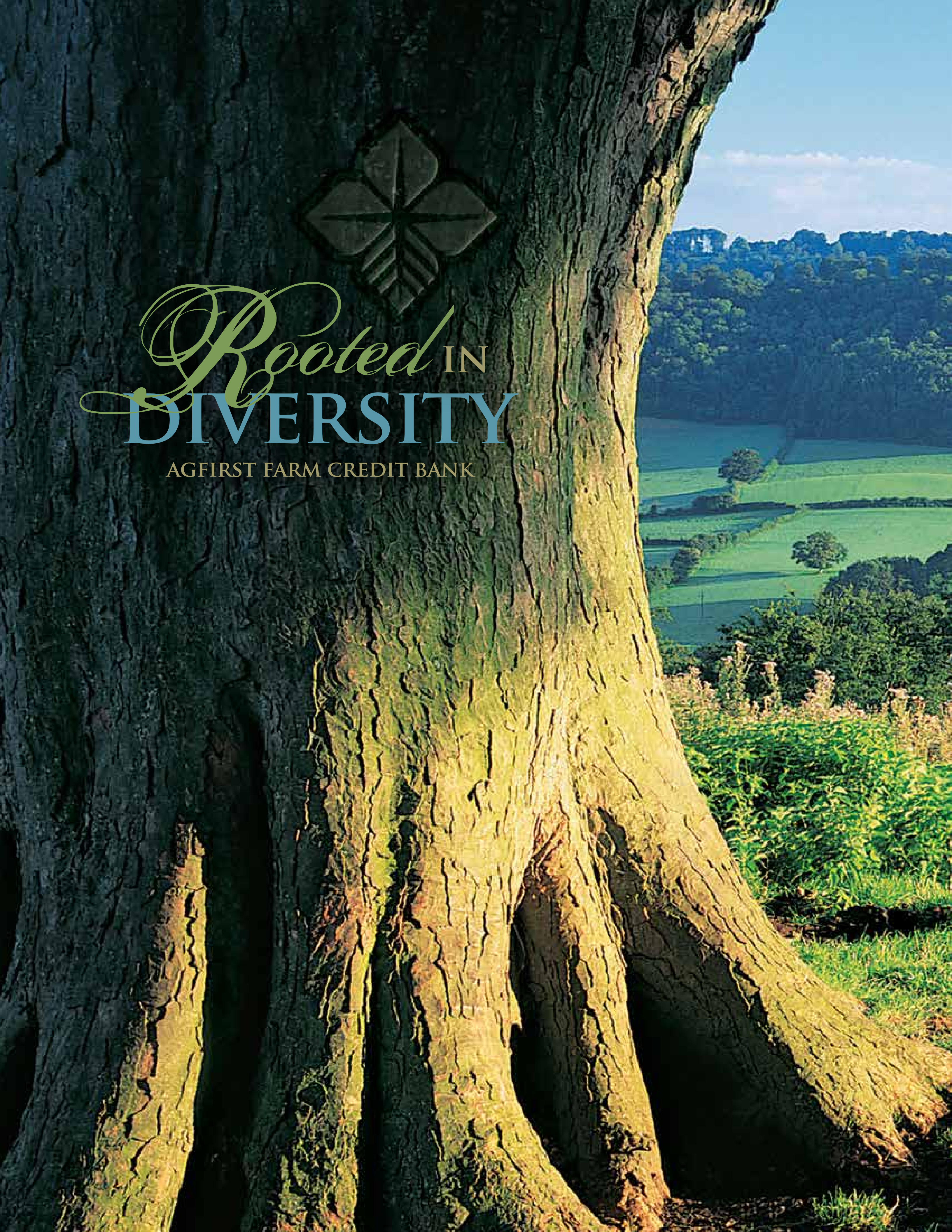
Rooted in DIVERSITY

AGFIRST FARM CREDIT BANK



EMBRACING DIVERSITY HELPS US BETTER SERVE OUR UNIQUE POOL OF CUSTOMERS AND OPENS DOORS TO PERSONAL AND PROFESSIONAL GROWTH. DIVERSITY IS IN OUR ROOTS, AND CELEBRATING THAT MAKES US STRONGER, MORE CREATIVE AND FLEXIBLE IN THE FACE OF CHANGE.

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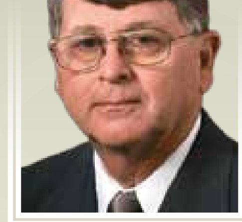
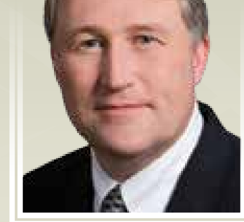
FROM THE CHAIRMAN OF THE BOARD & THE CHIEF EXECUTIVE OFFICER



Robert H. Spiers, Jr.
Chairman of the Board



Leon T. Amerson
Chief Executive Officer

There are many reasons why AgFirst continues to be a successful cooperative lending institution. One of those reasons—and one that we are most proud of—is our people. Not just our AgFirst employees, but the employees of all our District Associations, as well as our Association member-borrowers. It takes a well-rounded and highly-qualified group of individuals to make any organization successful, and AgFirst is no different. We are committed to diversity—in our operations, our portfolio, our services and our people.

Operations: 2013 was another extraordinary year for AgFirst despite slow economic growth and an increasingly competitive environment for agricultural loans. Our profitability approached the record level of 2012 and reflected a significant reduction in credit related charges. Our capital levels remained strong and we maintained our "fortress balance sheet," which we have embraced as our most important responsibility under our cooperative philosophy. This fortress position allowed us to greatly enhance the amount of cash patronage declared to our Associations in 2013. Patronage to our Associations was approximately three times our target level and represented a rebate of nearly all of their 2013 borrowing costs.

Portfolio: The loan portfolio is well diversified from a customer, economic, geographic and commodity perspective. This diversification served the Bank well in the most recent economic downturn, contributed to the outstanding performance of the Bank in the past year, and places the Bank in good position for the future.

Services: While our financial performance is largely driven by our lending activities, the value we strive to provide to our Associations goes well beyond the interest rates we charge and amount of patronage we pay. As the primary provider of technology and support services, our Associations rely on us to maintain reliable and secure systems that enhance their ability to efficiently and effectively meet the needs of member-borrowers. Making things more challenging is the fact that technology continues to evolve at a staggering pace, which necessitates constant improvement.

By collaborating with our 19 Associations, our technology initiatives benefit from the innovation and ingenuity of a very diverse pool of highly talented individuals with various experiences, viewpoints and skillsets. In 2013, we achieved several significant systems upgrades and reaffirmed our long-term commitment to continued improvements.

People: The success of our operations, portfolio and services cannot be accomplished without our most important asset—our people. In this annual report, we have chosen to highlight some of our employees and customers with diverse backgrounds and unique stories to tell. You'll read about individuals who've overcome economic and geographic obstacles, and through hard work and perseverance have found their own place within Farm Credit. These are resilient individuals who mirror the work ethic and the long-standing values that the Farm Credit System has celebrated for more than 97 years.

AgFirst's success throughout the years—and especially in 2013—has been built upon our cooperative business model, and that model's strength is rooted in the diversity of our membership. The AgFirst family celebrates and encourages the diversity found in our people—both in the office and in the field.

Robert H. Spiers, Jr.
Chairman of the Board

Leon T. Amerson
Chief Executive Officer

March 12, 2014

Rooted
IN DIVERSITY

AgFirst is cooperatively owned by 19 Associations that cover diverse areas within our Bank's chartered territory. Our mission is to provide funding and services to these Associations to allow them to meet the unique and varied financing needs of the farmers, ranchers, rural homeowners and agribusinesses in their territories.

We recognize the value in the varied backgrounds and perspectives of our district's employees, both at the Bank and the Association levels, in helping to provide excellent service for the increasingly wide range of customers we work for every day. Our diverse team of employees is best positioned to serve our diverse group of customers.

At AgFirst, encouraging and fostering diversity is a tradition in which we have a strong sense of pride. It is a solid building block that has empowered us to expand and move forward, and it will continue to serve us into the future.

Preserving
A WAY OF LIFE

For Susan and Richard Lynn and Amy and Robert Schilling, owners of Sand Hill Berries, their farm has grown into a multi-faceted business operation. But no matter how successful their business gets, it's all about maintaining a place where people feel welcome and can relax, a lifestyle that the berry farmers have always wanted.

Starting almost by accident with 7,500 raspberry plants acquired over a short conversation at a good price, Sand Hill Berries now features a retail store, an outdoor café, a pick-your-own flower garden, a winery and plenty of events during warm weather. One thing is certain: owners Susan and Richard Lynn and Amy and Robert Schilling know how to use what they have to its full potential.

Fruits with fragile skin present certain challenges, and flexibility is the key to Sand Hill Berries' success. Berries in good condition harvested on nice days are sold fresh in a basket. Broken or wet fruits from bad weather days are made into the jams, jellies, sauces and other value-added products available in the Sand Hill Berries store. This way, the Lynns and the Schillings use as much of the fruit as possible.

The farm draws visitors of all ages from near and far. "A lot of customers drive 30 to 40 minutes to get here," says Rob Schilling. When the guests arrive, there may be live music they can listen to over a picnic or from the Nectar Garden, which is heavily planted to give guests the feeling they're having their own private get-together.

Visitors might also arrive for a Valentine's Day dinner or fondue night, or the farm's own Open House Festival with its free raspberry sundaes. With so much going on at Sand Hill Berries, its growing status as a destination spot makes it worth the drive. "We want this to be a place people can relax," says Susan Lynn.

Sand Hill Berries has grown quite a bit since it started with a few thousand raspberry plants and the owners' desire to raise their families in the country. It only continues to grow. Now the Lynns and the Schillings are focusing on extending both ends of their season, which would help their sales at farmers markets. "If you have strawberries two weeks before everyone else, people realize you have them and keep coming back even after other people have them," says Rob.

It's been a learning venture over the years, but everyone contributes their area of expertise to the operation. Susan oversees the office and crop production; Amy plans events and focuses on food preparation; Rob can sense the atmosphere at a farm market and supervises the farm's space there; and when Dr. Rick Lynn isn't with patients at the hospital, he offers his wine and grape selection knowledge.

CUSTOMER PROFILE

SUSAN & RICHARD LYNN

AND

AMY & ROBERT SCHILLING

Sand Hill Berries

Mt. Pleasant, Pennsylvania

Products:
Fruit, berries, bakery & winery

Size of Operation:
22 acres

Years in Business:
28

Farm Credit Partner:
AgChoice Farm Credit

Years working with Farm Credit:
20

It takes all skills to be as flexible as they need to be at Sand Hill Berries, and the four work together to help the farm continue to succeed. Success for these berry farmers can be measured one relaxing moment at a time. ❖

Cultivating
BUSINESS RELATIONSHIPS

CUSTOMER PROFILE

MARTIN ORTIZ
Ortiz Shiitake Mushrooms, Inc. & Liberty Mushrooms
Kennett Square, Pennsylvania

Products:
Shiitake Mushrooms

Size of Operation:
2.5 million pounds of mushrooms annually

Years in Business:
15 years

Farm Credit Partner:
MidAtlantic Farm Credit

Years working with Farm Credit:
9

What does it take to build an agricultural business from the ground up? For Martin Ortiz, it took hard work, plenty of on-the-job training and a partner at MidAtlantic Farm Credit to cultivate a successful mushroom-growing operation.

The word diversity is an apt description of Martin's career path. Mushroom picker, team leader, truck driver and assistant grower are all positions he has held as he built his business into what it is today.

Dedication and perseverance have paid off for Martin and his family, who own and operate Ortiz Shiitake Mushrooms, Inc. and Liberty Mushrooms in Kennett Square, Pa. However, if not for recognizing opportunity along the way, and financing from MidAtlantic Farm Credit, he may have never built his own American dream.

Martin came to the United States looking for work when he was just 16 years old and landed a job as a mushroom picker. His employer quickly recognized his leadership ability and promoted him to team leader after just three months. While Martin was working hard and learning the business, he was also on his way to permanent citizenship, reaching this milestone in 2001. During this time, his employer offered him another opportunity: to become an assistant grower. "That's when I learned how to grow mushrooms," he says.

Over the years, Martin honed his craft as a grower to the point that he was ready to branch out on his own. When his employer gave him 50 shiitake logs, he was quick to recognize the opportunity, and in 1999, he and his wife, Norma, established Ortiz Shiitake Mushrooms, Inc. In no time, he was growing thousands of logs each week, all the while maintaining a full-time position with the mushroom grower.

With financing from MidAtlantic Farm Credit, the Ortizes began to purchase additional mushroom houses to grow Agaricus bisporus, the typical, white button mushrooms. Those early days were busy, as Norma and Martin were raising their two young sons and Norma was doing the accounting for both businesses in addition to holding a full-time job off the farm. The hard work paid off—today, Liberty Mushrooms, which was established in 2006, has 12.5 growing rooms and produces more than 2.5 million pounds of mushrooms annually.

As is the case with most agricultural enterprises, one of Martin's biggest challenges as a business owner is labor. Picking mushrooms is hard work and it's tough to keep employees. Norma says that Martin's crews are hard workers, though, and enjoy working for her husband because he treats them well. "I have to make everybody happy," says Martin with a grin that reflects his personality. And by providing this opportunity, one of his employees may be the next Martin Ortiz. ❖

IRISH EYES ARE *Smiling*

When Colin Matthews and Niamh (pronounced Neeve) O'Malley left Ireland to manage a dairy farm in Florida, they thought it would be a short-term move. But after a stint in Texas before settling in Georgia to open their own dairy farm, they can't imagine moving back to their native country any time soon.

After each earned a degree in animal production, Colin and Niamh became dairy farm managers in Florida for just one year. That was 11 years ago. "We just haven't left yet," Niamh jokes.

The years have brought them success. After they ran the day-to-day operations of an 800-cow dairy farm in Florida for a couple of years, they managed a large 3,200-cow dairy in Texas. They wanted to start their own dairy, and found one for lease by an AgSouth member, near Garfield, Ga.

Colin says the smaller dairy sizes in Georgia appealed to them. They started Ferdia Farms with a small herd of 17 dairy cows and their operation has since grown quickly. In November 2013, they opened a second farm location.

The name Ferdia Farms comes from the couple's small shared hometown of Ardee in Ireland. Legend has it an ancient Irish warrior, Ferdia, was killed in battle outside of the town and afterward the town was named for him. Niamh says not only does the name pay homage to the couple's history, it also seems fitting that at the time of Ferdia's death, the conflict was over a bull.

As they're farming, the couple is giving back to their community. Niamh is involved in an organization that puts together backpacks and food for area school children, and they host tours of their dairy farm for school groups. Their sons Oisin (pronounced O'Sheen) and Aaron give the tours, with Colin and Niamh filling in information when necessary.

It's important to the family to show kids where their food comes from, because a lot of them have no way of knowing. Niamh says a lot of the kids react to the smell when they first get off the bus, but she offers them milk and Oreos and they seem to forget about it. "Milk and Oreos makes anything better," she says. Her favorite question from a student so far is whether cows moo with an accent in Ireland.

Colin and Niamh were in business for themselves about a year when they joined AgSouth on the recommendation from an AgSouth member. "AgSouth is the only bank in the area that understands agriculture, particularly the dairy industry," says Colin. "They were there during the highs and the lows."

The options for young farmers are also much better in the United States, according to Colin. Here, he says, there's more land and less red tape. "If you have a dream and a goal, you can make it happen," he says of the opportunities in the United States. And Colin and Niamh continue to prove it. ❖

CUSTOMER PROFILE

COLIN MATTHEWS & NIAMH O'MALLEY

Ferdia Farms
Garfield, Georgia

Products:
Dairy cows

Size of Operation:
450 cows

Years in Business:
7

Farm Credit Partner:
AgSouth Farm Credit

Years working with Farm Credit:
6

"IF YOU HAVE A DREAM AND A GOAL, YOU CAN MAKE IT HAPPEN."

BRANCHING OUT THROUGH HARD *Work*

CUSTOMER PROFILE

KENNETH HODGES

H & M Logging, Inc.
South Boston, Virginia

Products:
Timber

Size of Operation:
280–350 truckloads of logs per week

Years in Business:
15 years

Farm Credit Partner:
Farm Credit of the Virginias

Years working with Farm Credit:
10

Kenneth Hodges, President of H & M Logging, Inc. in South Boston, Va., has been working steadily since he was 10 years old. Through his dedication and determination, he has turned a $3,300 investment into a thriving logging business. But he wouldn't have been able to get this far without family, friends and the support of Farm Credit of the Virginias.

It may be a chiché to say that Kenneth went through the school of hard knocks, but it certainly is true. Hard work beginning at a young age has been his career path through the years, and it has paid off.

Kenneth recognized the benefits of hard work at a very early age. Due to some hard times as a child, he knew by the age of eight that if he was going to survive he was going to have to roll up his sleeves and get to work. At the age of 12, he went to work for Anthony Miller at his sawmill and tobacco farm. Too young to get a driver's license, Kenneth eventually bought a new tractor with $3,300 as a down payment, money he had saved while working for Mr. Miller.

When Kenneth was 19, he married his wife, Mary, and bought a house. It took a few job changes over the years to realize his true love was working outdoors, so he went to work full-time for Mr. Miller. "It would make me sick to see all the log trucks driving by heading to the yard," says Kenneth. He knew he wanted to get back to the sawmill and the logging business.

Timing is everything in the business world. With Mr. Miller getting older, he approached Kenneth about becoming a partner in his business. That is when M & H Logging was born. The name eventually switched to H & M Logging when Mr. Miller decided to retire from the business in 1986, and sold his controlling share.

Over the years, Kenneth's business grew tremendously. By the late 90s, he had multiple crews cutting logs in the woods, and purchased a workshop with land suitable for expansion. However, the ride has definitely had bumps along the way. Kenneth has had to weather the storm of a down economy like everyone else.

Those challenges have made the logging industry a different world to work in than it once was, but Kenneth has persevered because of family and Farm Credit of the Virginias. In fact, he has found Farm Credit to be one of the best lending companies he has come across. "They are a good company and go out of their way to make the process as easy as possible," says Kenneth. With the support of his family and Farm Credit, he hopes to keep his business humming for a long time. ❖

CELEBRATING Accomplishments

The journey for Maria Hernandez, a business analyst with Farm Credit of Central Florida, to get to the United States from Mexico was a long one. Her path to citizenship was even longer. Through hard work and faith in her family, Maria has successfully pursued the American dream. And she now has a star-spangled symbol from her adopted country to show for it.

Like thousands of people before them, Maria Hernandez and her family came to the United States seeking a better way of life. The road has been an arduous one, but the satisfaction of becoming a citizen capped with a flag presentation ceremony has made it all worthwhile.

U.S. Representative Dennis Ross of Florida wanted to honor Maria's years of hard work and dedication after he read her story in an issue of the *Leader* magazine, published for members of the Association. On January 22, in the company of her husband, Roy, and son, Javi, Congressman Ross presented Maria with a flag that flew over the Capitol in celebration of her accomplishments.

Maria and her family came to the United States when she was eight years old. Her uncle applied to emigrate from Mexico before she was born, and it was 10 years before U.S. Immigration called the family. Maria recalls her parents selling all their belongings to get the family to the immigration appointment, where everyone received green cards.

When they arrived in the U.S., Maria's family picked whatever crop was in season to earn money, and she helped on weekends. Her father knew that the hardships of a migrant worker would be a life lesson, one enough for her to apply herself more in school. "I'm extremely appreciative of that," she says. "Kids would complain it was Monday and I'd say, 'be quiet, because all we have to do is sit at a desk and learn,'" recalls Maria. On top of her other lessons, she learned English with the help of a relative her age who, in turn, Maria helped with math.

Maria took her education very seriously, receiving a four-year scholarship to the University of South Florida. After graduating with a bachelor's degree in accounting, Maria applied to work with Farm Credit of Central Florida. When she interviewed, she knew it was the place for her. "I can understand farmers' struggles, where they're coming from," she says. "I know their sense of pride, feeding the world and feeding people. It's an honorable profession to be in, and to be able to say you're part of that feels pretty good."

Once she gained citizenship, word spread about Maria and her story. Farm Credit of Central Florida President and CEO Reggie Holt and Director of Marketing and Governmental Affairs Ron O'Connor introduced her story to members of the Florida Congressional delegation, and that led to the flag presentation by Congressman Ross at the beginning of the year. "Maria Hernandez is truly an inspiration," Congressman Ross said. "Her hard work and dedication showcase the attributes that make this country great." Maria's citizenship is only her latest accomplishment—there will be many more for her ahead. ❖

ASSOCIATION EMPLOYEE PROFILE

MARIA HERNANDEZ

Farm Credit of Central Florida
Lakeland, Florida

Philosophy:
Taking pride in hard work and accomplishing goals

Years with Farm Credit:
7

"MARIA HERNANDEZ IS TRULY AN INSPIRATION. HER HARD WORK AND DEDICATION SHOWCASE THE ATTRIBUTES THAT MAKE THIS COUNTRY GREAT."

~ CONGRESSMAN ROSS

GROWING *Knowledge* ONE FARMER AT A TIME

ASSOCIATION EMPLOYEE PROFILE

RAECHEL SATTAZAHN
AgChoice Farm Credit
Womelsdorf, Pennsylvania

Philosophy:
Promoting the agricultural industry, especially to those starting out, is key to making it thrive.

