	4,141	4,080	92	4,112	64
Total	$ 14,652	$ 15,206	$ 3,562	$ 14,647	$ 65
With no related allowance for credit losses:					
Real estate mortgage	$ 2,121	$ 2,109	$ –	$ 1,904	$ 143
Production and intermediate-term	9,238	17,671	–	8,168	177
Loans to cooperatives	–	–	–	–	–
Rural residential real estate	13,853	13,682	–	14,234	209
Other (including Mission Related)	–	–	–	–	–
Total	$ 25,212	$ 33,462	$ –	$ 24,306	$ 529
Total impaired loans:					
Real estate mortgage	$ 2,229	$ 2,217	$ 5	$ 2,011	$ 143
Production and intermediate-term	9,238	17,671	–	8,168	177
Loans to cooperatives	6,996	7,666	3,123	7,067	1
Rural residential real estate	17,260	17,034	342	17,595	209
Other (including Mission Related)	4,141	4,080	92	4,112	64
Total	$ 39,864	$ 48,668	$ 3,562	$ 38,953	$ 594

(dollars in thousands)	December 31, 2018			Year Ended December 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	$ –	$ –	$ –	$ 8	$ –
Production and intermediate-term	–	–	–	42	–
Loans to cooperatives	7,492	7,995	3,951	7,684	46
Rural residential real estate	3,923	3,864	718	1,991	–
Other (including Mission Related)	4,092	4,083	135	4,192	259
Total	$ 15,507	$ 15,942	$ 4,804	$ 13,917	$ 305
With no related allowance for credit losses:					
Real estate mortgage	$ 2,210	$ 2,424	$ –	$ 6,259	$ 2,627
Production and intermediate-term	8,464	16,988	–	8,175	781
Loans to cooperatives	–	–	–	–	–
Rural residential real estate	14,489	13,835	–	13,250	677
Other (including Mission Related)	–	–	–	–	–
Total	$ 25,163	$ 33,247	$ –	$ 27,684	$ 4,085
Total impaired loans:					
Real estate mortgage	$ 2,210	$ 2,424	$ –	$ 6,267	$ 2,627
Production and intermediate-term	8,464	16,988	–	8,217	781
Loans to cooperatives	7,492	7,995	3,951	7,684	46
Rural residential real estate	18,412	17,699	718	15,241	677
Other (including Mission Related)	4,092	4,083	135	4,192	259
Total	$ 40,670	$ 49,189	$ 4,804	$ 41,601	$ 4,390

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, 2018	$ –	$ 1,518	$ 2,614	$ 6,959	$ 784	$ 794	$ 4,808	$ 134	$ 438	$ 18,049
Charge-offs	–	–	–	–	–	–	(6)	–	–	(6)
Recoveries	–	–	–	–	–	–	–	–	–	–
Provision for loan losses	–	(87)	(50)	(312)	(40)	669	(213)	–	(58)	(91)
Balance at March 31, 2019	$ –	$ 1,431	$ 2,564	$ 6,647	$ 744	$ 1,463	$ 4,589	$ 134	$ 380	$ 17,952
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
Allowance on loans evaluated for impairment:										
Individually	$ –	$ 5	$ –	$ 3,123	$ –	$ –	$ 342	$ –	$ 92	$ 3,562
Collectively	–	1,426	2,564	3,524	744	1,463	4,247	134	288	14,390
Balance at March 31, 2019	$ –	$ 1,431	$ 2,564	$ 6,647	$ 744	$ 1,463	$ 4,589	$ 134	$ 380	$ 17,952
Individually	$ –	$ –	$ –	$ 3,951	$ –	$ –	$ 718	$ –	$ 135	$ 4,804
Collectively	–	1,518	2,614	3,008	784	794	4,090	134	303	13,245
Balance at December 31, 2018	$ –	$ 1,518	$ 2,614	$ 6,959	$ 784	$ 794	$ 4,808	$ 134	$ 438	$ 18,049
Recorded investment in loans evaluated for impairment:										
Individually	$ 15,985,559	$ 158,327	$ 9,238	$ 6,996	$ –	$ –	$ 1,153,665	$ –	$ 4,141	$ 17,317,926
Collectively	–	919,939	1,051,868	1,575,620	296,968	576,455	2,008,075	71,459	130,322	6,630,706
Balance at March 31, 2019	$ 15,985,559	$ 1,078,266	$ 1,061,106	$ 1,582,616	$ 296,968	$ 576,455	$ 3,161,740	$ 71,459	$ 134,463	$ 23,948,632
Individually	$ 16,459,760	$ 156,824	$ 8,464	$ 7,494	$ –	$ –	$ 1,287,215	$ –	$ 4,092	$ 17,923,849
Collectively	–	958,290	1,133,940	1,466,845	295,908	534,774	1,824,844	71,650	139,143	6,425,394
Balance at December 31, 2018	$ 16,459,760	$ 1,115,114	$ 1,142,404	$ 1,474,339	$ 295,908	$ 534,774	$ 3,112,059	$ 71,650	$ 143,235	$ 24,349,243