Years with Farm Credit:
6

Raechel Sattazahn, Director of AgChoice Farm Credit's newly created Knowledge Center, has been around farming all of her life. Growing up on a dairy farm, she knew the ins and outs of running a successful agriculture business before most people were out of high school. That is probably why she is the perfect person to lead AgChoice's educational outreach efforts.

The first thing a person notices about Raechel Sattazahn is her wonderful sense of humor and positive attitude. She has been with AgChoice Farm Credit in Pennsylvania for the past six years, five of which she served as a marketing officer. In addition to her normal marketing responsibilities, she oversaw the organization's customer education efforts and programs for young, beginning and small farmers.

As any farmer knows who is just getting started in the business, it can be tough going at first. With her upbeat spirit and knowledge of the industry, having someone like Raechel to provide guidance is a tremendous asset. Her attitude and commitment have served her and AgChoice's customers well, which explains why she was recently promoted to Director of AgChoice's Knowledge Center, a hub of information and educational resources for the agricultural industry.

Growing up on a dairy farm in southcentral Pennsylvania, Raechel not only knows the farming industry well, she also knows the area. Before coming to AgChoice, she worked for the Pennsylvania Department of Agriculture getting her feet wet on the marketing side of the business. She also married a dairy farmer, so her evenings after work are spent helping her husband manage the family business and milking a cow or two when needed. "I am always available to lend a hand, so to speak, when it comes to supporting our farm," she says with a laugh.

The mission of the Knowledge Center, created in August 2013, is to share knowledge and information to help farmers of all types and sizes be as successful as possible. Raechel has long had a passion for promoting the agriculture industry, particularly to those just starting out. Her passion to demonstrate the positive aspects of farming is so strong that she even started a blog, www.gobeyondthebarn.wordpress.com, to do just that.

"Not only is it meant to inspire others in the agriculture industry to step up and share the positive messages about farming, it will also help keep me personally accountable for continuing to do my part," she says about her blog.

Raechel has helped spread the AgChoice story in countless ways to help inspire other customer-owners to succeed. And whether it is lending a hand to educate a customer or milk a cow, she is always happy to help out.

PROMOTING INCLUSIVE CULTURE BRINGS *Success*

In the information technology industry, IT professionals are often typecast as employees who don't stay long at any one company. For Ron Hollins, Director of Core Banking and Enterprise Resource Planning (ERP) Systems at AgFirst, he has broken that mold, celebrating 14 years in 2014. And he hopes to stay much longer.

In his position, Ron's responsibilities include managing a diverse team of IT professionals who support more than 60 computer applications and processes used by the Bank, Associations and Farm Credit customers.

As much as he enjoys the challenges of managing ever-changing software technology, that's not what brings him the most satisfaction. "Knowing that what we do matters is what drives me," says Ron. "The hard work we do has a direct positive impact on people in rural America."

Ron understands rural America better than the average person. He grew up in Jenkinsville, S.C., a dot on the map in rural Fairfield County about 30 miles north of Columbia. Many of his family members and friends still live there and continue to work small farms, own livestock or own homes and property financed by Farm Credit. "You could almost say I have farming in my blood," says Ron.

Speaking of family, there is nothing more important to Ron than being a good husband, father and friend. His daughter is a freshman in college and he enjoys helping her make this important transition in life. His son is a freshman in high school and has played baseball since he was four years old. Ron has spent countless hours with him on the diamond as a coach the past 11 years, and this will be the first year in which he won't be on the field. "As much as I have enjoyed coaching him, I am looking forward to being a spectator for a change."

The importance of family is one of the key aspects of AgFirst that drew him here. "People really care about one another," says Ron. "The company goes out of its way to make you feel welcome, and you can see it in the people who work here. Every day we work together as a team, and I feel as if I'm welcome and belong here."

Ron serves on the Diversity Work Life Committee, which he takes very seriously, as does the company. It is not about buzzwords, according to Ron, but how a person feels when they walk through the door every morning. The goal is for every employee to feel like they are part of the AgFirst family, and he works toward making that happen by serving on this committee. "We use words like diversity and inclusion to describe our culture, but the bottom line for me is that feeling and inner voice that confirms I'm a valued member of AgFirst." ❖

AGFIRST EMPLOYEE PROFILE

RON HOLLINS
AgFirst Farm Credit Bank
Columbia, South Carolina

Philosophy:
Knowing what we do matters is what drives me.

Years with Farm Credit:
14

"WE USE WORDS LIKE DIVERSITY AND INCLUSION TO DESCRIBE OUR CULTURE, BUT THE BOTTOM LINE FOR ME IS THAT FEELING AND INNER VOICE THAT CONFIRMS I'M A VALUED MEMBER OF AGFIRST."

Planting
A SEED OF A NEW LIFE

With just a handful of luggage in tow, Victoria Kovalenko, Vice President and Director of Credit Administration for AgFirst, moved to the United States from Kazakhstan with her family to begin a new life. Twelve years later, she can't think of a better place to have grown her career and watch her family bloom.

Victoria is always up for a challenge. In 2002, she took on a huge challenge when she and her family moved more than 6,000 miles from home to further their education and careers in Columbia, S.C. "We joke that we basically have two lives," she says. "We have the life before the move and the second life after the move."

AGFIRST EMPLOYEE PROFILE

VICTORIA KOVALENKO
AgFirst Farm Credit Bank
Columbia, South Carolina

Philosophy:
Seizing opportunities and remembering to be grateful for the help you've received along the way.

Years with Farm Credit:
10

Victoria earned her MBA in international business from the Darla Moore School of Business at the University of South Carolina. Her husband, Dmitriy, began his education again and earned his bachelor's degree in biology and then his doctorate to become a dentist.

With her education complete, Victoria joined AgFirst as a credit analyst and had fast success in her position. Banking is her passion, and she likes to help people achieve their goals. She appreciates the good opportunities and training at the Bank, as well as support from her coworkers. "It means a lot that people are always willing to share their knowledge," she says. "It made my career at AgFirst possible, and I'll always be thankful to those folks."

Victoria's family history reveals some roots of the determination and perseverance that have gotten her where she is today. She was a teenager in Kazakhstan during the fall of the Soviet Union and says although Kazakhstan is thriving now, those were very challenging years. Under the Soviet Union, there was little food variety and little motivation to work hard because everyone had equal pay. However, the basics were always available and everyone had a job.

After the Soviet Union broke down, jobs were scarce, inflation soared and basic goods were hard to come by. The survival of Victoria's family depended on her retired grandparents, who spent seemingly all of their time standing in grocery store lines to get the family food. "One needed to stay in a four-hour line to get four pounds of beef," she recalls. Lines began at 6 a.m.

When Victoria, Dmitriy and their then five-year-old daughter, Domenika, came to the United States, they brought whatever would fit in four pieces of luggage and left everything else behind. They were surprised at the wide open spaces, large malls and parking lots, and looked for their first apartment from the seat of a taxi.

Now Victoria can't imagine living anywhere else. "I am living my American dream with my family," she says. They've added a son, Vincent, now three-years-old, and they like to go skiing together, carried over from Victoria and Dmitriy's skiing days in Almaty, Kazakhstan's former capital. They also love to travel, and are planning a big trip to Kazakhstan next year to see family and friends. It will be the first time to see many of them since they were last in the country more than 10 years ago, and they may need more than four pieces of luggage this time just to hold the memories. ❖

ALWAYS TAKING THE NEXT *Step*

With so many things going on in his life, you would think that Alex Rabinovich, Application Development Supervisor at AgFirst, would just like to take it easy when he has free time. But that's not his style. Whether it is volunteering, practicing martial arts or taking part in one of numerous activities with his kids, Alex is always looking to maximize his time and improve himself in the process.

Twenty years ago, Alex immigrated to the United States from Kharkiv, Ukraine to further his career and education. Since then, he's taken advantage of the opportunities that have come his way.

Now, in addition to his work responsibilities at AgFirst, he practices the martial art aikido, volunteers as a math and computer programming teacher for secondary students and supports his two sons, Kevin and Daniel, in their wide variety of endeavors.

Before starting with AgFirst almost 10 years ago, Alex earned a bachelor's degree in computer engineering and worked for programming development firms. He likes problem solving and taking steps to improve himself, and says AgFirst has allowed him to take steps forward in his career and improve his skills.

"If you make an effort to build your skills, the Bank is there to help," he says. At AgFirst, he found the support he needed to complete his MBA while working, and applies the skills he acquired through that degree to his supervisor position. He also enjoys juggling multiple projects that come from all different angles. "It's always an interesting problem to solve," he says.

Alex's many interests and focus on self-improvement extend to his family. His wife, Marina, immigrated to join Alex and her own family, also in Columbia. She has since earned a master's in classical guitar performance, opened a music studio and started teaching at local schools.

Their younger son, Daniel, is into dog obedience and is training their German Shepherd, Lady, to participate in dog shows. Their older son, Kevin, is very involved in the Columbia community. He helps organize the TEDx Youth conferences and serves on the county advisory board for the Richland County School District to advise schools about technology. He also earned his Microsoft Certification at age 12.

Alex was looking to educate himself and start a rewarding career when he came to the United States in 1994, and that's just what he's done. He says there are plenty of opportunities to grow as a technology professional at AgFirst because he gets to put his hands on many different technologies and can work with the latest and greatest tools.

He's developed an interest in online learning as well, because it allows people to build their skills for little or no money. He's always on the look-out for new opportunities and options for self-improvement, taking one giant step at a time. ❖

AGFIRST EMPLOYEE PROFILE

ALEX RABINOVICH

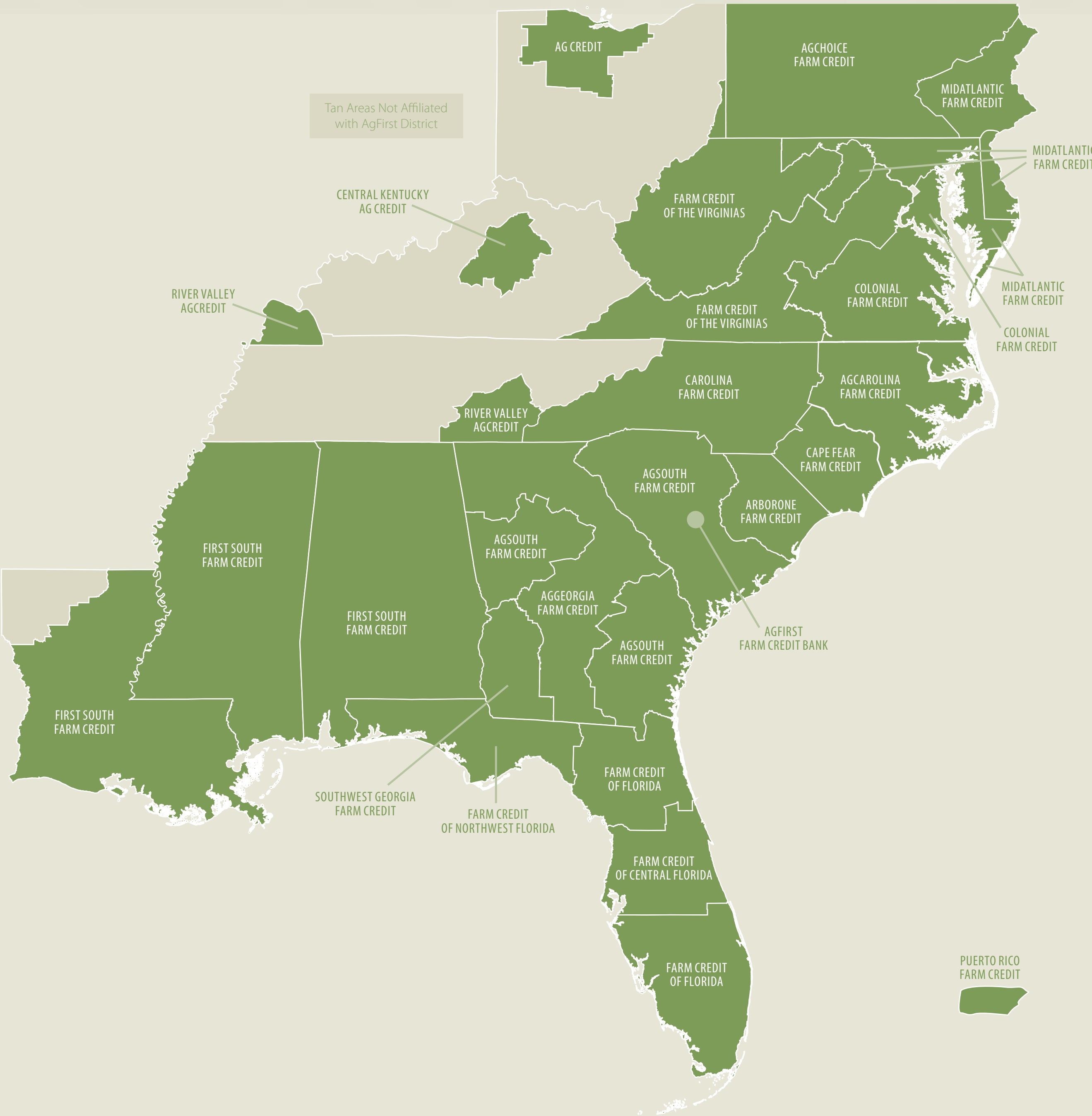
AgFirst Farm Credit Bank
Columbia, South Carolina

Philosophy:
Always keep improving, building on and expanding yours skills.

Years with Farm Credit:
9

THE District

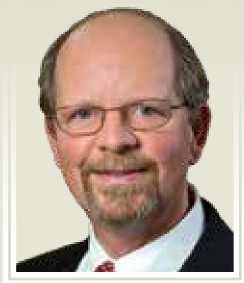
Associations of AgFirst Farm Credit Bank



AgFirst is a member of the Farm Credit System, the largest agricultural lending organization in the United States. As one of the four Banks in the Farm Credit System, we provide funding and services to 19 affiliated Agricultural Credit Associations in 15 eastern states and Puerto Rico. Our Associations, in turn, provide financing to 80,000 farmers, ranchers, rural homeowners and agribusinesses.

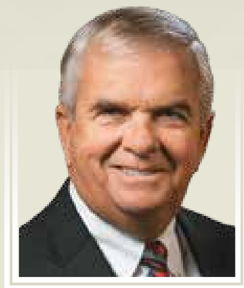
BOARD OF *Directors*

Robert H. Spiers, Jr.
Chairman
COLONIAL FARM CREDIT

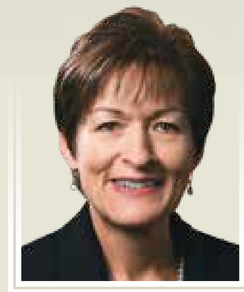


Dale R. Hershey
Vice Chairman
MIDATLANTIC FARM CREDIT

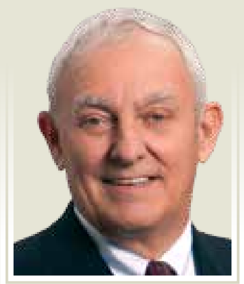
Jack W. Bentley, Jr.
AGGEORGIA FARM CREDIT



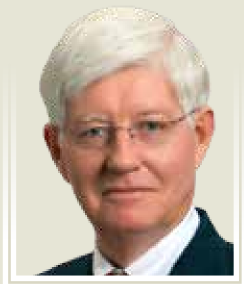
James C. Carter, Jr.
AGSOUTH FARM CREDIT



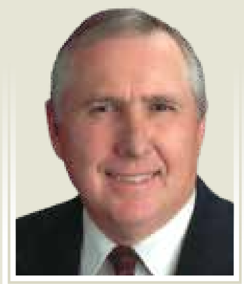
Bonnie V. Hancock
OUTSIDE DIRECTOR



Curtis R. Hancock, Jr.
RIVER VALLEY AGCREDIT

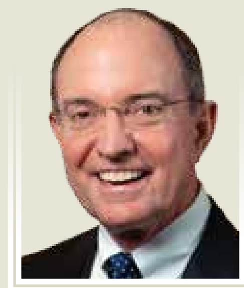


Walter C. Hopkins
MIDATLANTIC FARM CREDIT



Paul M. House
FARM CREDIT OF THE VIRGINIAS

William K. Jackson
AGCHOICE FARM CREDIT

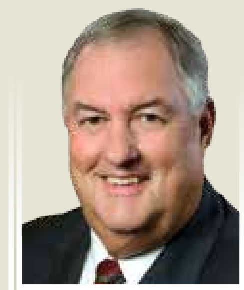


John S. Langford
FARM CREDIT OF CENTRAL FLORIDA

S. Alan Marsh
FIRST SOUTH FARM CREDIT

James L. May
CENTRAL KENTUCKY AG CREDIT

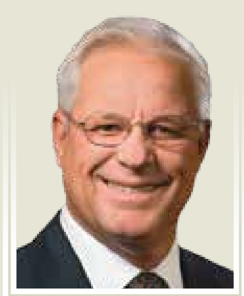
Fred R. Moore, Jr.
MIDATLANTIC FARM CREDIT



James M. Norsworthy, III
FIRST SOUTH FARM CREDIT

Katherine A. Pace
OUTSIDE DIRECTOR

Thomas E. Porter, Jr.
CAROLINA FARM CREDIT



Jimmy D. Poston
ARBORONE FARM CREDIT

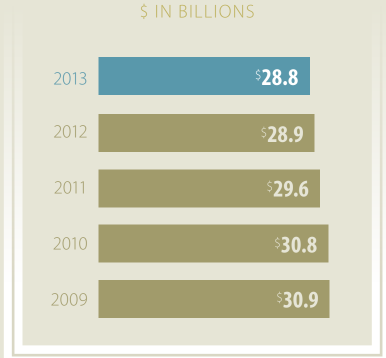
Robert G. Sexton
FARM CREDIT OF FLORIDA

Ellis W. Taylor
AGCAROLINA FARM CREDIT

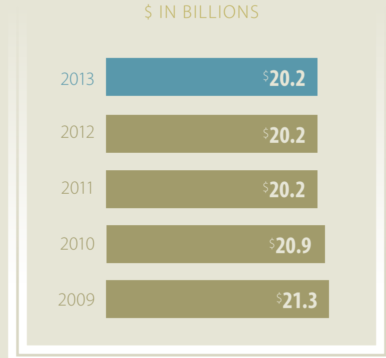
William H. Voss
FIRST SOUTH FARM CREDIT

FIVE-YEAR Summary
of selected financial data

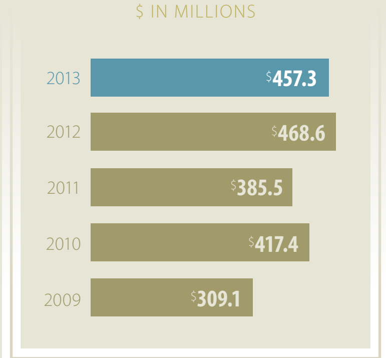
TOTAL ASSETS
$ IN BILLIONS



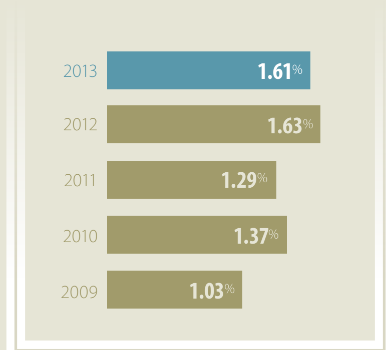
LOANS
$ IN BILLIONS



NET INCOME
$ IN MILLIONS



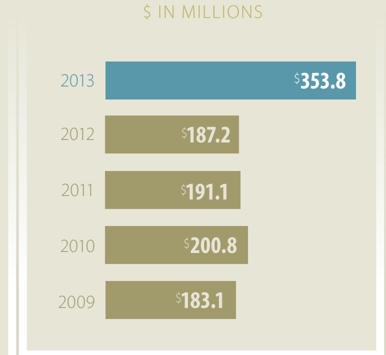
RETURN ON ASSETS



RETURN ON SHAREHOLDERS' EQUITY

PERMANENT CAPITAL RATIO

CASH PATRONAGE DECLARED
$ IN MILLIONS



(dollars in thousands)	2013	2012	2011	2010	2009
	As of or for the year ended December 31,				
BALANCE SHEET DATA					
Cash and cash equivalents	$ 1,183,755	$ 873,165	$ 1,301,569	$ 1,427,033	$ 938,884
Investment securities	7,152,788	7,484,411	7,780,272	8,076,678	8,226,209
Loans	20,201,235	20,209,251	20,152,066	20,905,165	21,327,319
Allowance for loan losses	(22,908)	(44,539)	(27,714)	(14,873)	(32,292)
Net loans	20,178,327	20,164,712	20,124,352	20,890,292	21,295,027
Other property owned	9,621	19,477	44,157	39,719	25,909
Other assets	319,851	348,782	327,156	347,844	381,515
Total assets	$ 28,844,342	$ 28,890,547	$ 29,577,506	$ 30,781,566	$ 30,867,544
Obligations with maturities of one year or less	$ 9,517,750	$ 10,932,929	$ 12,095,042	$ 12,557,028	$ 14,306,748
Obligations with maturities greater than one year	17,179,845	15,659,388	15,333,194	16,096,757	14,755,466
Mandatorily redeemable preferred stock	—	—	—	225,000	225,000
Total liabilities	26,697,595	26,592,317	27,428,236	28,878,785	29,287,214
Perpetual preferred stock	125,250	275,250	400,000	400,000	400,000
Capital stock and participation certificates	308,972	332,705	405,767	417,333	438,707
Additional paid-in-capital	36,580	36,580	—	—	—
Retained earnings					
Allocated	726	795	858	871	965
Unallocated	1,577,676	1,481,432	1,218,648	1,052,248	863,862
Accumulated other comprehensive income (loss)	97,543	171,468	123,997	32,329	(123,204)
Total shareholders' equity	2,146,747	2,298,230	2,149,270	1,902,781	1,580,330
Total liabilities and shareholders' equity	$ 28,844,342	$ 28,890,547	$ 29,577,506	$ 30,781,566	$ 30,867,544
STATEMENT OF INCOME DATA					
Net interest income	$ 538,058	$ 605,502	$ 596,434	$ 575,216	$ 492,652
Provision for (reversal of) loan losses	(10,589)	14,946	80,222	40,002	46,648
Noninterest income (expense), net	(91,311)	(121,946)	(130,754)	(117,819)	(136,861)
Net income	$ 457,336	$ 468,610	$ 385,458	$ 417,395	$ 309,143
KEY FINANCIAL RATIOS					
Rate of return on average:					
Total assets	1.61%	1.63%	1.29%	1.37%	1.03%
Total shareholders' equity	19.45%	20.06%	18.14%	22.25%	20.90%
Net interest income as a percentage of average earning assets	1.96%	2.19%	2.09%	1.97%	1.67%
Net (chargeoffs) recoveries to average loans	(0.06)%	0.01%	(0.33)%	(0.28)%	(0.28)%
Total shareholders' equity to total assets	7.44%	7.95%	7.27%	6.18%	5.12%
Debt to shareholders' equity (:1)	12.44	11.57	12.76	15.18	18.53
Allowance for loan losses to loans	0.11%	0.22%	0.14%	0.07%	0.15%
Permanent capital ratio	22.85%	23.58%	24.27%	21.22%	16.86%
Total surplus ratio	22.81%	23.55%	24.24%	21.19%	16.83%
Core surplus ratio	19.98%	20.04%	17.08%	13.79%	9.85%
Collateral ratio	106.83%	107.03%	106.49%	106.44%	105.66%
NET INCOME DISTRIBUTION					
Cash patronage declared	$ 353,813	$ 187,165	$ 191,060	$ 200,772	$ 183,116
Perpetual preferred stock dividend	6,347	17,978	27,413	27,413	27,413