**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, 2019				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Production and intermediate-term	$ –	$ 781	$ –	$ 781	
Rural residential real estate	890	–	–	890	
Total	$ 890	$ 781	$ –	$ 1,671	
Post-modification:					
Production and intermediate-term	$ –	$ 781	$ –	$ 781	$ –
Rural residential real estate	919	–	–	919	–
Total	$ 919	$ 781	$ –	$ 1,700	$ –

(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	$ –

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,	
(dollars in thousands)	2019	2018
Defaulted troubled debt restructurings:		
Rural residential real estate	$ –	$ 86
Total	$ –	$ 86

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, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Real estate mortgage	$ 1,224	$ 914	$ 210	$ 164
Production and intermediate-term	9,338	8,601	468	590
Loans to cooperatives	7,005	6,951	7,005	6,951
Rural residential real estate	5,491	4,795	2,296	1,866
Other (including Mission Related)	4,141	4,092	–	–
Total	$ 27,199	$ 25,353	$ 9,979	$ 9,571
Additional commitments to lend	$ 1,364	$ 1,687		

The following table presents foreclosure information as of period end:

(dollars in thousands)	March 31, 2019
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	$ 201
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ 1,649

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

The Bank'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). Also included are asset-backed securities (ABSs) which are issued through the Small Business Administration and are guaranteed by the full faith and credit of the United States government. They are held to maintain a liquidity reserve, manage short-term surplus funds, and manage interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

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

The FCA considers a non-agency security ineligible if it falls below the AAA/Aaa credit rating criteria and requires System institutions to provide notification to the FCA when a security becomes ineligible. At March 31, 2019, the Bank held no ineligible available-for-sale investments in debt securities.

Held-to-maturity investments in debt securities consist of Mission Related Investments (MRIs) acquired primarily under the Rural America Bond (RAB) pilot program. RABs are private placement securities, which generally have some form of credit enhancement.

In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9. Any other bonds purchased under the MRI program, approved on a case-by-case basis by the FCA, may have different eligibility requirements. The FCA requires System institutions to provide notification when a security becomes ineligible. At March 31, 2019, the Bank held three RABs totaling $809 thousand 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 investments 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, 2019, the Bank held $42.4 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 did not sell any investments during the first three months of 2019 or 2018.