AGFIRST
FARM CREDIT BANK

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ANNUAL 2013 REPORT

AGFIRST FARM CREDIT BANK

2013 Annual REPORT

AGFIRST FARM CREDIT BANK

Contents

Management

Leon T. Amerson ..... President and Chief Executive Officer
Charl L. Butler ..... Senior Vice President and Chief Financial Officer
Benjamin F. Blakewood ..... Senior Vice President and Chief Information Officer
Christopher L. Jones ..... Senior Vice President and Chief Credit Officer
Daniel E. LaFreniere ..... Senior Vice President and Chief Audit Executive
Isvara M. A. Wilson ..... Senior Vice President and General Counsel

Board of Directors

Robert H. Spiers, Jr. ..... Chairman
Dale R. Hershey ..... Vice Chairman
Jack W. Bentley, Jr. ..... Director
James C. Carter, Jr. ..... Director
Bonnie V. Hancock ..... Director
Curtis R. Hancock, Jr. ..... Director
Walter C. Hopkins ..... Director
Paul M. House ..... Director
William K. Jackson ..... Director
John S. Langford ..... Director
S. Alan Marsh ..... Director
James L. May ..... Director
Fred R. Moore, Jr. ..... Director
James M. Norsworthy, III ..... Director
Katherine A. Pace ..... Director
Thomas E. Porter, Jr. ..... Director
Jimmy D. Poston ..... Director
Robert G. Sexton ..... Director
Ellis W. Taylor ..... Director
William H. Voss ..... Director

REPORT OF MANAGEMENT

The accompanying Financial Statements and related financial information appearing throughout this Annual Report have been prepared by management of AgFirst Farm Credit Bank (Bank) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the Financial Statements and financial information contained in this report.

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all Financial Statements, and that the assets of the Bank are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Bank maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Audit Committee of the Board of Directors and to the Chief Executive Officer.

AgFirst has a Code of Ethics for its Chief Executive Officer, Senior Financial Officers, and other Senior Officers who are involved with preparation and distribution of financial statements and maintenance of the records supporting the financial statements. A copy of the AgFirst Code of Ethics may be viewed on the Bank's website at www.agfirst.com.

The Financial Statements have been examined by independent certified public accountants, whose report appears elsewhere in this Annual Report. The Bank is also subject to examination by the Farm Credit Administration.

The Financial Statements, in the opinion of management, fairly present the financial condition of the Bank. The undersigned certify that we have reviewed the 2013 Annual 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.

Robert H. Spiers, Jr.
Chairman of the Board

Leon T. Amerson
President and Chief Executive Officer

Charl L. Butler
Senior Vice President and Chief Financial Officer

March 12, 2014

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 December 31, 2013. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, 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 December 31, 2013, the internal control over financial reporting was effective based upon the COSO (1992) 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 December 31, 2013.

Leon T. Amerson
President and Chief Executive Officer

Charl L. Butler
Senior Vice President and Chief Financial Officer

March 12, 2014

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

	As of or for the year ended December 31,				
(dollars in thousands)	**2013**	**2012**	**2011**	**2010**	**2009**
Balance Sheet Data					
Cash and cash equivalents	$ 1,183,755	$ 873,165	$ 1,301,569	$ 1,427,033	$ 938,884
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Additional paid-in-capital	36,580	36,580	—	—	—
Retained earnings					
Allocated	726	795	858	871	965
Unallocated	1,577,676	1,481,432	1,218,648	1,052,248	863,862
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MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION & RESULTS OF OPERATIONS

AgFirst Farm Credit Bank (the Bank or AgFirst) is one of the banks of the Farm Credit System (the System), a nationwide system of cooperatively owned agricultural lending institutions. The System was established by Acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act).

The nation is currently served by three Farm Credit Banks (FCBs) and one Agricultural Credit Bank (ACB), each of which has specific lending authorities within its chartered territory. The ACB also has certain additional specific nationwide lending authorities. AgFirst is chartered to serve the states of Pennsylvania, Delaware, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, the Commonwealth of Puerto Rico and portions of the states of Ohio, Tennessee, Kentucky and Louisiana.

Each FCB and the ACB serves one or more of either Production Credit Associations (PCAs) that originate and service short- and intermediate-term loans, Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans, and/or Agricultural Credit Associations (ACAs) that originate both long-term and short-term and intermediate-term loans. PCAs, FLCAs and ACAs are collectively referred to as associations. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the AgFirst District (District). The Associations are structured as cooperatives in which each Association is owned by its borrowers. AgFirst also operates as a cooperative. The District Associations own all of AgFirst's voting stock. As of December 31, 2013, the District consisted of the Bank and nineteen District Associations. All nineteen were structured as ACA holding companies, with FLCA and PCA subsidiaries. See Note 14, *Business Combinations*, in the Notes to the Financial Statements for a discussion of recent District Associations' merger activity.

The following commentary reviews the Financial Statements of condition and results of operations of AgFirst as of and for the years ended December 31, 2013, 2012, and 2011. This information should be read in conjunction with the accompanying Financial Statements, the Notes to the Financial Statements and other sections of this Annual Report. The Financial Statements were prepared under the oversight of the Audit Committee of the Bank's Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" included in this Annual Report. See Note 1, *Organization and Operations*, in the Notes to the Financial Statements for a discussion of the operations of AgFirst.

FORWARD-LOOKING INFORMATION

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

- political, legal, regulatory, financial markets, and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural infrastructure, international, and farm-related business sectors, as well as in the general economy;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income of District borrowers;
- changes in United States government support of the agricultural industry and the 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; and
- 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.

AGRICULTURAL OUTLOOK

The following United States Department of Agriculture (USDA) analysis provides a general understanding of the U.S. agricultural economic outlook. However, this outlook does not take into account all aspects of AgFirst's business. References to USDA information in this section refer to the U.S. agricultural market data and are not limited to information/data in the AgFirst District.

The February 2014 USDA forecast estimates 2013 farmers' net cash income, which is a measure of the cash income after payment of business expenses, at $130.1 billion, down $4.3 billion from 2012 and up $39.2 billion from its 10-year average of $90.9 billion. The decline in net cash income in 2013 was primarily due to a $10.2 billion increase in cash expenses and a $7.4 billion decrease in crop receipts, principally offset by increases in livestock receipts of $10.6 billion, farm-related income of $2.1 billion and direct government payments of $600 million.

The February 2014 USDA forecast for the farm economy, as a whole, forecasts 2014 farmers' net cash income to decrease to $101.9 billion, a $28.2 billion decrease from 2013, but $11.0 billion above the 10-year average. The forecasted decrease in farmers' net cash income for 2014 is primarily due to an expected decrease in cash receipts of $25.5 billion.

For 2014, the USDA projects crop receipts will decrease $26.7 billion, primarily due to an approximate $11.0 billion decline in corn receipts and a more than $6.0 billion decline in soybean receipts. Continued strong corn production is expected as U.S. farm operations rebound from the 2012 drought. As a result, the USDA expects the price of corn to decline significantly. Livestock receipts are predicted to increase in 2014 primarily due to increased dairy receipts.

The following table sets forth the commodity prices per bushel for certain crops and by hundredweight for beef cattle from December 31, 2010 to December 31, 2013:

Commodity	12/31/13	12/31/12	12/31/11	12/31/10
Corn	$4.41	$6.87	$5.86	$4.82
Soybeans	$13.00	$14.30	$11.50	$11.60
Wheat	$6.73	$8.30	$7.19	$6.45
Beef Cattle	$130.00	$124.00	$120.00	$98.10

The USDA's income outlook varies depending on farm size and commodity specialties. In 2013, the USDA revised its farm classification or typology to account for commodity price increases and shifts in production to larger farms. The USDA classifies all farms into four primary categories: small family farms (gross cash farm income (GCFI) less than $350 thousand), midsize family farms (GCFI between $350 thousand and under $1 million), large-scale family farms (GCFI of $1 million or more), and nonfamily farms (principal operator or individuals related to the operator do not own a majority of the business).

Approximately 97 percent of U.S. farms are family farms and the remaining 3 percent are nonfamily farms. The nonfamily farms produce 15 percent of the value of agricultural output. The small family farms represent about 90 percent of all U.S. farms, hold 60 percent of farm assets and account for 26 percent of the value of production. Approximately 60 percent of production occurs on 8 percent of family farms classified as midsize or large-scale.

According to the USDA February 2014 forecast, the growth in the values of farm sector assets, debt, and equity are forecasted to slow in 2014. The slowdown in growth is a result of expected lower net income, higher borrowing costs, and moderation in the growth of farmland values. Farm sector assets are expected to rise from $2.93 trillion for 2013 to $3.00 trillion in 2014 (a 2.4 percent increase) primarily due to an increase in the value of farm real estate. Overall, farm sector debt is estimated to increase from $309.2 billion in 2013 to $316.2 billion in 2014 (a 2.3 percent increase). Farm business equity (assets minus debt) is expected to rise from $2.62 trillion in 2013 to $2.68 trillion in 2014 (a 2.4 percent increase).

Two measures of the financial health of the agricultural sector used by the USDA are the farm sector's debt-to-asset and debt-to-equity ratios. These ratios are expected to continue to decline as they have over the past five years, falling to 10.54 percent and 11.78 percent in 2014, respectively, from 10.55 percent and 11.80 percent in 2013, respectively. These decreases would result in the lowest value for both measures since 1954. The historically low levels of debt relative to assets and equity reaffirm the farm sector's strong financial position despite the slowdown in asset growth. As noted by USDA, the farm sector is better insulated from the risks associated with commodity production, changing macroeconomic conditions, as well as fluctuations in farm asset values.

As estimated by the USDA in February 2014, the System's market share of farm business debt (defined as debt incurred by those involved in on-farm agricultural production) grew to 40.7 percent at December 31, 2012 (the latest available data), as compared with 39.5 percent at December 31, 2011. As mentioned above, overall, farm sector debt is estimated to increase from $309.2 billion in 2013 to $316.2 billion in 2014.

In general, agriculture has experienced a sustained period of favorable economic conditions due to stronger commodity prices, higher farm land values, and, to a lesser extent, government support programs. AgFirst's financial results remain favorable as a result of these agricultural economic conditions. Production agriculture; however, remains a cyclical business that is heavily influenced by commodity prices and various other factors. In an environment of less favorable economic conditions in agriculture and without sufficient government support programs, AgFirst's financial performance and credit quality measures would likely be negatively impacted. Conditions in the general economy remain more volatile given the state of the global economy. Certain agriculture sectors, as described more fully in this *Management's Discussion and Analysis*, recently have experienced significant financial stress and could experience financial stress in 2014. Any negative impact from these less favorable conditions should be lessened by geographic and commodity diversification and the influence of off-farm income sources supporting agricultural-related debt. However, agricultural borrowers who are more reliant on off-farm income sources may be adversely impacted by the continuing weak general economy.

SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. Consideration of AgFirst's significant accounting policies is critical to the understanding of the Bank's results of operations and financial position because some accounting policies require complex or subjective judgments and estimates that may affect the value of certain assets or liabilities as well as the recognition of certain income and expense items. In many instances, management has to make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, in the Notes to the Financial Statements. The following is a summary of certain critical accounting policies:

- *Allowance for loan losses* — The allowance for loan losses is management's best estimate of the amount of probable losses existing in and inherent in the Bank's 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.

  Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses attributable to these loans is established by a process that estimates the probable loss inherent in the loans, taking into account various historical and current factors, internal risk ratings, regulatory oversight, and geographic, industry, and other factors.

  In addition to the allowance for loan losses attributable to specific loans, the Bank may also establish a general allowance for loan losses based on management's assessment of risk inherent in the loans in the Bank's portfolio that were not specifically evaluated. In establishing general reserves, factors affecting certain commodity types or industries may be taken into consideration, as well as other factors previously discussed. Certain loan pools purchased from various Associations are analyzed in accordance with the selling Associations' allowance methodologies for assigning general and specific allowances. Allowances are established on these pools based on that analysis after Bank management's determination that the methodologies employed are appropriate.

  Assessing the appropriateness of the allowance for loan losses is a dynamic process. Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the level of the allowance for loan losses and have a direct impact on the provision for loan losses and the results of operations.

  The overall adequacy of the allowance for loan losses is validated further through periodic evaluations of the loan portfolio, which generally consider historical charge-off experiences adjusted for relevant factors. These factors include types of loans, credit quality, specific industry conditions, collateral value, general economic and political conditions, and changes in the character, composition, and performance of the portfolio, among other factors.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when active markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable active market exists. Management utilizes third party valuation services to obtain fair value prices for the majority of the Bank's investment securities. Management also utilizes significant estimates and assumptions to value items for which an observable active market does not exist. Examples of these items include: impaired loans, other property owned, pension and other postretirement benefit obligations, certain derivatives, certain investment securities and other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing, and liquidation values. The use of different assumptions could produce significantly different asset or liability values, which could have material positive or negative effects on the Bank's results of operations.

- *Pensions* — The Bank and its related Associations participate in defined benefit retirement plans. These plans are noncontributory and benefits are based on salary and years of service. The Bank and its related Associations also participate in defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense for the defined benefit retirement plans is determined by actuarial valuations based on certain assumptions, including the expected long-term rate of return on plan assets and a discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of future benefit obligations. The discount rate for 2013 was selected by reference to analysis and yield curves developed by the plans' actuary and industry norms. The yield curve selected follows the accounting guidance that the basis for discount rates should be higher-quality zero-coupon bonds with durations that match the expected cash flows of the plans that underlie the obligation.

LOAN PORTFOLIO

AgFirst's loan portfolio consists primarily 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 at December 31:

AgFirst Loan Portfolio *(dollars in thousands)*	2013		2012		2011	
Direct Notes	$ 13,990,178	69.25%	$ 13,833,602	68.45%	$ 14,094,384	69.94%
Participations/Syndications Purchased, net	3,726,378	18.45	4,037,770	19.98	3,880,559	19.25
Correspondent Lending	2,401,563	11.89	2,277,400	11.27	2,171,873	10.78
Loans to OFIs	83,116	0.41	60,479	0.30	5,250	0.03
Total	$ 20,201,235	100.00%	$ 20,209,251	100.00%	$ 20,152,066	100.00%

The diversification of AgFirst's loan volume by type for each of the past three years at December 31 is shown below:

(dollars in thousands)	2013		2012		2011	
Direct Notes	$ 13,990,178	69.25 %	$ 13,833,602	68.45 %	$ 14,094,384	69.94 %
Rural Residential Real Estate	2,324,956	11.51	2,186,390	10.82	2,060,025	10.22
Production and Intermediate-Term	1,215,480	6.02	1,299,763	6.43	1,382,659	6.86
Real Estate Mortgage	971,017	4.81	1,093,845	5.41	1,207,221	5.99
Processing and Marketing	610,065	3.02	715,592	3.54	684,300	3.40
Energy and Water/Waste Disposal	453,361	2.25	488,416	2.42	274,930	1.36
Loans to Cooperatives	202,142	1.00	183,466	0.91	174,552	0.87
Communication	198,546	0.98	207,852	1.03	136,899	0.68
Farm-Related Business	141,530	0.70	128,680	0.64	114,826	0.57
Loans to OFIs	83,116	0.41	60,479	0.30	5,250	0.03
Other (including Mission Related)	10,844	0.05	11,166	0.05	17,020	0.08
Total	$ 20,201,235	100.00 %	$ 20,209,251	100.00 %	$ 20,152,066	100.00 %

Total loans outstanding were $20.201 billion at December 31, 2013, a decrease of $8.0 million, or 0.04 percent, compared to total loans outstanding at December 31, 2012. Loans outstanding at the end of 2012 had increased $57.2 million, or 0.28 percent, compared to December 31, 2011.

Bank loan demand was weak during 2013 due to a number of reasons, including higher than the historical average capital and cash levels at the District Associations, which resulted in relatively stable Direct Note borrowings. Low economic growth inhibited loan demand from borrowers in economically dependent sectors and borrowers dependent on non-farm income. An increasingly competitive environment for agricultural loans also challenged volume. Future Bank loan demand is very difficult to predict; however, it is expected to remain weak through 2014 as those factors discussed above are anticipated to persist.

Each loan in the Bank's portfolio is classified according to a Uniform Classification System, which is used by all System institutions. Below are the classification definitions.

- *Acceptable* – Assets are expected to be fully collectible and represent the highest quality.
- *Other Assets Especially Mentioned (OAEM)* – Assets are currently collectible but exhibit some potential weakness.
- *Substandard* – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- *Doubtful* – Assets exhibit similar weaknesses to substandard assets. However, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- *Loss* – Assets are considered uncollectible.

The following table presents selected statistics related to the credit quality of AgFirst loans including accrued interest at December 31:

AgFirst Total Loans Credit Quality	2013	2012	2011
Acceptable	89.00%	91.03%	87.09%
OAEM	6.89	3.19	9.79
Adverse*	4.11	5.78	3.12
Total	100.00%	100.00%	100.00%

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

The changes in credit quality reflected in the table above were primarily due to changes in credit quality of the Direct Notes, which is discussed in the *Direct Notes* section below. Loan portfolio credit quality at the producer level reflected improvement due to stabilization of economic conditions. Most distressed property sales are now occurring at or near appraised values, indicating that real estate values have stabilized in most District markets. Grain prices returned to more normal levels in 2013 due to higher than expected inventory and harvest levels. This benefitted the poultry, cattle, and swine sectors. Improved housing starts in 2013 have positively impacted certain housing-related segments such as forestry and nursery/greenhouse.

Under the terms of a financial assistance agreement, the Bank may be required to purchase certain high risk assets from a District Association. If such a purchase occurs, it likely would not have a material adverse effect on either the financial condition or future operating results of the Bank. See Note 14, *Business Combinations*, in the Notes to the Financial Statements for further information.

The credit conditions discussed above directly affect the credit quality of the Bank's participation/syndication loan portfolio. They also affect the credit quality of loan portfolios and earnings performance of the individual District Associations, which impacts the quality of the Bank's Direct Notes. Credit quality is anticipated to improve incrementally in 2014 assuming stable economic conditions.

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 has a revolving line of credit, referred to as a Direct Note, in place with each of the District Associations. Each of the Associations funds its lending and general corporate activities 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. Refer to Note 1, *Organization and Operations*, in the Notes to the Financial Statements for further discussion.

At December 31, 2013, total Direct Note volume outstanding was $13.990 billion, an increase of $156.6 million, or 1.13 percent, compared to December 31, 2012. Direct Note volume of $13.834 billion at December 31, 2012, decreased $260.8 million, or 1.85 percent, compared to December 31, 2011. See the *Loan Portfolio* section above for the primary reasons for the weak Direct Note volume.

AgFirst provides each Association with core operating systems and support, including a loan origination system, loan accounting and servicing systems, general ledger and related financial accounting systems, and a human resources/payroll system. With AgFirst providing such systems and other services, the Associations are able to achieve operating efficiencies ordinarily afforded to much larger organizations. In addition, having common systems supported by AgFirst provides an opportunity to automate the AgFirst/Association lending process. One of the most significant advantages of this is a match-funding mechanism that automatically creates Direct Note advances that match the repricing and maturity characteristics of each underlying Association loan. The Association's interest rate risk and operational risks are significantly reduced by employing these systems.

Ultimately, the Associations' ability to repay their Direct Note obligations is significantly dependent upon the repayment of loans made to their borrowers. Accordingly, AgFirst's direct and indirect credit exposure depends upon the creditworthiness of both the Associations that are direct borrowers and the underlying borrowers of the Associations whose loans, as well as the other assets of the Associations, secure their Direct Notes.

AgFirst continually monitors the risk-bearing capacity of each Association through a variety of mechanisms, including testing of the reliability of the Association's risk ratings assigned to each of their loans, periodic meetings with the Association's management and board, regular formalized risk assessments, and prior-approval of loan transactions that exceed the Association's delegated lending authority as determined by AgFirst.

All Associations are subject to an annual audit by independent certified public accountants and periodic examination by FCA. Each Association is required by regulatory mandate to perform continuous internal credit, appraisal, and audit reviews. Litigation in which Associations are involved is typically loan related and poses no material threat to their viability.

The following table presents selected statistics related to the credit quality of the Direct Note portfolio including accrued interest at December 31:

Direct Note Credit Quality

	2013		2012		2011	
	% Total	# Total	% Total	# Total	% Total	# Total
Acceptable	85.96%	14	90.12%	15	85.65%	14
OAEM	9.23	4	3.39	2	11.38	4
Adverse*	4.81	1	6.49	2	2.97	2
Total	100.00%	19	100.00%	19	100.00%	20

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

As of December 31, 2013, fourteen of the nineteen District Associations' Direct Notes, representing 85.96 percent of the Direct Note portfolio, were classified acceptable. Four of the remaining Direct Notes, representing 9.23 percent of the portfolio, were classified as Other Assets Especially Mentioned (OAEM) and one of the Direct Notes, representing 4.81 percent of the portfolio, was classified as substandard (adverse).

None of the Direct Notes, including those classified as substandard (adverse), are considered impaired. 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. Presently, collection of the full Direct Note amount due for the Association classified as substandard is expected in accordance with the contractual terms of the debt arrangements, and no allowance has been recorded for Direct Notes. All assets of the various Associations are pledged as collateral for their respective Direct Notes. In the opinion of management, all Association Direct Notes are adequately collateralized. The risk funds of an Association, including both capital and the allowance for loan losses, also protect the interest of the Bank should a Direct Note default. At December 31, 2013, total assets of the Association whose Direct Note was classified as substandard were $902.1 million and total risk funds were $210.6 million. Also at December 31, 2013, total substandard loans, including accrued interest, of this Association were $95.4 million compared to its total substandard Direct Note, including accrued interest, of $674.5 million.

As of December 31, 2013, five District Associations, with combined assets of approximately $3.771 billion, were operating under written supervisory agreements with the FCA. Those agreements require those District Associations to take corrective actions with respect to specific areas of their operations. Also, as of December 31, 2013, two District Associations were operating under special credit agreements pursuant to their GFAs as a result of covenant violations. Neither these enforcement actions nor GFA covenant violations are expected to have a significant adverse impact on the Bank's or District's financial condition or results of operations.

Associations employ a number of risk management techniques to limit credit exposures. Each Association has adopted underwriting standards, individual borrower exposure limits, commodity exposure limits, and other risk management techniques. AgFirst and the Associations actively purchase and sell loan participations to enhance the diversification of their portfolios. Some Associations utilize guarantees from U.S. government agencies/departments, including the Farm Service Agency, the Small Business Administration, and the Federal Agricultural Mortgage Corporation (Farmer Mac), to further limit credit exposures. At December 31, 2013, Associations collectively had $1.640 billion under such government or GSE guarantees, compared to $1.701 billion, and $1.680 billion, at December 31, 2012 and 2011, respectively.

At year-end, the combined Associations' loans including accrued interest were classified as follows:

District Associations Credit Quality	2013	2012	2011
Acceptable	91.72%	89.12%	87.80%
OAEM	3.99	4.57	5.50
Adverse*	4.29	6.31	6.70
Total	100.00%	100.00%	100.00%

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

Delinquencies (loans 90 days or more past due) were 0.94 percent of the combined Association total loan assets at year-end 2013 compared to 1.59 percent and 2.12 percent at year-end 2012 and 2011, respectively.

Nonperforming assets for the combined Associations represented 3.06 percent of total loan assets or $528.1 million, compared to 4.11 percent or $691.3 million for 2012, and 4.54 percent or $758.3 million for 2011. Nonperforming assets consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due and other property owned.

Association net loan charge-offs of $29.7 million, $60.0 million and $139.7 million were recognized in 2013, 2012, and 2011, respectively. As a percentage of total average loans, net charge-offs for the combined Associations were 0.18 percent for 2013 compared to 0.37 percent and 0.83 percent in 2012 and 2011, respectively. Each Association maintains an allowance for loan losses determined by its management based upon its unique circumstances.

The following table illustrates the risk bearing capacity of the Associations at December 31, 2013:

Association	Regulatory Permanent Capital Ratio	Regulatory Core Surplus Ratio	Regulatory Total Surplus Ratio	Allowance/ Loans
AgCarolina	22.96%	18.32%	18.32%	1.49%
AgChoice	17.48%	15.84%	16.78%	0.79%
Ag Credit	20.28%	16.73%	18.46%	1.05%
AgGeorgia	23.51%	19.87%	23.07%	1.26%
AgSouth	18.69%	14.46%	18.17%	0.78%
ArborOne	20.13%	18.99%	19.69%	1.47%
Cape Fear	22.25%	21.88%	21.88%	0.79%
Carolina	20.34%	16.68%	19.68%	0.41%
Central Florida	21.13%	17.64%	20.87%	2.16%
Central Kentucky	15.99%	14.62%	14.62%	1.02%
Colonial	23.62%	22.90%	22.90%	0.64%
Farm Credit of Florida	20.34%	19.48%	19.48%	0.89%
Farm Credit of the Virginias	19.88%	18.68%	18.68%	0.80%
First South	17.76%	16.20%	16.94%	0.70%
MidAtlantic	20.21%	19.68%	19.83%	1.08%
Northwest Florida	26.26%	24.57%	25.97%	2.14%
Puerto Rico	29.41%	29.05%	29.05%	2.43%
River Valley	18.45%	16.29%	17.48%	1.36%
Southwest Georgia	17.23%	14.57%	16.95%	0.62%

The minimum regulatory capital ratios for System banks and associations are 7.00 percent for the permanent capital ratio, 3.50 percent for the core surplus ratio, and 7.00 percent for the total surplus ratio. See the *Regulatory Ratios* in the *Capital* section below for a discussion of the calculation of the permanent capital, core surplus, and total surplus ratios.

Affiliated Associations serve primarily all or a portion of fifteen states and Puerto Rico. The District's large footprint results in geographic diversity, which is a natural credit risk-reducing factor for AgFirst. The following table illustrates the geographic distribution of the Associations' loan volume outstanding by state for the past three years at December 31:

	District Associations		
State	2013	2012	2011
North Carolina	17%	16%	16%
Georgia	12	12	13
Virginia	11	11	11
Pennsylvania	11	10	10
Ohio	9	8	8
Florida	8	8	10
Maryland	7	7	7
South Carolina	6	6	6
Alabama	4	4	4
Kentucky	4	4	3
Mississippi	2	3	2
Delaware	2	2	2
West Virginia	2	2	2
Louisiana	2	2	1
Tennessee	1	1	1
Puerto Rico	1	1	1
Other	1	3	3
Total	100%	100%	100%

Only four states have loan volume representing 10.00 percent or more of the total. Commodity diversification, guarantees, and borrowers with significant reliance on non-farm income further mitigate the geographic concentration risk in these states.

The diversity of commodity types and income sources supporting Association loan repayment further mitigates credit risk to AgFirst. The Associations' credit portfolios are comprised of a number of segments having varying, and in some cases complementary, agricultural characteristics. Commodity and industry categories are based on the Standard Industrial Classification system published by the federal government. This system is used to assign commodity or industry categories based on the largest agricultural commodity of the customer. The following table illustrates the aggregate credit portfolio of the Associations by major commodity segments at December 31:

	District Associations		
	Percent of Portfolio		
Commodity Group	2013	2012	2011
Forestry	15%	15%	15%
Poultry	13	14	14
Field Crops	10	11	10
Cattle	8	8	8
Grain	8	7	7
Corn	7	6	5
Other Real Estate	6	6	6
Dairy	6	6	6
Nursery/Greenhouse	3	4	4
Tree Fruits and Nuts	3	3	3
Cotton	3	3	3
Swine	3	3	3
Rural Home	3	3	3
Processing	2	1	2
Utilities	1	1	1
Other	9	9	10
Total	100%	100%	100%

As illustrated in the above chart, Associations had concentrations of 10.00 percent or greater in only three commodities: forestry, poultry, and field crops. All three commodities have geographic dispersion over the entire AgFirst footprint. Also, many of these producers have significant secondary income from off-farm employment by a family member.

Forestry is divided principally into hardwood and softwood production and value-added processing. The timber from hardwood production is further processed into furniture, flooring, and high-grade paper and is generally located at the more northern latitudes and higher elevations of the District. Softwood timber production is typically located in the coastal plains of the AgFirst footprint and is used for building materials for the housing market and pulp to make paper and hygiene products. Timber producers at the Associations range in size from less than fifty acres to thousands of acres, with value-added processing being conducted at sawmills, planer mills, and paper mills.

Poultry concentrations within the Associations are further limited through the number of farm units producing poultry. Poultry concentration is further dispersed as production is segregated among chicken, turkey, and egg production.

The field crops commodity group represents a diverse group of commodities, including fruits, vegetables, and other non-grain crops, which are grown throughout the AgFirst District.

As mentioned previously, loans exceeding an Association's delegated lending authority must be pre-approved by AgFirst. As a result, larger agribusiness loans are typically analyzed by AgFirst's commercial lending staff as well as the Association's own lending staff prior to an Association committing to such loans.

Exposure to losses is reduced further through collateralization and other credit enhancements, including federal government guarantees. Typically, multiple loans to the same borrower are cross-collateralized and cross-defaulted. By law, all long-term loans must be secured by a first lien on real estate with an initial loan to appraised value not exceeding 85.00 percent. As of December 31, 2013, such loans represent over 54.42 percent of the District Association loans.

Participations/Syndications

AgFirst has a Capital Markets Unit that purchases and sells loan participations and syndications. The Bank's credit officers work with the Associations to originate loans within the District's territory, provide commercial loan expertise to augment the Associations' staff, as needed, and provide an outlet for loans that exceed Associations' various hold limits. Additionally, the Capital Markets Unit actively pursues the purchase of participations and syndications originated outside of the District's territory by other System institutions, commercial banks, and other lenders. These loans may be held as earning assets of AgFirst or sub-participated to the Associations. The Capital Markets Unit also sells participations outside of the District to manage AgFirst's and the District Associations' loan concentrations and hold positions.

AgFirst's participation volume outstanding decreased by 7.71 percent from year-end 2012 to 2013. The decrease during 2013 was primarily due to a reduction in certain loan pools purchased from District Associations and lower utilization of available commitments. As with the Direct Notes, borrower demand in this portfolio is anticipated to remain weak in 2014.

The following table shows total participations/syndications portfolio credit exposures at December 31, 2013, 2012, and 2011.

	AgFirst Participations		
(dollars in thousands)	2013	2012	2011
Participations Purchased	$ 4,651,806	$ 4,940,853	$ 4,965,411
Less: Participations Sold	925,428	903,083	1,084,852
Net Outstanding	3,726,378	4,037,770	3,880,559
Available Unused Commitments	2,750,453	2,513,532	2,374,573
Letters of Credit and Guarantees	88,762	94,607	129,344
Total Exposure	$ 6,565,593	$ 6,645,909	$ 6,384,476

Like the Associations, 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.

The following table illustrates AgFirst's participation/syndication portfolio by geographic distribution at December 31:

	AgFirst Participations					
(dollars in thousands)	2013		2012		2011	
Florida	$ 490,236	13 %	$ 495,472	12 %	$ 538,467	14 %
Georgia	339,236	9	332,722	8	371,158	10
North Carolina	256,499	7	442,795	11	452,335	12
Texas	160,048	4	149,759	4	107,990	3
California	157,000	4	178,498	4	134,192	3
Virginia	155,764	4	185,379	5	201,524	5
Pennsylvania	152,164	4	184,950	5	177,685	5
New York	136,792	4	160,669	4	93,855	2
Ohio	135,615	4	157,882	4	135,861	4
Alabama	131,204	3	105,802	3	132,471	4
Mississippi	118,575	3	110,508	3	129,842	3
Colorado	114,320	3	80,255	2	74,575	2
Minnesota	112,874	3	119,251	3	119,590	3
Connecticut	99,312	3	99,549	2	62,725	2
Kentucky	98,609	3	105,535	3	78,490	2
Louisiana	97,896	3	102,585	2	79,757	2
Missouri	97,583	3	130,287	3	113,362	3
Illinois	95,366	3	41,466	1	79,300	2
South Carolina	94,306	3	112,113	3	163,888	4
Oregon	78,413	2	82,118	2	77,550	2
New Jersey	75,134	2	63,293	1	33,236	1
Washington	69,712	2	76,143	2	56,167	1
North Dakota	57,641	1	62,684	1	38,446	1
Arkansas	45,635	1	68,163	2	51,948	1
Massachusetts	42,684	1	45,097	1	37,036	1
Maryland	42,659	1	10,430	–	7,338	–
Tennessee	40,854	1	54,366	1	63,050	2
Puerto Rico	29,148	1	34,261	1	28,042	1
Indiana	26,733	1	29,647	1	6,113	–
Iowa	22,722	1	28,758	1	35,689	1
Idaho	10,148	–	20,132	1	15,504	–
Nebraska	8,984	–	37,871	1	29,490	1
Delaware	–	–	32,743	1	57,328	1
Other	132,512	3	96,587	2	96,555	2
	$ 3,726,378	100 %	$ 4,037,770	100 %	$ 3,880,559	100 %

The following participation/syndication table shows the various major commodity groups in the portfolio and their percentage of the outstanding portfolio volume at December 31:

AgFirst Participations Commodity Group	Percent of Portfolio 2013	2012	2011
Forestry	19%	17%	17%
Utilities	18	17	11
Processing	13	14	14
Tree Fruits and Nuts	8	7	8
Field Crops	4	5	6
Swine	4	4	3
Poultry	4	4	6
Cattle	3	4	5
Nursery/Greenhouse	3	4	5
Dairy	2	3	3
Other Real Estate	2	2	3
Grain	1	2	2
Cotton	1	1	1
Corn	1	1	1
Tobacco	1	–	1
Ethanol	–	1	1
Other	16	14	13
Total	100%	100%	100%

The following table represents the participation/syndication credit quality as of December 31:

Participation/Syndication Credit Quality	2013	2012	2011
Acceptable	93.14%	89.03%	85.20%
OAEM	2.64	4.28	9.38
Adverse*	4.22	6.69	5.42
Total	100.00%	100.00%	100.00%

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

Improvement in the credit quality of the participation/syndication portfolio is reflective of the incremental improvement in general economic conditions, including employment, the housing market, and real estate values.

Correspondent Lending

The Correspondent Lending portfolio (Correspondent Lending) consists primarily of first lien residential mortgages. Until July 31, 2013, substantially all loans originated in the correspondent lending portfolio have guarantees from the Federal National Mortgage Association (Fannie Mae) and/or the Federal Agricultural Mortgage Corporation (Farmer Mac), thereby limiting credit risk to AgFirst. The guarantees are in the form of Long-Term Standby Commitments to Purchase, which give AgFirst the right to deliver delinquent loans to the guarantor at par. The Fannie Mae guarantee program ended on July 31, 2013. Subsequent to this date, new loans in this portfolio purchased by the Bank are held without a Fannie Mae guarantee. At December 31, 2013, $2.219 billion of loans in the correspondent lending portfolio were guaranteed and $182.8 million were unguaranteed. The Bank has adjusted its methodology of establishing and maintaining the allowance for loan losses related to this portfolio to reflect the discontinuation of the Fannie Mae guarantee program.

The table below illustrates the Correspondent Lending outstanding balance of loans at December 31:

(dollars in millions)	AgFirst Correspondent Lending 2013		2012		2011	
Rural Home Loans – Guaranteed	$ 2,143	89.24%	$ 2,118	93.02%	$ 2,003	92.23%
Part-time Farm Loans – Guaranteed	75	3.13	89	3.93	109	5.03
Agricultural Loans – Guaranteed	1	0.02	1	0.02	2	0.07
Non-guaranteed Loans	183	7.61	69	3.03	58	2.67
Total	$ 2,402	100.00%	$ 2,277	100.00%	$ 2,172	100.00%

Rural home loans are underwritten to conform to Fannie Mae underwriting standards and are guaranteed by Fannie Mae. Part-time farm loans conform to Farmer Mac underwriting standards and are guaranteed by Farmer Mac. During 2013, AgFirst purchased $456.2 million of rural home and part-time farm loans.

AgFirst owned $2.143 billion in guaranteed rural home loans at December 31, 2013. These loans were added to the portfolio prior to the discontinuance of the Fannie Mae guarantee program on July 31, 2013 as discussed above.

AgFirst owned $75.1 million in part-time farm loans at December 31, 2013. Part-time farm loans represent first lien mortgages on homes with property characteristics (such as acreage or agricultural improvements) that may not conform to Fannie Mae standards. These loans are guaranteed by Farmer Mac. The guarantee program for these loans was discontinued by Farmer Mac in 2010, which will result in lower part-time farm loans balances as these loans are repaid.

AgFirst owned $515 thousand of agricultural loans that are guaranteed by Farmer Mac at December 31, 2013. This segment is small, due primarily to the Associations' propensity to hold agricultural loans in-portfolio. A number of Associations obtain Farmer Mac guarantees for qualifying segments of their agricultural portfolios, thereby eliminating their need to sell those loans to AgFirst.

At December 31, 2013, non-guaranteed loans primarily consist of rural home loans added to the portfolio subsequent to the discontinuation of the Fannie Mae guarantee program on July 31, 2013 as discussed above. Non-guaranteed loans at December 31, 2012 and 2011 generally consist of loans being held for eventual delivery to, or guarantee by, Fannie Mae or Farmer Mac. Such loans were secured by first-lien mortgages and were considered high quality assets at time of purchase.

The total volume owned as of December 31, 2013 was $2.402 billion. The total volume serviced but not owned as of December 31, 2013 was $59.1 million. The correspondent lending loans are sub-serviced through agreements with third parties.

At year-end, the total correspondent lending loans including accrued interest were classified as 99.90 percent acceptable, 0.07 percent OAEM, and 0.03 percent adverse.

Rural home loans, combined with Rural Home Mortgage-backed Securities (see *Mission Related Investments* section below), are limited to 15 percent of total loans outstanding as defined by FCA. The December 31, 2013 levels resulted in a limit of $3.1 billion with a combined balance of $2.8 billion and an unused capacity of $0.3 billion. The Bank monitors this position and will consider options to reduce the Rural Home asset level with actions including, but not limited to, securitizing and selling rural home loans.

MISSION RELATED INVESTMENTS

The FCA initiated a program in 2004 to allow System institutions to make and hold investments that stimulate economic growth and development in rural areas. The investments are subject to approval by the FCA on a case-by-case basis. FCA approved the Rural Housing Mortgage-Backed Securities pilot program and the Rural America Bonds pilot program as described below.

Effective December 31, 2014, the FCA will conclude each pilot program approved as part of the Investment in Rural America program. Each institution participating in such programs may continue to hold its investment through the maturity dates for the investments, provided the institution continues to meet all approval conditions. Although the pilot programs are concluding, the FCA can consider future requests on a case-by-case basis.

Rural Housing Mortgage-Backed Securities

Rural Housing Mortgage-Backed Securities (RHMS) must be fully guaranteed by a government agency or GSE. The rural housing loans backing the RHMS must be conforming first-lien residential mortgage loans originated by non-System lenders in "rural areas" as defined by the Farm Security and Rural Investment Act of 2002, or eligible rural housing loans originated by System lenders under FCA regulations. Investment securities at December 31, 2013 included $445.4 million in RHMS classified as held-to-maturity, compared to $435.5 million at December 31, 2012 and $683.1 million at December 31, 2011. See the *Correspondent Lending* section above for discussion regarding volume limitation on RHMS.

Rural America Bonds

In recognition of the economic interdependence between agricultural and rural communities, AgFirst and the Associations seek to safely and soundly invest in debt obligations that support farmers, ranchers, agribusinesses, and their rural communities and businesses. In doing so, AgFirst and the Associations hope to increase the well-being and prosperity of American farmers, ranchers, and rural residents.