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, 2019				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. Treasury Securities	$ 341,142	$ 286	$ (248)	$ 341,180	2.38%
U.S. Govt. Guaranteed	4,480,099	44,292	(39,344)	4,485,047	2.82
U.S. Govt. Agency Guaranteed	2,230,647	13,207	(24,404)	2,219,450	2.78
Non-Agency ABSs	792,830	862	(2,790)	790,902	2.29
Total	$ 7,844,718	$ 58,647	$ (66,786)	$ 7,836,579	2.73%

	December 31, 2018				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. Treasury Securities	$ 389,948	$ 212	$ (549)	$ 389,611	2.34%
U.S. Govt. Guaranteed	4,518,703	34,712	(53,818)	4,499,597	2.76
U.S. Govt. Agency Guaranteed	2,297,134	11,373	(35,758)	2,272,749	2.74
Non-Agency ABSs	782,839	136	(5,736)	777,239	2.15
Total	$ 7,988,624	$ 46,433	$ (95,861)	$ 7,939,196	2.67%

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:

	March 31, 2019				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	$ 1,651	$ –	$ (35)	$ 1,616	5.82%
RABs and Other	39,289	3,467	(17)	42,739	6.06
Total	$ 40,940	$ 3,467	$ (52)	$ 44,355	6.05%

	December 31, 2018				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	$ 1,679	$ –	$ (36)	$ 1,643	1.99%
RABs and Other	40,373	2,999	(121)	43,251	6.06
Total	$ 42,052	$ 2,999	$ (157)	$ 44,894	5.89%

A summary of the contractual maturity, estimated fair value and amortized cost of investment securities at March 31, 2019 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	$ 261,096	2.39%	$ 80,084	2.35%	$ –	–%	$ –	–%	$ 341,180	2.38%
U.S. Govt. Guaranteed	–	–	9,692	2.99	202,102	3.11	4,273,253	2.80	4,485,047	2.82
U.S. Govt. Agency Guaranteed	–	–	106,654	2.96	178,593	2.84	1,934,203	2.76	2,219,450	2.78
Non-Agency ABSs	–	–	744,821	2.26	46,081	2.70	–	–	790,902	2.29
Total fair value	$ 261,096	2.39%	$ 941,251	2.36%	$ 426,776	2.95%	$ 6,207,456	2.79%	$ 7,836,579	2.73%
Total amortized cost	$ 261,152		$ 943,242		$ 425,950		$ 6,214,374		$ 7,844,718	

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	$ –	–%	$ –	–%	$ –	–%	$ 1,651	5.82%	$ 1,651	5.82%
RABs and Other	–	–	17,522	6.19	–	–	21,767	5.95	39,289	6.06
Total amortized cost	$ –	–%	$ 17,522	6.19%	$ –	–%	$ 23,418	5.94%	$ 40,940	6.05%
Total fair value	$ –		$ 18,196		$ –		$ 26,159		$ 44,355	

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, 2019					
	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	$ 99,612	$ (7)	$ 27,206	$ (241)	$ 126,818	$ (248)
U.S. Govt. Guaranteed	413,632	(2,477)	2,160,528	(36,867)	2,574,160	(39,344)
U.S. Govt. Agency Guaranteed	398,516	(1,697)	1,212,467	(22,742)	1,610,983	(24,439)
Non-Agency ABSs	38,905	(6)	421,173	(2,784)	460,078	(2,790)
RABs and Other	–	–	2,149	(17)	2,149	(17)
Total	$ 950,665	$ (4,187)	$ 3,823,523	$ (62,651)	$ 4,774,188	$ (66,838)

	December 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	$ 198,819	$ (174)	$ 27,062	$ (375)	$ 225,881	$ (549)
U.S. Govt. Guaranteed	550,215	(3,386)	2,092,608	(50,432)	2,642,823	(53,818)
U.S. Govt. Agency Guaranteed	421,629	(2,095)	1,230,414	(33,699)	1,652,043	(35,794)
Non-Agency ABSs	224,573	(295)	454,524	(5,441)	679,097	(5,736)
RABs and Other	171	(52)	2,638	(69)	2,809	(121)
Total	$ 1,395,407	$ (6,002)	$ 3,807,246	$ (90,016)	$ 5,202,653	$ (96,018)

The recording of an impairment loss 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, 2019, net unrealized gains of $41.3 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.

During the first quarter of 2018, the Bank also held certain equity investments in Money Market funds. These funds were accounted for as investment securities but were classified as Cash Equivalents in the Balance Sheet and Statement of Cash Flows.