As of December 31, 2013, the District had $268.4 million in the Rural America Bond program, compared to $292.4 million at December 31, 2012. The Bank had $145.6 million invested in the program as of December 31, 2013, a decrease of $15.1 million from December 31, 2012. Of the $145.6 million, the Bank had $134.7 million reflected in investment securities and $10.9 million reflected as loans on the Balance Sheets at December 31, 2013.

RISK MANAGEMENT

The organizational structure of AgFirst facilitates communication of operational and risk management issues throughout all layers of management and across all functional areas. The Bank's Executive Committee is responsible for risk management, including:

- Providing overall leadership, vision, and direction for enterprise risk management;
- Establishing an integrated risk management framework for all aspects of risk across the organization;
- Ensuring development of risk management policies, including the quantification of management's risk appetite through specific risk limits;
- Implementing a set of risk metrics and reports, including key risk exposures and early warning indicators;
- Reviewing and approving recommendations for the allocation of capital to business activities based on risk, and optimizing the Bank's risk portfolio through business activities and risk transfer strategies;
- Improving the Bank's risk management readiness through coordination of communication and training programs, risk-based performance measurement and incentives, and other change management programs;
- Assigning responsibility for development of analytical systems and data management capabilities to support the risk management program; and
- Reporting periodically to the Board of Directors on actions taken to strengthen the Bank's system of internal controls.

Overview

The Bank is in the business of making agricultural and other loans that requires accepting certain risks in exchange for compensation for the risks undertaken. Proper management of the risks inherent in AgFirst's business is essential for current and long-term financial performance. The objectives of risk management are to identify and assess risks, and to properly and effectively mitigate, measure, price, monitor, and report risks in the Bank's business activities. The Executive Committee provides oversight of the Bank's risk management functions through an integrated management committee structure, including the Bank's Asset/Liability Committee (ALCO), Loan Committee, and Operations Committee.

Types of risks to which the Bank has exposure include:

- *structural risk* — risk inherent in the business and related to the System structures comprised of interdependent networks of cooperative lending institutions,
- *credit risk* — risk of loss arising from an obligor's failure to meet the terms of its contract or failure to perform as agreed,
- *interest rate risk* — risk that changes in interest rates may adversely affect the Bank's operating results and financial condition,
- *liquidity risk* — risk of loss arising from the inability to meet obligations when they come due,
- *operational risk* — risk of loss resulting from inadequate or failed internal processes or systems, errors by employees or external events,
- *reputational risk* — risk to earnings, capital, and mission fulfillment arising from the loss of confidence, trust, and esteem among customers, investors, partners, policymakers, shareholders, other key stakeholders, and the public at large, and
- *political risk* — risk of loss of support for the System and agriculture by federal and state governments

Structural Risk Management

Structural risk results from the fact that AgFirst, along with its related Associations, is part of the System, which is comprised of banks and associations that are cooperatively owned, directly or indirectly, by their borrowers. Because System institutions are financially and operationally interdependent, this structure at times requires action by consensus or contractual agreement. The Federal Farm Credit Banks Funding Corporation (Funding Corporation) provides for the issuance, marketing, and processing of Systemwide Debt Securities using a network of investment dealers and dealer banks. The System banks fund association loans with Systemwide debt. Refer to Note 6, *Debt*, in the Notes to the Financial Statements for further discussion. The banks are jointly and severally liable for the repayment of Systemwide Debt Securities, exposing each bank to the risk of default of the others. Although capital at the association level reduces the banks' credit exposures with respect to their related associations, that capital may not be available to support the payment of principal and interest on Systemwide Debt Securities.

In order to mitigate this risk, the System utilizes two integrated contractual agreements executed by and among the banks— the Amended and Restated Contractual Interbank Performance Agreement (CIPA) and the Second Amended and Restated Market Access Agreement (MAA). Under provisions of the CIPA, a score is calculated that measures the financial condition and performance of each district using various ratios that take into account each district's and bank's capital, asset quality, earnings, interest-rate risk, and liquidity. Based on these measures, the CIPA establishes an agreed-upon standard of financial condition and performance that each district must achieve and maintain. The CIPA also establishes monetary penalties if the performance standard is not met. These penalties will occur at the same point at which a bank would be required to provide additional monitoring information under the MAA.

The MAA establishes criteria and procedures for the banks that provide operational oversight and control over a bank's access to System funding if the creditworthiness of the bank declines below certain agreed-upon levels. The MAA provides for the identification and resolution of individual bank financial problems in a timely manner and discharges the Funding Corporation's statutory responsibility for determining conditions for each bank's participation in each issuance of Systemwide Debt Securities.

Credit Risk Management

Credit risk arises from the potential inability of an obligor to meet its repayment obligation and exists in outstanding loans, letters of credit, unfunded loan commitments, the investment portfolio and derivative counterparty credit exposures. The Bank manages credit risk associated with lending activities through an assessment of the credit risk profile of individual obligors. The Bank sets underwriting standards and lending policies consistent with FCA regulations, which provide direction to loan officers and are approved by the board of directors.

The credit risk management process begins with an analysis of a potential obligor's credit history, repayment capacity and financial position. Repayment capacity focuses on the obligor's ability to repay the obligation based on cash flows from operations or other sources of income, including non-farm income. Real estate mortgage loans must be secured by first liens on the real estate collateral. As required by FCA regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures.

The credit risk rating process for loans uses a two-dimensional loan rating structure, incorporating a 14-point risk rating scale to identify and track a borrower's probability of default and a separate scale addressing loss given default. The loan rating structure reflects estimates of loss through two components, borrower risk and transaction risk. Borrower risk is the risk of loss driven by factors intrinsic to the borrower. The transaction risk or facility risk is related to the structure of a credit (tenor, terms, and collateral).

Through their participation in loans or interests in loans to/from other institutions within the System and outside the System, the Bank and District Associations limit their exposure to both borrower and commodity concentrations. This also allows the Bank and District Associations to manage growth and capital and to improve geographic diversification. Concentration risk is reviewed and measured by industry, product, geography and customer limits.

Although neither the Bank nor any other System institution receives any direct government support, credit quality is indirectly enhanced by government support in the form of program payments to borrowers, which improve their ability to honor their commitments. However, due to the geographic location of the District and the resulting types of agriculture, government programs account for a relatively small percentage of net farm income in the territory served by the District Associations.

As a result of the improved economy and the Bank's continued efforts to resolve problem assets, the Bank's high-risk assets have declined in 2013 and 2012 and continue to be a small percentage of the total loan volume and total assets. High-risk assets, including accrued interest, at December 31 are detailed in the following table:

(dollars in thousands)	2013	2012	2011
AgFirst High-risk Assets			
Nonaccrual loans	$ 59,594	$ 80,208	$ 85,222
Restructured loans	8,800	4,444	38,757
Accruing loans 90 days past due	2,215	2,464	5,352
Total high-risk loans	70,609	87,116	129,331
Other property owned	9,621	19,477	44,157
Total high-risk assets	$ 80,230	$ 106,593	$ 173,488
Ratios			
Nonaccrual loans to total loans	0.30%	0.40%	0.42%
High-risk assets to total assets	0.28%	0.37%	0.59%

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 at December 31, 2013 were $59.6 million compared to $80.2 million at December 31, 2012. Nonaccrual loans decreased $20.6 million during 2013 due primarily to repayments of $23.6 million, transfers to other property owned of $15.5 million, and charge-offs of uncollectible balances of $13.7 million. Offsetting these decreases were $30.4 million of loan balances transferred to nonaccrual status. The ten largest nonaccrual borrower relationships accounted for 81.55 percent of the total nonaccrual balance. At December 31, 2013, total nonaccrual loans were primarily classified in the tree fruits and nuts (30.12 percent of the total), forestry (24.44 percent), and nursery/greenhouse (23.95 percent) segments. Some of these nonaccrual loans are secured by real estate. Although the valuation of the real estate securing these loans has recently stabilized, it continues to reflect the negative impact of the economic environment of the past several years. Nonaccrual loans were 0.30 percent of total loans outstanding at December 31, 2013.

Troubled Debt Restructurings

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms, rates, or amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by the Bank. TDRs decreased $1.3 million since December 31, 2012 and totaled $36.8 million at December 31, 2013. TDRs were comprised of $8.8 million of accruing restructured loans and $28.0 million of nonaccruing restructured loans. Restructured loans were primarily in the nursery/greenhouse (37.57 percent of the total), forestry (26.97 percent), other real estate (11.59 percent), and tree fruits and nuts (7.56 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 is generally comprised of real estate, equipment, and equity interests in companies or partnerships. OPO decreased $9.9 million since December 31, 2012 and totaled $9.6 million at December 31, 2013. The decrease was due to OPO disposals of $20.4 million and net write-downs of $4.9 million. The two largest disposals were an ethanol plant totaling $7.1 million and a land holding totaling $4.4 million. The largest write-down was an ethanol plant totaling $2.2 million. Offsetting this decrease were transfers from nonaccrual of $15.5 million. The two largest OPO holdings at December 31, 2013 were an ethanol plant, $2.3 million (23.87 percent of the total), and a building, $2.0 million (20.93 percent).

Interest Rate Risk Management

The objective of interest rate risk management is to generate a reliable level of net interest income in any interest rate environment. AgFirst uses a variety of analytical techniques to manage the complexities associated with offering numerous loan options. Interest rate sensitivity gap analysis is used to monitor the repricing characteristics of AgFirst's interest-earning assets and interest-bearing liabilities. Simulation analysis is used to determine the potential change in net interest income and in the market value of equity under various possible future market interest rate environments.

AgFirst and the District Associations adhere to a philosophy that loans should be priced competitively in the market and that loan rates and spreads should be contractually established at loan closing such that a borrower is not subject to rate changes at the discretion of management or boards of directors. Therefore, District Association variable rate and adjustable rate loans are generally indexed to market rates, and fixed rate loans are priced based on market rates. Loan products offered by the

Associations include prime-indexed variable rate loans, LIBOR-indexed variable rate loans, one-, three- and five-year Treasury-indexed adjustable rate loans, and fixed rate loans. Variable rate and adjustable rate loans are offered with or without caps. Terms are available for up to 30 years. A variety of repayment options are offered, with the ability to pay on a monthly, quarterly, semi-annual or annual frequency. In addition, customized repayment schedules may be negotiated to fit a borrower's unique circumstances.

The following tables represent AgFirst's projected change in net interest income and market value of equity for various rate movements as of December 31, 2013:

Net Interest Income
(dollars in thousands)

Scenarios	Net Interest Income	% Change
+4.0% Shock	$464,730	(2.59)%
+2.0% Shock	$487,777	2.24%
Base line	$477,074	–%
-50% of 3M Tbill **	$476,291	(0.16)%

Market Value of Equity
(dollars in thousands)

Scenarios	Assets	Liabilities*	Equity*	% Change
Book Value	$28,844,342	$26,822,845	$2,021,497	– %
+4.0% Shock	$25,800,340	$24,489,823	$1,310,517	(41.01)%
+2.0% Shock	$27,307,792	$25,513,057	$1,794,735	(19.21)%
Base line	$28,871,486	$26,650,071	$2,221,415	– %
-50% of 3M Tbill **	$28,898,747	$26,673,810	$2,224,937	0.16%

* *For interest rate risk management, the $125.3 million perpetual preferred stock is included in liabilities rather than equity.*

** *When the three-month Treasury bill interest rate is less than 4 percent, both the minus 200 and minus 400 basis point shocks are replaced with a downward shock equal to one-half of the three-month Treasury bill rate.*

The following table sets forth the repricing characteristics of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2013. The amount of assets and liabilities shown in the table, which reprice or mature during a particular period, were determined in accordance with the earlier of term-to-repricing or contractual maturity, anticipated prepayments, and, in the case of liabilities, the exercise of call options.

Repricing/Maturity Gap Analysis

(dollars in thousands)	0 to 6 months	6 months to 1 Year	1 to 5 Years	Over 5 Years	Total
Floating Rate Loans					
Adjustable/Indexed Loans	$ 3,302,202	$ 20,105	$ 3,149	$ –	$ 3,325,456
Fixed Rate Loans					
Fixed Rate Loans	47,625	27,369	94,012	29,574	198,580
Fixed Rate Prepayable	4,948,786	3,130,902	6,242,151	2,295,766	16,617,605
Nonaccrual Loans					
Nonaccrual Loans	–	–	–	59,594	59,594
Total Loans	**8,298,613**	**3,178,376**	**6,339,312**	**2,384,934**	**20,201,235**
Total Investments *	**3,531,622**	**945,880**	**2,452,595**	**367,576**	**7,297,673**
TOTAL INTEREST EARNING ASSETS	**$ 11,830,235**	**$ 4,124,256**	**$ 8,791,907**	**$ 2,752,510**	**$ 27,498,908**
Interest-Bearing Liabilities					
Systemwide bonds and notes	$ 9,204,237	$ 4,920,000	$ 11,361,922	$ 738,720	$ 26,224,879
Interest rate swaps	250,000	–	(250,000)	–	–
TOTAL INTEREST-BEARING LIABILITIES	**$ 9,454,237**	**$ 4,920,000**	**$ 11,111,922**	**$ 738,720**	**$ 26,224,879**
Interest Rate Sensitivity Gap	**$ 2,375,998**	**$ (795,744)**	**$ (2,320,015)**	**$ 2,013,790**	
Sensitivity Gap as a % of Total Earning Assets	8.64%	(2.89)%	(8.44)%	7.32%	
Cumulative Gap	$ 2,375,998	$ 1,580,254	$ (739,761)	$ 1,274,029	
Cumulative Gap as a % of Total Earning Assets	8.64%	5.75%	(2.69)%	4.63%	
Rate Sensitive Assets/Rate Sensitive Liabilities	1.25	0.84	0.79	3.73	

* *includes cash equivalents*

At December 31, 2013, the Cumulative Repricing/Maturity Gap position of the Bank was asset sensitive out to one year as repricing/maturing assets exceeded liabilities that mature or reprice during that time period. Asset sensitivity implies an increase in net interest income in rising interest rate scenarios and lower net interest income in falling interest rate scenarios. However, the Repricing/Maturity Gap Analysis is a "point in time" view and is representative of the interest rate environment at December 31, 2013. The Repricing/Maturity Gap Analysis must be used with other analysis methods as the maturity and repricing attributes of balance sheet accounts react differently in changing interest rate environments. During a period of rising interest rates, call options on fixed rate debt are not exercised and the debt terms extend to reflect the longer original maturity dates. Prepayment optionality on fixed rate assets also slows as the economic incentive for borrowers to refinance decreases and extends the asset's term. To supplement the Repricing/ Maturity Gap Analysis the Bank utilizes financial simulation modeling. The results of simulation analyses on the Bank balance sheet reflect low sensitivity for net interest income due to interest rate changes. The simulations reflected less than a 3.00 percent increase or decrease in net interest income for rising and falling interest rate scenarios. Market value of equity reflected an elevated level of negative sensitivity in rising interest rate scenarios. However, the sensitivity levels were intentionally positioned at higher levels in advance of a change to the Association Direct Note funding structure that was implemented by the Bank on January 1, 2014. The sensitivity levels returned to more normalized levels after January 1, 2014 with net interest income moving to a more asset sensitive position and reduced negative sensitivity for market value of equity. The Bank's sensitivity to falling interest rates was not significantly impacted due to the current low level of interest rates.

At December 31, 2013, AgFirst had outstanding interest rate swaps with notional amounts totaling $250.0 million. All of these derivative transactions were executed to create synthetic floating-rate debt to achieve a lower cost of funding. The Bank may under certain conditions also use derivatives for asset/liability management purposes to reduce interest rate risk.

AgFirst policy prohibits the use of derivatives for speculative purposes. See Note 15, *Derivative Financial Instruments and Hedging Activities*, in the Notes to the Financial Statements for additional information. The following table shows the activity in derivatives during the year ended December 31, 2013:

Notional amounts *(dollars in millions)*	**Receive Fixed**	**Forward Contracts**
Balance at December 31, 2012	$ 360	$ –
Additions	–	–
Maturities/amortizations	(110)	–
Terminations	–	–
Balance at December 31, 2013	$ 250	$ –

Liquidity Risk Management

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

Cash, Cash Equivalents and Investments

As of December 31, 2013, 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.

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

At December 31, 2013, AgFirst met all individual level criteria and had a total of 246 days of debt coverage. The Bank's cash and cash equivalents position provided 23 days of the total liquidity coverage. Investment securities fully backed by the U.S. government provided an additional 222 days of liquidity. An additional day of coverage was provided by a supplemental liquidity buffer. Cash provided by the Bank's operating activities, primarily generated from net interest income in excess of operating expenses and maturities in the loan portfolio, is an additional source of liquidity for the Bank that is not reflected in the coverage calculation.

Cash, cash equivalents and investment securities as of December 31, 2013 totaled $8.337 billion compared to $8.358 billion and $9.082 billion at December 31, 2012 and 2011, respectively.

AgFirst's cash, cash equivalents and investment portfolio consisted of the following security types as of December 31:

	AgFirst Cash, Cash Equivalents and Investment Securities					
(dollars in thousands)	**2013**		**2012**		**2011**	
Investment Securities						
Available for Sale						
U.S. Govt. Guaranteed	$ 4,603,072	64.35%	$ 5,000,613	66.81%	$ 5,002,501	64.30%
U.S. Govt. Agency Guaranteed	1,747,620	24.43	1,644,227	21.97	1,650,829	21.22
Non-Agency CMOs	173,486	2.43	204,699	2.73	241,756	3.10
Asset-Backed Securities	38,798	0.54	33,390	0.45	30,324	0.39
Total Available for Sale	$ 6,562,976	91.75%	$ 6,882,929	91.96%	$ 6,925,410	89.01%
Held to Maturity						
Rural Housing U.S. Govt. Agency Guaranteed	$ 445,380	6.23%	$ 435,534	5.82%	$ 683,070	8.78%
Farmer Mac Guaranteed	4,558	0.06	6,497	0.09	8,261	0.11
Other Mission Related Investments	139,874	1.96	159,451	2.13	163,531	2.10
Total Held to Maturity	589,812	8.25	601,482	8.04	854,862	10.99
Total Investment Securities	$ 7,152,788	100.00%	$ 7,484,411	100.00%	$ 7,780,272	100.00%
Cash and Cash Equivalents						
Cash	$ 1,038,870	87.76%	$ 723,576	82.87%	$ 1,217,747	93.56%
Repos	144,885	12.24	149,589	17.13	83,822	6.44
Total Cash and Cash Equivalents	$ 1,183,755	100.00%	$ 873,165	100.00%	$ 1,301,569	100.00%
Total Investment Securities and Cash and Cash Equivalents	$ 8,336,543		$ 8,357,576		$ 9,081,841	

Cash and cash equivalents, which increased $310.6 million from December 31, 2012 to a total of $1.184 billion at December 31, 2013, consist primarily of cash on deposit, but also include money market securities that are short-term in nature (from overnight maturities to maturities that range up to 90 days). Money market securities must carry one of the two highest short-term ratings from a rating agency.

Incremental movements in cash balances are due primarily to changes in liquidity needs in relation to upcoming debt maturities between reporting periods.

FCA regulations 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. These investments serve to provide liquidity to the Bank's operations, to manage short-term funds, and to manage interest rate risk. AgFirst maintains an investment portfolio for these purposes comprised primarily of shorter-duration, high-quality investments. At year-end 2013, the Bank's eligible available-for-sale investments were 32.49 percent of the total loans outstanding.

Investment securities totaled $7.153 billion, or 24.80 percent of total assets at December 31, 2013, compared to $7.484 billion, or 25.91 percent, as of December 31, 2012. Investment securities decreased $331.6 million, or 4.43 percent, compared to December 31, 2012. Management maintains the available-for-sale liquidity investment portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines. In order to maintain the portfolio size within revised regulatory limits, during the quarter ended March 31, 2013, the Bank sold $114.6 million of agency mortgage-backed securities which resulted in a gain of $7.6 million.

Investment securities classified as being available-for-sale totaled $6.563 billion at December 31, 2013. Available-for-sale investments included $4.603 billion in U.S. Government guaranteed securities, $1.748 billion in U.S. Government agency guaranteed securities, $173.5 million in non-agency CMOs, and $38.8 million in asset-backed securities. Since the majority of the portfolio is invested in agency securities, the portfolio is highly liquid and potential credit loss exposure is limited.

For purposes of calculating the risk adjusted assets amount used in the permanent capital, total surplus, and core surplus regulatory ratios, certain Bank ineligible securities are risk weighted between 50 percent and 200 percent, instead of 20 percent which is applicable to eligible non-agency securities, and other securities are deducted completely from the calculation. The FCA considers a non-agency security ineligible if it falls below the AAA/Aaa credit rating by the Nationally Recognized Statistical Rating Organizations (NRSROs) and requires System institutions to provide notification to FCA when a security becomes ineligible. Ineligible securities risk weighted between 50 percent and 200 percent had a fair value of $100.4 million and amortized cost of $94.2 million at December 31, 2013. Ineligible securities deducted completely from both capital and risk adjusted assets based on the extent of their below investment grade rating from NRSROs had a fair value of $47.1 million and amortized cost of $53.0 million at December 31, 2013. The fair value and amortized cost of ineligible non-agency reperformer CMO securities covered by Federal Housing Administration insurance and therefore risk weighted at the standard 20 percent, was $57.7 million and $66.9 million, respectively, at December 31, 2013. See the *Regulatory Ratios* section below for further discussion of the regulatory ratios. In addition, all ineligible investments, except non-agency reperformer CMOs which meet certain conditions, are excluded from liquidity coverage as defined above.