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

	Three Months Ended March 31,	
(dollars in thousands)	**2019**	**2018**
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, 2019					
(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	$ 7,452,587	2.06%	$ 4,278,338	2.53%	$ 11,730,925	2.23%
Greater than one year to two years	6,169,067	2.20	–	–	6,169,067	2.20
Greater than two years to three years	3,394,156	2.26	–	–	3,394,156	2.26
Greater than three years to four years	2,131,161	2.27	–	–	2,131,161	2.27
Greater than four years to five years	1,452,066	2.46	–	–	1,452,066	2.46
Greater than five years	5,339,470	2.92	–	–	5,339,470	2.92
Total	$ 25,938,507	2.34%	$ 4,278,338	2.53%	$ 30,216,845	2.36%

Discount notes are issued with maturities ranging from 1 to 365 days. The average maturity of discount notes at March 31, 2019 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)	2019	2018
Investment Securities:		
Balance at beginning of period	$ (49,429)	$ (20,026)
Other comprehensive income before reclassifications	41,289	(37,004)
Amounts reclassified from AOCI	–	–
Net current period other comprehensive income	41,289	(37,004)
Balance at end of period	$ (8,140)	$ (57,030)
Cash Flow Hedges:		
Balance at beginning of period	$ 886	$ 18
Other comprehensive income before reclassifications	–	(15)
Amounts reclassified from AOCI	(50)	587
Net current period other comprehensive income	(50)	572
Balance at end of period	$ 836	$ 590
Employee Benefit Plans:		
Balance at beginning of period	$ (3,109)	$ (4,748)
Other comprehensive income before reclassifications	–	–
Amounts reclassified from AOCI	82	125
Net current period other comprehensive income	82	125
Balance at end of period	$ (3,027)	$ (4,623)
Total Accumulated Other Comprehensive Income:		
Balance at beginning of period	$ (51,652)	$ (24,756)
Other comprehensive income before reclassifications	41,289	(37,019)
Amounts reclassified from AOCI	32	712
Net current period other comprehensive income	41,321	(36,307)
Balance at end of period	$ (10,331)	$ (61,063)

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*		
	For the Three Months Ended March 31,		
(dollars in thousands)	2019	2018	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	50	(572)	See Note 10.
Gains (losses) on other transactions	–	(15)	See Note 10.
Net amounts reclassified	50	(587)	
Employee Benefit Plans:			
Periodic pension costs	(82)	(125)	See Note 7.
Net amounts reclassified	(82)	(125)	
Total reclassifications for period	$ (32)	$ (712)	

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

Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

(dollars in thousands)	**Mortgage Servicing Rights, Net**	**Forward Contracts, Net**
Balance at December 31, 2018	$ 1,033	$ –
Gains or (losses) included in earnings	–	–
Gains or (losses) included in OCI	–	–
Purchases	–	–
Sales	–	–
Issuances	–	–
Settlements	(188)	–
Transfers in and/or out of Level 3	–	–
Balance at March 31, 2019	$ 845	$ –