AgFirst also maintains a portfolio of investments that are not held for liquidity purposes and are accounted for as a held-to-maturity portfolio. These investments are authorized by FCA regulations that allow investments in Farmer Mac securities and also in specific investments approved by the FCA as Mission Related Investments. The vast majority of this portfolio is comprised of Mission Related Investments for a program to purchase RHMS, which when combined with eligible rural home loans, must not exceed 15.00 percent of total outstanding loans. Investment securities classified as being held-to-maturity totaled $589.8 million at December 31, 2013. As discussed previously, the FCA will conclude each Mission Related Investment pilot program effective December 31, 2014, but can consider future requests on a case-by-case basis. See *Mission Related Investments* section above.

Net unrealized gains related to investment securities were $100.7 million at December 31, 2013, compared to $174.5 million at December 31, 2012. These net unrealized gains are reflected in Accumulated Other Comprehensive Income (AOCI) in the Financial Statements. The net unrealized gains stem from normal market factors such as the current interest rate environment.

The Bank performs periodic credit reviews, including other-than-temporary impairment analyses, on its entire investment securities portfolio. Based on the results of all analyses, the Bank recognized other-than-temporary credit related impairment of $2.6 million during the twelve months ended December 31, 2013, which was included in Net Other-Than-Temporary Impairment Losses on Investments in the Statements of Income. See Note 2, *Summary of Significant Accounting Policie*s, and Note 4, *Investments,* in the Notes to the Financial Statements for further information.

Systemwide Debt Securities

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. However, concerns regarding the government's borrowing limit and budget imbalances have further highlighted the risks to the System relating to the U.S. fiscal situation. These risks include the implied link between the credit rating of the System and the U.S. Government given the System's status as a GSE.

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.

Currently, Standard & Poor's Ratings Services, Moody's Investor Service and Fitch Ratings have assigned long-term debt ratings for the System of AA+, Aaa, and AAA and short-term debt ratings of A-1+, P-1, and F-1, respectively. Standard & Poor's and Moody's outlook for the System is stable. In October 2013, Fitch changed its outlook for the System from stable to negative in connection with Fitch's placement of the U.S. Government on negative watch. 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.

AgFirst's year-to-date average balance of Systemwide Debt Securities at December 31, 2013, was $25.884 billion. At December 31, 2013, AgFirst had $26.225 billion in total System debt outstanding compared to $26.287 billion at December 31, 2012 and $27.086 billion at December 31, 2011. Total interest-bearing liabilities decreased primarily due to the decrease in liquidity investments and the decline in loan volume as discussed elsewhere in this report, which when combined with an increase in retained earnings, reduced funding requirements.

AgFirst's participation in outstanding Systemwide Debt Securities as of December 31, 2013 is shown in the following table:

	Bonds		Discount Notes		Total	
Maturities	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate
			(dollars in thousands)			
2014	$ 7,162,337	0.30%	$ 1,909,103	0.12%	$ 9,071,440	0.26%
2015	5,034,886	0.44	–	–	5,034,886	0.44
2016	3,329,726	0.77	–	–	3,329,726	0.77
2017	2,483,928	1.04	–	–	2,483,928	1.04
2018	1,725,188	1.43	–	–	1,725,188	1.43
2019 and after	4,579,711	2.22	–	–	4,579,711	2.22
Total	$ 24,315,776	0.91%	$ 1,909,103	0.12%	$ 26,224,879	0.85%

In the preceding table, weighted average interest rates include the effect of related derivative financial instruments.

Refer to Note 6, *Debt*, in the Notes to the Financial Statements, for additional information related to debt.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events, including the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and the risk of fraud by employees or persons outside the System. AgFirst's and the Associations' boards of directors are required, by regulation, to adopt internal control policies that provide adequate direction to their respective institutions in establishing effective controls over and accountability for operations, programs, and resources. The policies must include, at a minimum, the following items:

- direction to management that assigns responsibility for the internal control function to an officer of the institution,
- adoption of internal audit and control procedures,
- direction for the operation of a program to review and assess an institution's assets,
- adoption of loan, loan-related assets and appraisal review standards, including standards for scope of review selection and standards for work papers and supporting documentation,
- adoption of asset quality classification standards,
- adoption of standards for assessing credit administration, including the appraisal of collateral, and
- adoption of standards for the training required to initiate a program.

In addition, AgFirst has implemented a Risk Management Policy to ensure that business exposures to risk are identified, measured and controlled, using the most effective and efficient methods to mitigate such exposures. AgFirst's risk management structure was designed to ensure that an effective enterprise-wide risk management program is in place. Exposure to operational risk is typically identified with the assistance of senior management, and internal audit plans are developed with higher risk areas receiving more attention.

AgFirst's operations rely on the secure processing, transmission and storage of confidential information in its computer systems and networks. Although AgFirst believes that it has robust information security procedures and controls, its technologies, systems, networks and customers' devices may be the target of cyber-attacks or information security breaches. Failure in or breach of AgFirst's operational or security systems or infrastructure, or those of its third party vendors and other service providers, including as a result of cyber-attacks, could disrupt AgFirst's businesses or the businesses of its customers, result in the unintended disclosure or misuse of confidential or proprietary information, damage the Bank's reputation, increase costs, and cause losses.

Reputational Risk Management

Reputation risk is defined as the negative impact resulting from events, real or perceived, that shape the image of the Bank, System or any of its entities. Such risks include impacts related to investors' perceptions about agriculture, the reliability of the Bank, System, or other System institution financial information or overt actions by the Bank or any other System institution. A System Reputation Committee develops proactive risk mitigation strategies, and actively monitors and manages this risk with all System entities, including the Bank.

Political Risk Management

Political risk to the System is the risk of loss of support for the System or agriculture by the U.S. government. System institutions are instrumentalities of the federal government and are intended to further governmental policy concerning the extension of credit to or for the benefit of agricultural and rural America. The System and its borrowers may be significantly affected by federal legislation that impacts the System directly, such as changes to the Farm Credit Act, or indirectly, such as agricultural appropriations bills. However, government programs account for a relatively small percentage of net farm income in the territory served by the District Associations.

The District addresses political risk by actively supporting the Farm Credit Council, which is a full-service, federal trade association representing the System before Congress, the Executive Branch, and others. The Council provides the mechanism for "grassroots'' involvement in the development of System positions and policies with respect to federal legislation and government actions that impact the System. Additionally, the District takes an active role in representing the individual interests of System institutions and their borrowers before Congress. In addition to the Farm Credit Council, each district has its own Council, which is a member of the Farm Credit Council. The district Councils represent the interests of their members on a local and state level, as well as on a federal level.

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 Bank increases the allowance by recording a provision for loan losses in the income statement. Loan losses are recorded against and serve to decrease the allowance when management determines that any portion of a loan is uncollectible. Any subsequent recoveries are added to the allowance. Impaired and certain other significant loans were reviewed individually to determine that appropriate reserves were in place at year end. All other participation loans were analyzed collectively and general reserves were established based on that collective analysis including the risk rating and potential for loss given default of the underlying loans.

The following table presents the activity in the allowance for loan losses for the most recent three years at December 31:

AgFirst Allowance for Loan Losses Activity:
(dollars in thousands)

	2013	2012	2011
Balance at beginning of year	$ 44,539	$ 27,714	$ 14,873
Charge-offs:			
Real Estate Mortgage	(1,040)	(5,186)	(24,572)
Production and Intermediate-Term	(8,455)	(4,329)	(26,023)
Agribusiness	(3,782)	(42)	(3,847)
Energy and Water/Waste Disposal	–	–	(3,218)
Rural Residential Real Estate	(413)	(212)	(36)
Other (including Mission Related)	–	(365)	(10,083)
Total charge-offs	(13,690)	(10,134)	(67,779)
Recoveries:			
Real Estate Mortgage	2,091	3,689	320
Production and Intermediate-Term	190	8,318	78
Agribusiness	320	–	–
Other (including Mission Related)	47	6	–
Total recoveries	2,648	12,013	398
Net (charge-offs) recoveries	(11,042)	1,879	(67,381)
Provision for (reversal of allowance for) loan losses	(10,589)	14,946	80,222
Balance at end of year	$ 22,908	$ 44,539	$ 27,714
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.06)%	0.01%	(0.33)%

The allowance for loan losses was $22.9 million at December 31, 2013, as compared with $44.5 million and $27.7 million at December 31, 2012 and 2011, respectively. The decrease during 2013 of $21.6 million was due primarily to charge-offs of $13.7 million and the reversal of provision expense of $10.6 million. Charge-offs were related primarily to the nursery/greenhouse (57.15 percent of the total), and ethanol (27.63 percent) industries. The allowance at December 31, 2013 included specific reserves of $8.5 million (37.23 percent of the total) primarily related to credits for participation borrower relationships within the nursery/greenhouse and forestry industries and $14.4 million of general reserves (62.77 percent) attributed to participation and correspondent lending loans. The total allowance at December 31, 2013 was comprised primarily of reserves for tree fruits and nuts (21.96 percent of the total), forestry (20.46 percent), and nursery/greenhouse (19.68 percent) segments. The decline in real estate values impacted charge-offs and reserves in several of these loan segments. See Note 3, *Loans and Allowance for Loan Losses*, in the Notes to the Financial Statements for further information. See *Provision for Loan Losses* section below for details regarding increases to the allowance from provision expense. The allowance for loan losses by loan type for the most recent three years at December 31 is presented in the following table:

AgFirst Allowance for Loan Losses by Loan Type
(dollars in thousands)

	2013	2012	2011
Real Estate Mortgage	$ 9,681	$ 9,548	$ 8,882
Production and Intermediate-Term	8,763	26,933	12,654
Agribusiness	1,933	6,510	4,974
Communication	497	405	233
Energy and Water/Waste Disposal	823	764	305
Rural Residential Real Estate	1,052	1	37
Other (including Mission Related)	159	378	629
Total	$ 22,908	$ 44,539	$ 27,714

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators at December 31 is shown below:

	2013	2012	2011
Allowance for loan losses to loans	0.11%	0.22%	0.14%
Allowance for loan losses to nonaccrual loans	38.44%	55.53%	32.52%
Allowance for loan losses to participation loans and Correspondent Lending loans	0.37%	0.71%	0.46%

Despite continuing relative weakness in the general economy, the financial positions of the Bank and District Associations' borrowers have generally remained strong as farmers' net cash income has been at favorable levels. This has been due, in part, to increases in commodity prices. With borrowers' generally strong financial positions and the continued management emphasis on underwriting standards, the credit quality of the Bank loan portfolio has remained sound. However, as discussed previously, uncertainty in the general economic environment creates the potential for prospective risks in the loan portfolio. See Note 3, *Loans and Allowance for Loan Losses*, in the Notes to the Financial Statements and the *Significant Accounting Policies* section above for further information concerning the allowance for loan losses.

RESULTS OF OPERATIONS

Net Income

AgFirst net income totaled $457.3 million for the year ended December 31, 2013, a decrease of $11.3 million from 2012. Net income of $468.6 million for the year ended December 31, 2012 was an increase of $83.2 million from 2011. Major components of the changes in net income for the referenced periods are outlined in the following table and discussion:

Change in Net Income *(dollars in thousands)*	**Year Ended December 31, 2013**	**2012**
Net income (for prior year)	$ 468,610	$ 385,458
Increase (decrease) due to:		
Total interest income	(79,741)	(74,796)
Total interest expense	12,297	83,864
Net interest income	(67,444)	9,068
Provision for loan losses	25,535	65,276
Noninterest income	35,608	5,538
Noninterest expense	(4,973)	3,270
Total increase (decrease) in net income	(11,274)	83,152
Net income	$ 457,336	$ 468,610

Key Results of Operations Comparisons

Key results of operations comparisons for years ended December 31 are shown in the following table:

Key Results of Operations Comparisons	**For the Year Ended December 31, 2013**	**2012**	**2011**
Return on average assets	1.61%	1.63%	1.29%
Return on average shareholders' equity	19.45%	20.06%	18.14%
Net interest income as a percentage of average earning assets	1.96%	2.19%	2.09%
Net (charge-offs) recoveries to average loans	(0.06)%	0.01%	(0.33)%

Interest Income

Total interest income for the year ended December 31, 2013 was $735.2 million, a decrease of $79.7 million, as compared to the same period of 2012. Total interest income for 2012 was $815.0 million, a decrease of $74.8 million, as compared to the same period of 2011. The decrease in both years was primarily the result of lower earning asset yields due to the decline in the market interest rate environment. Also, the volume of interest earning assets decreased in 2013 and 2012, with decreases in average earning assets of $205.9 million and $979.0 million, respectively. The average yield on interest earning assets decreased 27 basis points in 2013 and 16 basis points in 2012.

The following table illustrates the impact of volume and yield changes on interest income:

Net Change in Interest Income *(dollars in thousands)*	**Year Ended December 31, 2013-2012**	**2012-2011**
Current year increase (decrease) in average earning assets	$ (205,909)	$ (979,013)
Prior year average yield	2.95%	3.11%
Interest income variance attributed to change in volume	(6,078)	(30,473)
Current year average earning assets	27,401,319	27,607,228
Current year increase (decrease) in average yield	(0.27)%	(0.16)%
Interest income variance attributed to change in yield	(73,663)	(44,323)
Net change in interest income	$ (79,741)	$ (74,796)

Interest Expense

Total interest expense for the year ended December 31, 2013 was $197.2 million, a decrease of $12.3 million, as compared to the same period of 2012. Total interest expense for the year ended December 31, 2012 was $209.5 million, a decrease of $83.9 million, as compared to the same period of 2011. The decrease in both years was primarily attributed to the decrease in average rates paid on System debt obligations.

The following table illustrates the impact of volume and rate changes on interest expense:

Net Change in Interest Expense *(dollars in thousands)*	**Year Ended December 31, 2013-2012**	**2012-2011**
Current year increase (decrease) in average interest-bearing liabilities	$ (452,633)	$ (1,270,845)
Prior year average rate	0.80%	1.06%
Interest expense variance attributed to change in volume	(3,600)	(13,503)
Current year average interest-bearing liabilities	25,884,013	26,336,646
Current year increase (decrease) in average rate	(0.04)%	(0.26)%
Interest expense variance attributed to change in rate	(8,697)	(70,361)
Net change in interest expense	$ (12,297)	$ (83,864)

Net Interest Income

Net interest income decreased from 2012 to 2013 and increased from 2011 to 2012, as illustrated by the following table:

AgFirst Analysis of Net Interest Income
Year Ended December 31,
(dollars in thousands)

	2013			**2012**			**2011**		
	Avg. Balance	**Interest**	**Avg. Yield**	**Avg. Balance**	**Interest**	**Avg. Yield**	**Avg. Balance**	**Interest**	**Avg. Yield**
Loans	$ 19,910,886	$ 589,573	2.96%	$ 19,942,601	$ 631,806	3.17%	$ 20,504,629	$ 693,419	3.38%
Cash & investments	7,490,433	145,658	1.94%	7,664,627	183,166	2.39%	8,081,612	196,349	2.43%
Total earning assets	$ 27,401,319	$ 735,231	2.68%	$ 27,607,228	$ 814,972	2.95%	$ 28,586,241	$ 889,768	3.11%
Interest-bearing liabilities	$ 25,884,013	$ (197,173)	0.76%	$ 26,336,646	$ (209,470)	0.80%	$ 27,607,491	$ (293,334)	1.06%
Spread			1.92%			2.15%			2.05%
Impact of capital	$ 1,517,306		0.04%	$ 1,270,582		0.04%	$ 978,750		0.04%
Net Interest Income (NII) & NII to average earning assets		$ 538,058	1.96%		$ 605,502	2.19%		$ 596,434	2.09%

Net interest income for the year ended December 31, 2013 was $538.1 million compared to $605.5 million for the same period of 2012, a decrease of $67.4 million or 11.14 percent. The net interest margin was 1.96 percent and 2.19 percent in the current year and previous year, respectively, a decrease of 23 basis points. The decrease was primarily the result of lower earning asset yields. During 2013, 2012, and 2011, the Bank called debt totaling $6.806 billion, $23.010 billion, and $21.490 billion, respectively, and was able to lower cost of funds. Over time, as interest rates change and as assets prepay or reprice, the positive impact on the net interest margin that the Bank has experienced over the last several years from calling debt will continue to diminish. Change in net interest income due to the decrease in balance sheet volume was a result of decreased loan demand previously discussed.

Provision for Loan Losses

AgFirst measures risks inherent in its portfolio on an ongoing basis and as necessary, recognizes provision for loan loss expense so that appropriate reserves for loan losses are maintained. The $10.6 million in reversals of loan loss expense for the year ended December 31, 2013 consisted of $6.0 million of reversals related to general reserves and $4.6 million of reversals related to reserves for specific credits. Total provision reversals for 2013 primarily related to borrowers in the forestry (25.61 percent of the total), processing (25.20 percent), and tree fruits and nuts (17.85 percent) segments.

Provision expense decreased $25.5 million in 2013 compared to 2012 primarily due to a reduction in the overall level of problem assets. See the *Allowance for Loan Losses* section above and Note 3, *Loans and Allowance for Loan Losses*, in the Notes to the Financial Statements for further information.

Noninterest Income

Noninterest income for each of the three years ended December 31 is shown in the following table:

Noninterest Income	For the Year Ended December 31,			Increase (Decrease)	
(dollars in thousands)	2013	2012	2011	2013/ 2012	2012/ 2011
Loan fees	$ 10,070	$ 11,085	$ 10,610	$ (1,015)	$ 475
Building lease income	4,355	193	–	4,162	193
Net impairment losses on investments	(2,619)	(3,762)	(9,253)	1,143	5,491
Gains (losses) on investments, net	7,592	–	3,048	7,592	(3,048)
Gains (losses) on called debt	(5,360)	(39,445)	(27,450)	34,085	(11,995)
Gains (losses) on other transactions	868	1,356	(2,677)	(488)	4,033
Insurance premium refund	–	10,363	–	(10,363)	10,363
Other noninterest income	8,152	7,660	7,634	492	26
Total noninterest income	$ 23,058	$ (12,550)	$ (18,088)	$ 35,608	$ 5,538

Total noninterest income increased $35.6 million from 2012 to 2013 primarily due to decreased called debt losses. Total noninterest income increased $5.5 million from 2011 to 2012 primarily due to an insurance premium refund. See below for further discussion of significant variances in total noninterest income.

The $1.0 million decrease and $475 thousand increase in loan fees for the twelve months ended December 31, 2013, and December 31, 2012, respectively, were primarily fluctuations in fee income related to the correspondent lending loan portfolio.

Building lease income increased $4.2 million and $193 thousand for the twelve months ended December 31, 2013 and 2012, respectively. This income was received from tenants of the Bank office building which was purchased in the fourth quarter of 2012. The Bank is in the process of upfitting vacant space in the building and will relocate its operations there in 2014. Related expenses are recorded in occupancy and equipment expenses discussed below.

The net impairment losses on investments for all three years were due to the recognition of credit related other-than-temporary impairment on certain asset-backed and non-agency CMO securities in the Bank's investment portfolio. Net impairment losses on investments decreased $1.1 million and $5.5 million for the twelve months ended December 31, 2013 and 2012, respectively. This resulted primarily from improvement in both probability of default and projected credit loss for securities analyzed for impairment. See further discussion in the *Cash, Cash Equivalents and Investments* section above.

Gains on investments during 2013 and 2011 were the result of normal investment activities related to managing the composition and overall size of the Bank's portfolio. There were no gains or losses on investments for 2012. Gains on investments of $7.6 million during the twelve months ended December 31, 2013 were primarily the result of the sale of U.S. government agency mortgage-backed securities. See discussion of investments in the *Cash, Cash Equivalents and Investments* section above and Note 4, *Investments*, in the Notes to the Financial Statements for further information.

Concession or debt issuance expense is amortized over the life of the underlying debt security. When debt securities are called prior to maturity, any unamortized concession is expensed. Losses on called debt decreased $34.1 million and increased $12.0 million for the years ended December 31, 2013 and 2012, respectively. Call options were exercised on bonds totaling $6.806 billion in 2013, $23.010 billion in 2012, and $21.490 billion in 2011. Opportunities to call debt were more limited in the 2013 period. The called debt expense is more than offset by interest expense savings realized as called debt is replaced by new debt issued at a lower rate of interest. Over time, the favorable effect on net interest income is diminished as earning assets reprice downward. For the twelve months ended December 31, 2012, gains on other transactions increased $4.0 million compared to the same period in 2011. This increase resulted primarily from a $2.3 million decrease in reserve expense for unfunded commitments as commitments were funded and the reserve was reclassified to the allowance for loan losses and $1.3 million in insurance recoveries recorded in 2012.

The Bank recorded $10.4 million of insurance premium refunds during the second quarter of 2012 from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.