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, 2019				
(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	$ 341,180	$ –	$ 341,180	$ –	$ 341,180
U.S. Govt. guaranteed	4,485,047	–	4,485,047	–	4,485,047
U.S. Govt. Agency guaranteed	2,219,450	–	2,219,450	–	2,219,450
Non-Agency ABSs	790,902	–	790,902	–	790,902
Total investments in debt securities available-for-sale	7,836,579	–	7,836,579	–	7,836,579
Federal funds sold, securities purchased under resale agreements, and other	150,000	–	150,000	–	150,000
Interest rate swaps and other derivative instruments	–	–	–	–	–
Mortgage servicing rights	921	–	–	921	921
Assets held in trust funds	15,007	15,007	–	–	15,007
Recurring Assets	$ 8,002,507	$ 15,007	$ 7,986,579	$ 921	$ 8,002,507
Liabilities:					
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –
Mortgage servicing rights	76	–	–	76	76
Collateral liabilities	–	–	–	–	–
Recurring Liabilities	$ 76	$ –	$ –	$ 76	$ 76
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 11,090	$ –	$ –	$ 11,090	$ 11,090
Other property owned	2,777	–	–	3,375	3,375
Nonrecurring Assets	$ 13,867	$ –	$ –	$ 14,465	$ 14,465
Other Financial Instruments					
Assets:					
Cash	$ 513,138	$ 513,138	$ –	$ –	$ 513,138
Investments in debt securities held-to-maturity	40,940	–	1,616	42,739	44,355
Loans	23,844,012	–	–	23,745,269	23,745,269
Other Financial Assets	$ 24,398,090	$ 513,138	$ 1,616	$ 23,788,008	$ 24,302,762
Liabilities:					
Systemwide debt securities	$ 30,216,845	$ –	$ –	$ 30,138,138	$ 30,138,138
Other Financial Liabilities	$ 30,216,845	$ –	$ –	$ 30,138,138	$ 30,138,138

	December 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	$ 389,611	$ –	$ 389,611	$ –	$ 389,611
U.S. Govt. guaranteed	4,499,597	–	4,499,597	–	4,499,597
U.S. Govt. agency guaranteed	2,272,749	–	2,272,749	–	2,272,749
Non-agency ABSs	777,239	–	777,239	–	777,239
Total investments in debt securities available-for-sale	7,939,196	–	7,939,196	–	7,939,196
Federal funds sold, securities purchased under resale agreements, and other	100,000	–	100,000	–	100,000
Interest rate swaps and other derivative instruments	–	–	–	–	–
Mortgage servicing rights	1,102	–	–	1,102	1,102
Assets held in trust funds	13,834	13,834	–	–	13,834
Recurring Assets	$ 8,054,132	$ 13,834	$ 8,039,196	$ 1,102	$ 8,054,132
Liabilities:					
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –
Mortgage servicing rights	69	–	–	69	69
Collateral liabilities	–	–	–	–	–
Recurring Liabilities	$ 69	$ –	$ –	$ 69	$ 69
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 10,703	$ –	$ –	$ 10,703	$ 10,703
Other property owned	2,842	–	–	3,555	3,555
Nonrecurring Assets	$ 13,545	$ –	$ –	$ 14,258	$ 14,258
Other Financial Instruments					
Assets:					
Cash	$ 421,485	$ 421,485	$ –	$ –	$ 421,485
Investments in debt securities held-to-maturity	42,052	–	1,643	43,251	44,894
Loans	24,247,129	–	–	23,931,485	23,931,485
Other Financial Assets	$ 24,710,666	$ 421,485	$ 1,643	$ 23,974,736	$ 24,397,864
Liabilities:					
Systemwide debt securities	$ 30,381,701	$ –	$ –	$ 30,104,941	$ 30,104,941
Other Financial Liabilities	$ 30,381,701	$ –	$ –	$ 30,104,941	$ 30,104,941

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	$ 14,465	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*
Forward contracts	$ –	Discounted cash flow	Estimated future cash flows	
Mortgage servicing rights, net	$ 845	Discounted cash flow	Constant prepayment rate	
			Probability of default	
			Loss severity	
			Fees and costs	

Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

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

Information about Other Financial Instrument Fair Value Measurements

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

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

Note 7 — Employee Benefit Plans

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

	For the Three Months Ended March 31,	
(dollars in thousands)	2019	2018
Pension	$ 1,285	$ 1,796
401k	848	754
Other postretirement benefits	245	256
Total	$ 2,378	$ 2,806

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, 2018.

(dollars in thousands)	Actual YTD Through 3/31/19	Projected Contributions for Remainder of 2019	Projected Total Contributions 2019
Pensions	$ 139	$ 4,522	$ 4,661
Other postretirement benefits	245	707	952
Total	$ 384	$ 5,229	$ 5,613

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, 2019.