Noninterest Expenses

Noninterest expenses for each of the three years ended December 31 are shown in the following table:

Noninterest Expenses	For the Year Ended December 31,			Increase/(Decrease)	
(dollars in thousands)	2013	2012	2011	2013/ 2012	2012/ 2011
Salaries and employee benefits	$ 50,857	$ 49,127	$ 46,881	$ 1,730	$ 2,246
Occupancy and equipment	17,919	15,034	14,360	2,885	674
Insurance Fund premiums	6,457	4,320	5,360	2,137	(1,040)
Other operating expenses	39,430	37,456	33,873	1,974	3,583
Losses (gains) from other property owned	(294)	3,459	12,192	(3,753)	(8,733)
Total noninterest expenses	$ 114,369	$ 109,396	$ 112,666	$ 4,973	$ (3,270)

Total noninterest expenses increased $5.0 million from 2012 to 2013 primarily due to increases in occupancy and equipment expense and Insurance Fund premiums. Total noninterest expenses decreased $3.3 million from 2011 to 2012 primarily due to decreased losses from other property owned. See below for further discussion of significant variances in total noninterest expenses.

Salaries and employee benefits increased over the three year period of 2011 through 2013 due primarily to normal salary administration and higher employee benefit costs.

Occupancy and equipment expense increased $2.9 million and $674 thousand for the years ended December 31, 2013 and 2012, compared to the same periods in 2012 and 2011, respectively. The $2.9 million increase for 2013 was due primarily to increases from the cost of space to maintain the building purchased for future Bank occupancy, as discussed in the *Noninterest Income* section above. The $674 increase for 2012 was due primarily to increases in software expense for various maintenance agreements and database management.

The $2.1 million increase in 2013 and $1.0 million decrease in 2012 in the Insurance Fund premiums resulted primarily from a change in the premium rate, as determined by the Insurance Fund Board. The annual premium rates were 10 basis points in 2013, 5 basis points in 2012, and 6 basis points in 2011. The premium rate for 2014 is 12 basis points. Also contributing to the decrease in 2012, was the reduction of Systemwide Debt, which is the basis for the FCSIC premium computation.

Other operating expenses increased $2.0 million and $3.6 million in 2013 and 2012, respectively. The majority of the increases resulted from additional purchased services expense required for certain system enhancements. Increases in consulting, professional fees, and service provider fees were $1.6 million and $1.8 million, for the twelve months ended December 31, 2013 and 2012, respectively. The remainder of the increase in other operating expenses for both years was comprised of numerous and varied expenses, none of which individually had a significant increase compared to the prior year period.

The net decrease in losses on other property owned of $3.8 million for the twelve months ended December 31, 2013 resulted primarily from the recognition of a $5.1 million gain on sale of an ethanol plant, including $2.3 million which was previously deferred pending settlement of litigation. The decrease in net losses from other property owned during 2012 primarily resulted from fewer write-downs in 2012 compared with 2011 as real estate values began to stabilize. See discussion of 2013 expense in the *Other Property Owned* section above.

CAPITAL

Capital serves to support future asset growth, investment in new products and services, and to provide protection against credit, interest rate, and other risks, and operating losses. A sound capital position is critical to provide protection to investors in Systemwide Debt Securities and to ensure long-term financial success.

The AgFirst Capitalization Plan (the "Plan") approved by the Bank's board of directors establishes guidelines to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. The Bank's capital objectives are considered adequate to support inherent risk. There were no significant changes to the Plan for 2013.

Total shareholders' equity at December 31, 2013 was $2.147 billion, compared to $2.298 billion and $2.149 billion at December 31, 2012 and 2011, respectively. The decrease in 2013 of $151.5 million was primarily related to the patronage declared of $353.8 million, redemption of preferred stock of $150.0 million, unrealized losses of $73.8 million on investments, the net retirement of $24.7 million in capital stock and participation certificates, and preferred stock dividends paid of $6.3 million. These decreases were offset by the increase in retained earnings from net income of $457.3 million. The increase in total shareholders' equity of $149.0 million during 2012 was primarily related to net income of $468.6 million, increases of $41.7 million from net unrealized gains on investments, and a change in the fair value of derivatives of $7.1 million. These increases were offset by patronage declared of $187.2 million, the net retirement of $73.7 million in capital stock and participation certificates, preferred stock dividends paid of $18.0 million, and the redemption of $88.2 million in preferred stock referenced below.

The Bank's patronage declared in 2013 and 2012 was based on paying Associations and OFIs a dividend equal to 75 basis points relative to their average Direct Note balance, paying Associations and OFIs a dividend equal to 75 basis points relative to their patronage-based Capital Markets participations, and paying a dividend to participants in Association capitalized participation pools in an amount of 100 percent of pool net income. Also, favorable earnings and minimal balance sheet growth in recent years have resulted in stronger than historical Bank capital levels. After considering current capital levels and projected capital needs, during 2013 and 2012, the Bank's Board of Directors declared additional patronage totaling $210.0 million and $40.0 million, respectively.

Capital stock and participation certificates totaled $309.0 million at December 31, 2013, compared to $332.7 million and $405.8 million at December 31, 2012 and 2011, respectively. The $23.7 million decrease in 2013, compared to 2012, was due primarily to the net retirement of Association owned stock related to the Associations' participation in certain capitalized loan pools purchased by the Bank. The $73.1 million decrease in 2012, compared to 2011, was due primarily to a reduction in the Association minimum stock requirement. The Associations are required to maintain ownership in the Bank in the form of Class B and Class C stock. In 2012, the Associations' minimum stock requirement was reduced from 1.75 percent to 1.40 percent of Association Direct Note balances and resulted in a $49.8 million decrease in the Bank's capital stock. A stock equalization computation is made annually.

On May 15, 2013, the Bank redeemed and cancelled the entire $150.0 million of Perpetual Non-Cumulative Preferred Stock issued October 14, 2003. This redemption was in accordance with the Board approved capital plan. The stock was redeemed at its par value together with accrued and unpaid dividends. See Note 7, *Shareholders' Equity*, in the Notes to the Financial Statements for further information.

During the twelve months ended December 31, 2012, the Bank repurchased, through privately negotiated transactions, and cancelled Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with a par value of $124.8 million. The effect of the repurchases on shareholders' equity was to reduce preferred stock outstanding by $124.8 million and to record $36.6 million of additional paid-in-capital.

On December 15, 2011, AgFirst redeemed $225.0 million of Mandatorily Redeemable Cumulative Preferred Stock which was issued on May 17, 2001, at a par value of $1 thousand per share. The stock was redeemed at par value together with accrued and unpaid dividends.

See Note 6, *Debt*, and Note 7, *Shareholders' Equity,* in the Notes to the Financial Statements for further information concerning the preferred stock issuances.

Regulatory Ratios

The Bank's regulatory ratios at December 31 are shown in the following table:

	Regulatory Minimum	AgFirst Ratio as of December, 31, 2013	2012	2011
Permanent Capital Ratio	7.00%	22.85%	23.58%	24.27%
Total Surplus Ratio	7.00%	22.81%	23.55%	24.24%
Core Surplus Ratio	3.50%	19.98%	20.04%	17.08%
Net Collateral Ratio	103.00%	106.83%	107.03%	106.49%

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

For all periods presented, AgFirst exceeded minimum regulatory standards for all of the ratios. The Bank's permanent capital, total surplus, and core surplus ratios decreased at December 31, 2013 compared to December 31, 2012. These decreases were primarily a result of the redemption of the $150.0 million Perpetual Preferred Stock on May 15, 2013, as discussed above. The Bank's net collateral ratio decreased at December 31, 2013 compared to December 31, 2012, due primarily to the December 31, 2013 increased liabilities for the cash patronage payable, including the special distribution referenced above which was paid on January 1, 2014.

Refer to Note 7, *Shareholders' Equity*, in the Notes to the Financial Statements for additional information regarding regulatory capitalization requirements and restrictions.

ECONOMIC CAPITAL

As discussed previously (see *Risk Management* section above), risk is an inherent part of the Bank's business activities. The Bank's capital management framework is intended to ensure there is sufficient capital to support the underlying risks of our business activities, exceed all regulatory capital requirements, and achieve certain capital adequacy objectives. The Bank has implemented an economic capital measurement process, including appropriate methodologies and assumptions, to quantify the capital requirements related to our primary areas of risk. The Bank periodically quantifies the economic capital requirements, based on the credit risk, interest rate risk, operational risk, and market risk inherent in its operations. For a further discussion of these risks, see the *Risk Management* section above. Due to the evolving nature of the economic capital concept, the Bank anticipates these methodologies and assumptions will continue to be refined.

THE DISTRICTWIDE YOUNG, BEGINNING, AND SMALL (YBS) FARMERS AND RANCHERS PROGRAM

AgFirst is committed to providing sound and dependable credit to young, beginning, and small (YBS) farmers and ranchers. Because of the unique needs of these individuals, and their importance to the future growth of the Associations, the Associations have established annual marketing goals to increase market shares of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers' access to a stable source of credit. AgFirst and the District Associations recognize that YBS farmers are vitally important to the future of agriculture and are committed to continue offering programs to help educate, assist, and provide quality financial services to YBS farmers.

The FCA regulatory definitions for YBS farmers and ranchers are as follows:

Young Farmer – A farmer, rancher, or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.

Beginning Farmer – A farmer, rancher, or producer or harvester of aquatic products who had 10 years or less farming or ranching experience as of the date the loan was originally made.

Small Farmer – A farmer, rancher, or producer or harvester of aquatic products who normally generated less than $250 thousand in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

It is important to note that due to the regulatory definitions a farmer/rancher may be included in multiple categories as he/she would be included in each category in which the definition was met.

The following table summarizes information regarding the combined District's loans outstanding to Young and Beginning Farmers and Ranchers as of December 31, 2013:

Young and Beginning Farmers and Ranchers
Number/Volume of Loans Outstanding
(dollars in thousands)

Category	Number of Loans	Percent of Total	Volume Outstanding	Percent of Total
1. Total loans and commitments outstanding at year-end	135,034	– %	$ 30,112,970	–%
2. Young farmers and ranchers	20,889	15.47%	$ 2,400,041	7.97%
3. Beginning farmers and ranchers	30,834	22.83%	$ 3,787,251	12.58%

The following table summarizes information regarding the combined District's loans outstanding to Small Farmers and Ranchers as of December 31, 2013:

Small Farmers and Ranchers
Number/Volume of Loans Outstanding by Loan Size
(dollars in thousands)

Number/Volume Outstanding	$0-$50,000	$50,001-$100,000	$100,001-$250,000	$250,001-and greater
1. Total number of loans and commitments outstanding at year-end	66,962	22,937	24,264	20,871
2. Total number of loans to small farmers and ranchers	45,120	13,451	12,147	5,625
3. Number of loans to small farmers and ranchers as a % of total number of loans	67.38%	58.64%	50.06%	26.95%
4. Total loan volume outstanding at year-end	$ 1,341,778	$ 1,698,108	$ 3,908,023	$ 23,165,061
5. Total loan volume to small farmers and ranchers	$ 878,785	$ 985,662	$ 1,906,874	$ 2,825,565
6. Loan volume to small farmers and ranchers as a % of total loan volume	65.49%	58.04%	48.79%	12.20%

The following table summarizes information regarding the combined District's new loans made to Young, and Beginning Farmers and Ranchers for the year ended December 31, 2013:

Young and Beginning Farmers and Ranchers
Gross New Business During 2013, Number/Volume of Loans
(dollars in thousands)

Category	Number of Loans	Percent of Total	Volume Outstanding	Percent of Total
1. Total gross new loans and commitments made during 2013	50,033	–%	$ 11,875,133	–%
2. Total loans and commitments made during 2013 to young farmers and ranchers	7,972	15.93%	$ 1,009,352	8.50%
3. Total loans and commitments made during 2013 to beginning farmers and ranchers	11,320	22.63%	$ 1,543,815	13.00%

The following table summarizes information regarding the combined District's new loans made to Small Farmers and Ranchers for the year ended December 31, 2013:

Small Farmers and Ranchers
Gross New Business by Loan Size, Number/Volume of Loans
(dollars in thousands)

Number/Volume	$0- $50,000	$50,001 - $100,000	$100,001- $250,000	$250,001- and greater
1. Total number of new loans and commitments made during 2013	23,221	8,625	9,615	8,572
2. Total number of loans made to small farmers and ranchers during 2013	16,109	4,665	4,214	2,011
3. Number of loans to small farmers and ranchers as a % of total number of loans	69.37%	54.09%	43.83%	23.46%
4. Total gross loan volume of all new loans and commitments made during 2013	$ 503,415	$ 641,520	$ 1,590,049	$ 9,140,149
5. Total gross loan volume to small farmers and ranchers	$ 331,019	$ 340,331	$ 670,833	$ 1,019,450
6. Loan volume to small farmers and ranchers as a % of total gross new loan volume	65.75%	53.05%	42.19%	11.15%

COMMITMENTS AND CONTINGENCIES

On the basis of information presently available, management and legal counsel are of the opinion that the ultimate liability, if any, from legal actions pending against AgFirst would be immaterial in relation to the financial position of AgFirst. Refer to Note 11, *Commitments and Contingencies*, in the Notes to the Financial Statements for additional information.

See Note 14, *Business Combinations*, in the Notes to the Financial Statements for information related to a financial assistance agreement between the Bank and a District Association.

FINANCIAL REGULATORY REFORM

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law on July 21, 2010. While the Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial services industry, many of the statutory provisions of the Dodd-Frank Act are not applicable to the Farm Credit System. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many more months or years.

The Dodd-Frank Act creates new regulators and expands the authority of the Federal Reserve Board over non-bank financial companies previously not subject to its or other bank regulators' direct jurisdiction, particularly those that are considered systemically important to the U.S. financial system. The legislation created the Financial Oversight Council, a coordinating body of financial regulators, which is designed to monitor and pinpoint systemic risks across the financial spectrum. Nevertheless, the Dodd-Frank Act largely preserves the authority of the FCA as the System's independent federal regulator by excluding System institutions from being considered non-bank financial companies and providing other exemptions and exclusions from certain of the law's provisions. Also, the rules prohibiting banking entities from engaging in proprietary trading under the so-called Volcker Rule do not apply to the debt securities issued by the System.

The provisions of the Dodd-Frank Act pertaining to the regulation of derivatives transactions require more of these transactions to be cleared through a third-party central clearinghouse and traded on regulated exchanges or other multilateral platforms, and margin is required for these transactions. Derivative transactions that will not be subject to mandatory trading and clearing requirements may also be subject to minimum margin and capital requirements. As required by the Dodd-Frank Act, the Commodity Futures Trading Commission (CFTC) considered and exempted System institutions from certain of these new requirements, including mandatory clearing for many of the derivative transactions entered into by System institutions. These new requirements may make derivative transactions more costly and less attractive as risk management tools for System institutions; and thus may impact the System's funding and hedging strategies.

The Dodd-Frank Act also created a new federal agency called the Consumer Financial Protection Bureau (CFPB). The CFPB has the responsibility to regulate the offering of consumer financial products or services under federal consumer financial laws. The Farm Credit Administration retains the responsibility to oversee and enforce compliance by System institutions with relevant rules adopted by the CFPB.

In light of the foregoing, it is difficult to predict at this time the extent to which the Dodd-Frank Act or the forthcoming implementing rules and regulations will have an impact on the System. However, it is possible they could affect funding and hedging strategies and increase funding and hedging costs.

Farm Bill

The Agricultural Act of 2014 (Farm Bill) was signed into law on February 7, 2014. This new Farm Bill will govern an array of federal farm and food programs, including commodity price and support payments, farm credit, agricultural conservation, research, rural development, and foreign and domestic food programs for five years. The new Farm Bill eliminates $23 billion in mandatory federal spending over a 10-year period, representing a reduction in the U.S. government farm policy support. The Farm Bill repeals direct payments and limits producers to risk management tools that offer protection when they suffer significant losses. The Farm Bill provides continued support for crop insurance programs, strengthens livestock disaster assistance and provides dairy producers with a voluntary margin protection program without imposing government-mandated supply controls.

DISTRICT MERGER ACTIVITY

Please refer to Note 14, *Business Combinations*, in the Notes to the Financial Statements for information regarding merger activity in the District.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 2, *Summary of Significant Accounting Policies*, in the Notes to the Financial Statements for recently issued accounting pronouncements.

ADDITIONAL DISCLOSURE REQUIRED BY FARM CREDIT ADMINISTRATION REGULATIONS

Description of Business

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations are incorporated herein by reference to Note 1, *Organization and Operations,* to the Financial Statements included in this Annual Report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in *Management's Discussion & Analysis of Financial Condition & Results of Operations* included in this Annual Report to shareholders.

Unincorporated Business Entities

The Bank holds an equity investment at December 31, 2013 in the following Unincorporated Business Entities (UBEs) as an equity interest holder of the limited liability company (LLC). The LLCs were organized for the stated purpose of holding and managing unusual or complex collateral associated with former loans, until such time as the assets may be sold or otherwise disposed of pursuant to the terms of Operating Agreements of the respective LLCs.

Entity Name	Entity Type	Entity Purpose
RBF Acquisition VIII, LLC	LLC	Manage Acquired Property
CBF Holdings LLC	LLC	Manage Acquired Property
Sequoyah Marina & Resort LLC	LLC	Manage Acquired Property
Hardee Peaceful Horse Acquisition, LLC	LLC	Manage Acquired Property
Desoto Peaceful Acquisition, LLC	LLC	Manage Acquired Property
Desoto County Holding Acquisition, LLC	LLC	Manage Acquired Property
ASA Ethanol Holdings, LLC	LLC	Manage Acquired Property
Ethanol Holding Company, LLC	LLC	Manage Acquired Property

Description of Property

The following table sets forth certain information regarding the properties owned by the Bank at December 31, 2013, all of which are located in Columbia, South Carolina:

Location	Description
1401 Hampton Street*	Bank building and adjacent parking
1441 Hampton Street*	Vacant
1443 Hampton Street*	Carolina Collegiate Federal Credit Union (formerly AgFirst Federal Credit Union)
1447 Hampton Street*	Vacant
1428 Taylor Street*	AgFirst training center
1436 Taylor Street*	Vacant
1115 Calhoun Street	Bank operations facility
1901 Main Street	Future bank office building and adjacent parking facility, partially leased to tenants

**Properties currently under a contract of sale*

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 11, *Commitments and Contingencies,* to the Financial Statements included in this Annual Report to shareholders.

Description of Capital Structure

Information to be disclosed in this section is incorporated herein by reference to Note 7, *Shareholders' Equity,* to the Financial Statements included in this Annual Report to shareholders.

Description of Liabilities

The description of liabilities and contingent liabilities to be disclosed in this section is incorporated herein by reference to Notes 2, 6, 9,11, and 13 to the Financial Statements included in this Annual Report to shareholders.

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

Management's Discussion & Analysis of Financial Condition & Results of Operations, which appears in this Annual Report to shareholders and is to be disclosed in this section, is incorporated herein by reference.

Senior Officers

The following represents certain information regarding the directors and senior officers of the Bank.

The chief executive officer and all other senior officers of the Bank, together with their length of service at their present position, as well as positions held currently and during the last five years, are as follows:

Name and Title	Time in Position	Prior Experience	Other Business Interests
Leon T. Amerson, *President and Chief Executive Officer*	1.5 years	Chief Operating Officer from September 2006 to April 2010. President from April 2010 to Present.	Member of the Presidents Planning Committee of the Farm Credit System serving as Chairman of the Finance Committee; member of the Board of Directors of the Federal Farm Credit Banks Funding Corporation serving as vice chairman of the board and chairman of the Compensation Committee; member of the Farm Credit System Coordinating Committee: member of the Board of Trustees of the National 4-H Council; council member of the National Council of Farmer Cooperatives; member of the Board of Directors for Midlands Business Leadership Group; member of the Board of Directors for Palmetto Agribusiness Council; member of the Finance Committee for United Way of the Midlands; member of the AgFirst Plan Sponsor Committee and the AgFirst/FCBT Plan Sponsor Committee; member of the University of South Carolina Risk and Uncertainty Management Advisory Board.
Charl L. Butler, *Senior Vice President and Chief Financial Officer*	7 years		Board Member of the Farm Credit System Captive Insurance Company serving as Chairman of the Investment Committee; Chairman of the AgFirst/FCBT Plan Fiduciary Committee; Board Member and Treasurer of Midlands Housing Alliance; Board Member and Treasurer of City Center Partnership.
Benjamin F. Blakewood, *Senior Vice President and Chief Information Officer*	15 years		
Christopher L. Jones, *Senior Vice President and Chief Credit Officer*	3 years	Senior Vice President and Chief Credit Officer South at United Community Banks from 2004 until 2011.	
Daniel E. LaFreniere, *Senior Vice President and Chief Audit Executive*	6 months	Director of Audit Services from 2007 to 2013 at SCANA Corporation.	
Isvara M. A. Wilson, *Senior Vice President and General Counsel*	1 year	Managing Director and Associate General Counsel at Bank of America from 2010 until December 2012, prior to that Assistant General Counsel and Senior Vice President at Bank of America from 2003 to 2010.	Board Member of the Farm Credit System Captive Insurance Company; Board Member for the Harvey B. Gantt Center for African-American Arts + Culture (2011-2013).