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)	March 31, 2019	December 31, 2018
Total System bonds and notes	$ 281.080	$ 281.459
AgFirst bonds and notes	$ 30.217	$ 30.382

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. No material liabilities have been recorded for any claims that may be pending.

Note 9 — Additional Financial Information

Offsetting of Financial and Derivative Assets

(dollars in thousands)	March 31, 2019	December 31, 2018
Derivatives	$ –	$ –
Reverse repurchase and similar arrangements	150,000	100,000
Gross Amount of Recognized Assets	150,000	100,000
Derivatives	–	–
Reverse repurchase and similar arrangements	–	–
Gross Amounts Offset in the Balance Sheets	–	–
Net Amounts of Assets Presented in the Balance Sheets	$ 150,000	$ 100,000
Financial Instruments	(150,000)	(100,000)
Cash Collateral Received	–	–
Gross Amounts Not Offset in the Balance Sheets	(150,000)	(100,000)
Net Amount	$ –	$ –

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

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

The reverse repurchase agreements are accounted for as collateralized lending.

Combined Districtwide Financial Statements

The accompanying financial statements exclude financial information of the Bank's affiliated Associations. The Bank and its affiliated Associations are collectively referred to as the AgFirst District. The Bank separately publishes certain unaudited combined financial information of the AgFirst District, including a statement of condition and statement of income, which can be found on the Bank's website at www.agfirst.com. Such information is not incorporated by reference into, and should not be considered a part of, this First Quarter 2019 Report.

Note 10 — Derivative Financial Instruments and Hedging Activities

One of the Bank's goals is to minimize interest rate sensitivity by managing the repricing characteristics of assets and liabilities so that the net interest margin is not adversely affected by movements in interest rates. The Bank maintains an overall interest rate risk management strategy that may incorporate the use of derivative instruments to achieve that goal. The primary derivative type used by the Bank has been interest rate swaps that convert fixed interest rate debt to a lower floating interest rate than was achievable from issuing floating rate debt with identical repricing characteristics. Interest rate swaps may allow the 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,			
	2019		2018	
Notional Amounts *(dollars in millions)*	**Receive-Fixed Swaps**	**Forward Contracts**	**Receive-Fixed Swaps**	**Forward Contracts**
Balance at beginning of period	$ –	$ –	$ –	$ –
Additions	–	–	–	1
Maturities/amortization	–	–	–	(1)
Terminations	–	–	–	–
Balance at end of period	$ –	$ –	$ –	$ –

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, 2019**	**December 31, 2018**
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. 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 difference in market value of the contracted securities, between the purchase and reporting or settlement dates, 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 no commitments 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.

Derivatives Not Designated as Hedges

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

Fair Values of Derivative Instruments

There were no derivative assets or liabilities designated as hedging instruments at the periods ended March 31, 2019 or December 31, 2018.

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 OCI on Derivative (Effective Portion)**	
		2019	**2018**	**2019**	**2018**
Cash Flow Hedges:					
Firm Commitments	Interest Income	$ 50	$ (572)	$ –	$ –
Forward Contracts	Gains (Losses) on Other Transactions	–	(15)	–	(15)

There were no derivative instruments not designated as hedging instruments at March 31, 2019 or December 31, 2018. The following table sets forth the amount of net gain (loss) on derivatives not designated as hedging instruments recognized in earnings. No gain (loss) was recognized in AOCI for the three month periods presented. See Note 5, *Shareholders' Equity*.

(dollars in thousands)	**Location of Gain or (Loss) Recognized in Income**	**Amount of Gain or (Loss) Recognized in Income ***	
		2019	**2018**
Fair Value Derivatives:			
Forward Contracts	Gains (Losses) on Other Transactions	$ –	$ –

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

Note 11 — Subsequent Events

The Bank evaluated subsequent events and determined there were none requiring disclosure through May 9, 2019, which was the date the financial statements were issued.