The total amount of compensation earned by the Chief Executive Officer (CEO) and the senior officers and other highly compensated employees as a group during the years ended December 31, 2013, 2012 and 2011, is as follows:

Name of Individual or Number in Group	Year	Salary	Bonus	Deferred Comp.	Change in Pension Value*	Perq./ Other**	Total
Leon T. Amerson	2013	$ 630,024	$ 469,676	$ 16,941	$ 157,034	$ 17,978	$ 1,291,653
Leon T. Amerson	2012	$ 526,799	$ 363,082	$ 11,965		$ 17,570	$ 919,416
F. A. Lowrey	2012	$ 327,962	$ 500	$ 133,820		$ 735,420 *(b)*	$ 1,197,702
F. A. Lowrey	2011	$ 636,824	$ 257,213	$ 138,688		$ 22,783	$ 1,055,508
7 Officers *(a)*	2013	$ 1,422,980	$ 749,434	$ 22,417	$ 12,457	$ 407,593 *(c)*	$ 2,614,881
6 Officers	2012	$ 1,277,003	$ 808,278	$ 13,280		$ 147,102 *(d)*	$ 2,245,663
6 Officers	2011	$ 1,661,852	$ 771,973	$ 25,394		$ 99,640	$ 2,558,859

* *Required disclosure effective beginning in 2013.*
** *Includes company contributions to 401 (k) plan (see Note 9, Employee Benefit Plans, to the Financial Statements), group life insurance premiums and bank-provided automobile.*
(a) *Disclosure of information on the total compensation paid during 2013 to any senior officer, or to any other individual included in the aggregate, is available to shareholders upon request.*
(b) *Upon retirement, Mr. Lowery received a one-time payment of $570,000, payment of accrued annual leave of $117,684, and ownership of his company automobile valued at $28,396.*
(c) *Includes payment of accrued annual leave of $68,445 upon the retirement of one officer. Also includes payment of accrued annual leave of $48,331, a one-time severance payment of $143,881, ownership of a company automobile valued at $26,028 and reimbursement of tax on value of company automobile of $13,082 upon the retirement of one highly-compensated employee.*
(d) *Includes payment of accrued annual leave upon the retirement of one officer of $55,451.*

Pension Benefits Table
As of December 31, 2013

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2013
CEO:					
Leon T. Amerson	2013	AgFirst Farm Credit Retirement Plan	27.33	$ 1,699,078	$ –
Leon T. Amerson	2013	AgFirst Farm Credit Bank Supplemental Retirement Plan	27.33	2,096,260	–
				$ 3,795,338	$ –
Senior Officers and Highly Compensated Employees:					
3 Officers, excluding the CEO	2013	AgFirst Farm Credit Retirement Plan	29.39*	$ 5,062,963	$ 79,954
4 Officers, excluding the CEO	2013	AgFirst Farm Credit Cash Balance Retirement Plan	2.75*	71,393	–
7 Total				$ 5,134,356	$ 79,954

* *Represents the average years of credited service for the group.*

Executive Incentive Compensation Plan

In addition to a base salary, senior officers may earn additional compensation under the Bank's Executive Incentive Plan, which has a short-term and a long-term component. Participation in the plan is at the sole discretion of the CEO or in the case of the CEO at the sole discretion of the Board of Directors. The objectives of this plan are to provide a market-competitive financial rewards package to executives, provide incentive for the achievement of the AgFirst short- and long-term business objectives, and to provide the Bank the ability to attract and retain key executives. The plan's payments are based upon the Bank's achievement of minimum performance thresholds for net collateral ratio, net income sufficient to pay patronage and dividend distributions, achievement of a targeted threshold customer satisfaction score, and the senior officers' overall performance achievement as determined by an individual performance rating. Short-term incentive awards are shown in the year earned and payments are made in the first quarter of the following year.

For the 2013 plan year, the long-term component of the plan is subject to forfeiture based upon AgFirst's performance during the two-year performance period immediately following the plan year. Specifically, the long-term award will be reduced by an amount equal to one-half of the original award for each subsequent year during the two-year performance period in which any one of the performance thresholds are not achieved.

Effective with the 2014 plan year, the long-term component of the plan is subject to forfeiture based upon AgFirst's performance during the three-year performance period immediately following the plan year. Specifically, the long-term award for a particular plan year will be reduced by an amount equal to one-third of the original award for each subsequent year during the three-year performance period in which any one of the performance thresholds are not achieved.

A long-term incentive transition award, equal in calculation to the 2014 long-term component of the plan, is established for the 2014 plan year with a two-year performance period. The establishment of this transition award is to avoid an interruption in long-term award payments that would occur as a result of changing from a two-year performance period to a three-year performance period. The transition award is subject to the same forfeiture guidelines as described above for the 2013 plan year.

Long-term incentive award amounts are shown in the year accrued and are vested over a period of time composed of the plan year and the performance period subsequent to the end of the plan year. Incentive awards are forfeited if the participant fails to remain employed until the end of the performance period subsequent to the end of the plan year.

Retirement and Deferred Compensation Plans

The Bank's compensation programs include retirement and deferred compensation plans designed to provide income following an employee's retirement. Although retirement benefits are paid following an employee's retirement, the benefits are earned while employed. The objective of the Bank is to offer benefit plans that are market competitive and aligned with the Bank's strategic objectives. The plans are designed to enable the Bank to proactively attract, retain, recognize and reward a highly skilled, motivated and diverse staff that supports the Bank's mission and that allows the Bank to align the human capital needs with the Bank's overall strategic plan.

Employees participate in one of two qualified defined benefit retirement plans.

Employees hired prior to January 1, 2003 participate in the AgFirst Farm Credit Retirement Plan. Employees are eligible to retire and begin drawing unreduced pension benefits at age 65 or when years of credited service plus age equal "85." Upon retirement, annual payout is equal to 2 percent of the highest three years average compensation times years of credited service, subject to the Internal Revenue Code limitations. For purposes of determining the payout, "average compensation" is defined as regular salary (i.e., does not include incentive awards compensation). At the election of the retiree, benefits are paid based upon various annuity terms or on a lump sum basis. Benefits under the plan are not subject to an offset for Social Security.

Employees hired on or after January 1, 2003 participate in the AgFirst Farm Credit Cash Balance Retirement Plan. Employees are eligible to retire and begin drawing unreduced pension benefits at age 65 with a minimum of 5 years of credited service or at age 55 with a minimum of 10 years of credited service. Upon retirement, payout is determined using a percent of eligible compensation formula, subject to the Internal Revenue Code limitation on compensation, and regular interest credits. For purposes of determining the payout, "compensation" is defined as regular salary (i.e., does not include incentive awards compensation). At the election of the retiree, benefits are paid based upon various annuity terms or on a lump sum basis. Benefits under the plan are not subject to an offset for Social Security.

Employees participate in the Farm Credit Benefits Alliance 401(k) Plan, a qualified 401(k) defined contribution plan which has an employer matching contribution determined by the employee's date of hire. Employees hired prior to January 1, 2003 receive a maximum employer matching contribution equal to $0.50 for each $1.00 of employee compensation contributed up to 6 percent, subject to the Internal Revenue Code limitation on compensation. Employees hired on or after January 1, 2003 receive a maximum employer matching contribution equal to $1.00 for each $1.00 of employee compensation contributed up to 6 percent, subject to the Internal Revenue Code limitation on compensation.

Senior officers and other highly compensated employees participate in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, a nonqualified deferred compensation plan that allows certain key employees to defer compensation and which restores the benefits limited in the qualified 401(k) plan as a result of restrictions in the Internal Revenue Code. The plan also includes a provision for discretionary contributions to be made by the Bank.

Chief Executive Officer

Mr. Amerson participates in the AgFirst Farm Credit Retirement Plan, as described above. Mr. Lowery also participated in the AgFirst Farm Credit Retirement Plan until his retirement on June 30, 2012 at which time he was eligible to begin drawing unreduced pension benefits.

Mr. Amerson participates in the AgFirst Farm Credit Bank Supplemental Retirement Plan, a nonqualified supplemental executive retirement plan. Mr. Lowery also participated in the AgFirst Farm Credit Bank Supplemental Retirement Plan until his retirement on June 30, 2012 at which time he was eligible to begin drawing benefits. Benefits that would have accrued in the qualified defined benefit retirement plan in the absence of Internal Revenue Code limitations are made up through the nonqualified supplemental executive retirement plan. At the election of the retiree, benefits are paid based upon various annuity terms.

Mr. Amerson participates in the Farm Credit Benefits Alliance 401(k) Plan, as described above. Mr. Lowery also participated in the Farm Credit Benefits Alliance 401(k) Plan until his retirement on June 30, 2012.

Mr. Amerson participates in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, as described above. Mr. Lowery also participated in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan until his retirement on June 30, 2012.

Mr. Amerson is employed pursuant to an employment and retention agreement. The agreement provides that if Mr. Amerson is terminated prior to June 30, 2014 for any reason other than disability, death or cause, he will receive a severance benefit equal to two times his then current annual base salary.

Senior Officers

Senior officers participate in one of two qualified defined benefit retirement plans based upon date of hire, as described above.

Senior officers participate in the Farm Credit Benefits Alliance 401(k) Plan and the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, as described above.

Additionally, senior officers as well as all employees are reimbursed for all direct travel expenses incurred when traveling on Bank business. A copy of the travel policy is available to shareholders upon written request.

Bank compensation plans are reviewed annually by the Board of Directors' Compensation Committee.

Additional Compensation Information

On October 3, 2012, FCA adopted a regulation that requires all System institutions to hold advisory votes on the compensation for all senior officers and/or the CEO when the compensation of either the CEO or the senior officer group increases by 15 percent or more from the previous reporting period. In addition, the regulation requires associations to hold an advisory vote on CEO and/or senior officer compensation when 5 percent of the voting stockholders petition for the vote and to disclose the petition authority in the annual report to shareholders. The regulation became effective December 17, 2012, and the base year for determining whether there is a 15 percent or greater increase was 2013. No District Association held an advisory vote based on a stockholder petition in 2013.

On January 17, 2014, the President signed into law the Consolidated Appropriations Act, which includes language prohibiting the FCA from using any funds available to "implement or enforce" the regulation. In addition, on February 7, 2014, the President signed into law the Agricultural Act of 2014. Section 5404 of the law directs FCA, within 60 days of enactment of the law, to "review its rules to reflect the Congressional intent that a primary responsibility of boards of directors of Farm Credit System institutions, as elected representatives of their stockholders, is to oversee compensation practices." FCA has not yet taken any action with respect to their regulation in response to these actions.

AgFirst Farm Credit Bank Board of Directors

Name	Position	Term of Office
Robert H. Spiers, Jr.	Chairman	December 31, 2017*
Dale R. Hershey	Vice Chairman	December 31, 2015
Jack W. Bentley, Jr.	Director	December 31, 2017*
James C. Carter, Jr.	Director	December 31, 2014
Bonnie V. Hancock	Director	December 31, 2017**
Curtis R. Hancock, Jr.	Director	December 31, 2016
Walter C. Hopkins	Director	December 31, 2016
Paul M. House	Director	December 31, 2015
William K. Jackson	Director	December 31, 2016
M. Wayne Lambertson	Director	December 31, 2013
John S. Langford	Director	December 31, 2015
S. Alan Marsh	Director	December 31, 2017*
James L. May	Director	December 31, 2017*
Bobby E. McCollum, Jr.	Director	December 31, 2013
Fred R. Moore, Jr.	Director	December 31, 2017***
James M. Norsworthy, III	Director	December 31, 2015
Katherine A. Pace	Director	December 31, 2015
Thomas E. Porter, Jr.	Director	December 31, 2017***
Jimmy D. Poston	Director	December 31, 2014
Robert G. Sexton	Director	December 31, 2016
Ellis W. Taylor	Director	December 31, 2015
William H. Voss	Director	December 31, 2014

* *These directors were re-elected to a 4-year term commencing January 1, 2014.*
** *This director was re-appointed to a 4-year term commencing January 1, 2014.*
*** *These directors were newly elected in 2013 to a 4-year term commencing January 1, 2014.*

Robert H. Spiers, Jr., Chairman of the Board, is a full-time farmer, with a tobacco, corn, and wheat operation on 1,400 acres in Dinwiddie County, Virginia. He currently serves on the boards of Colonial Farm Credit, ACA, the national Farm Credit Council (a trade organization), Tobacco Associates, Inc. (which promotes export of US tobacco), and Dinwiddie County Farm Bureau. He is also a governor-appointed director on the Virginia Flue-cured Tobacco Board, and the Virginia Tobacco Indemnification Commission. He has been active on a number of Virginia Farm Bureau advisory committees. Mr. Spiers has a BS in Ag Economics from Virginia Tech University. He is Vice Chair of the AgFirst Plan Sponsor Committee and a member of the AgFirst/FCBT Plan Sponsor Committee. As Chairman of the Board, Mr. Spiers serves as an ex-officio member of all Board Committees.

Dale R. Hershey, Vice Chairman of the Board, from Manheim, Pennsylvania is a partner in Hershey Brothers Dairy Farms, managing the operations' real estate and cropping enterprises. The operation includes a dairy operation which milks 300 cows, raises 250 dairy replacements and grows 650 acres of corn, alfalfa, soybeans, barley, and rye and grass hay. He serves on the board of directors of MidAtlantic Farm Credit, ACA. He is a member of Pennsylvania Farm Bureau, the Pennsylvania Holstein Association, Lancaster County Blue Ribbon Commission for Agriculture and the Penn Township Ag Advisory Committee. Mr. Hershey has a BS in Community Development and a Master's of Science in Ag Economics and Rural Sociology from Penn State University. In addition, he has taken special courses at Eastern Mennonite University. Mr. Hershey serves on the Board Compensation Committee.

Jack W. Bentley, Jr., a dairy farmer in Tignall, Georgia, owns and operates A&J Dairy, a 370-cow dairy that includes 668 acres of pasture, crops and timberland, and an additional 500 acres of leased farmland. Mr. Bentley is a director of AgGeorgia Farm Credit, ACA, Southeast United Dairy Industry Association, American Dairy Association, and the Wilkes County Farm Bureau. He is past chairman of the Wilkes County Board of Tax Assessors and USDA Farm Service Agency. Mr. Bentley has a BS in Ag Mechanics and Business from Clemson University and has attended numerous Leadership Institutes for

Banking. He serves on the Board Compensation Committee. Mr. Bentley is also the Board-appointed member of both the AgFirst Plan Sponsor Committee and the AgFirst/FCBT Plan Sponsor Committee.

James "Jimmy" C. Carter, Jr., owns and operates with his son, Southern Belle Farm, Inc., located in McDonough, Georgia. The 330-acre beef cattle and hay farm, includes fruit and vegetable crops, and agriculturally-related educational activities. Mr. Carter also operates a feed, mineral and supplements business from the farm and provides artificial insemination services and supplies for cattle. Mr. Carter is a director of AgSouth Farm Credit, ACA, the national Farm Credit Council (a trade organization) and serves as chairman of the Henry County Water and Sewage Authority. He is a representative on the Ocmulgee River Basin Advisory Council and serves as vice president of the Henry County Farm Bureau. He is a member of the board for the Henry County Cattleman's Association. Mr. Carter has a BS in Agriculture and Master of Science from the University of Georgia. Mr. Carter served as chair of the Board Audit Committee in 2013 and will serve on the Board Governance Committee in 2014.

Bonnie V. Hancock is Executive Director of the Enterprise Risk Management Initiative at North Carolina State University (NCSU). She also teaches courses in financial management, enterprise risk management, strategy and financial statement analysis. Prior to joining NCSU, she worked with Progress Energy as senior vice president of finance and information technology and later as president of Progress Fuels, a subsidiary that produces and markets gas, coal and synthetic fuels, and operates fuel terminals and ash management facilities. Ms. Hancock is a graduate of Georgetown University with a Master's in taxation. She is also a graduate of the College of William and Mary with a BS in business administration with an accounting major. She lives in Wake Forest, North Carolina, and is a member of the boards of Powell Industries, designer and manufacturer of electrical equipment systems that monitor the flow of electricity in industrial facilities, where she serves on the audit and compensation committees, the Office of Mortgage Settlement Oversight, where she serves as chair of the audit committee and the North Carolina Coastal Pines Girl Scout Council, where she serves as chair of the audit committee. Ms. Hancock serves as chair of the Board Risk Policy Committee.

Curtis R. Hancock, Jr., from Fulton, Kentucky, is owner and operator of Hancock Farms. His operations consist of 1,400 acres of row crops, including corn, wheat and soybeans. He serves on the board of River Valley ACA; the national Farm Credit Council (a trade organization); Farm Credit Council Services (a Farm Credit System service provider); and Kentucky Small Grain Growers. He is a former member of the Hickman County Farm Bureau, the local Southern States Cooperative, and of the Hickman County FSA. Mr. Hancock received a BS in Agriculture from the University of Tennessee-Martin and a Master's of Science in Ag Economics from the University of Tennessee. Mr. Hancock served on the Board Risk Policy Committee in 2013 and will serve on the Board Governance Committee in 2014.

Walter C. Hopkins is from Lewes, Delaware, and he along with his son operates a dairy and grain farm, Green Acres Farm, consisting of 570 cows, 500 replacement heifers and 1,000 acres of crops. He is also manager of Lyons LLC, a land holding company. He serves on the board of directors of MidAtlantic Farm Credit, ACA, and is chair of both the AgFirst Plan Sponsor Committee and the AgFirst/FCBT Plan Sponsor Committee. He is a member of Delaware Farm Bureau, Land O' Lakes Cooperative, Genex Cooperative and Delaware Holstein Association. Mr. Hopkins has a BS in Agricultural Engineering from the University of Delaware, and has attended several professional development programs. Mr. Hopkins served on the Board Compensation Committee in 2013 and will serve as chair of the Board Compensation Committee in 2014.

Paul M. House is from Nokesville, Virginia, where he grows corn, soybeans, wheat, hay and turf grass. He also operates a dairy. He serves as a director of Farm Credit of the Virginias, ACA. Mr. House attended Glenville State and completed various courses in principles of real estate, turfgrass ecology and management. Mr. House serves on the Board Compensation Committee.

William K. Jackson, from New Salem, Pennsylvania, is a partner in Jackson Farms, an 800-acre dairy that milks 160 registered Holsteins and grows corn and alfalfa. He is president of Jackson Farms 2, LLC, a small dairy processing facility that produces milk and ice cream which are marketed to area stores and are also sold via an on-site convenience store. He is also president of Jackson Farms 3, LLC and Jackson Farms Limited Partnership, which are involved in the production of natural gas. He serves on the boards of AgChoice Farm Credit, ACA; the Fay Penn Economic Development Council; the Fayette County Fair Board; and the Penn State Fayette-Eberly Campus Advisory Board. Mr. Jackson has a BS in Agricultural Business Management from Penn State University. Mr. Jackson serves on the Board Risk Policy Committee.

M. Wayne Lambertson, from Pocomoke City, Maryland, owns and operates with his son a 2,700-acre farm of corn, soybeans and wheat, and a 300,000 capacity pullet operation. He is co-owner of a restaurant, Don's Seafood and Chicken House and is a partner in a development and construction company, J.W.L. Enterprise, LLC. He currently serves on the boards of the national Farm Credit Council (a trade organization), the Federal Farm Credit Funding Corporation, MidAtlantic Farm Credit, ACA, and the Delmarva Poultry Industry (DPI) (a trade organization). Mr. Lambertson served on the Board Governance Committee. Mr. Lambertson's term on the Board expired December 31, 2013.

John S. Langford, from Lakeland, Florida, has been a citrus grower for 47 years. Mr. Langford has also been a realtor for 34 years, specializing in agricultural lands. He currently serves as a director on the board of Farm Credit of Central Florida, ACA, as chairman of the board of the Community Southern Bank, and on the boards of Lake Wales Citrus Growers Association and Polk County Florida Farm Bureau. Mr. Langford obtained his BA degree from Emory University and his MBA from Harvard Business School. He served on the Board Audit Committee in 2013 and will serve as chair of the Board Audit Committee in 2014.

S. Alan Marsh is a third-generation farmer, and partner in Marsh Farms in Madison, Alabama. His operation consists of 3,000 acres of row crops, including cotton, soybeans, wheat and corn. Mr. Marsh is a director of First South Farm Credit, ACA, and Limestone County Farmers Federation, and he is president and stockholder of South Limestone Co-op Gin (an Association borrower). He is also an advisory board member for Staplcotn, a cotton cooperative association. Mr. Marsh received a Business Management Certification from Stratford Career Institute and has attended numerous special courses/workshops on director training, marketing, scouting, irrigation, pesticides and farm safety. Mr. Marsh serves on the Board Risk Policy Committee.

James L. May is owner and operator of Mayhaven Farm in Waynesburg, Kentucky, where he owns 650 acres and leases another 350 acres. His farming program consists of a 100 beef cow herd, and a back grounding program of 200 head of feeder cattle. The operation also includes 100 acres of alfalfa hay, 400 acres of corn and soybeans, and 100 acres of wheat. He also operates Mayhaven Seed Sales, an agricultural seed sales business. He currently serves as a member of the board of Central Kentucky Ag Credit, ACA, Lincoln County Extension Council, and the Lincoln County Farm Bureau Board. He is a former director of the Lincoln County Ag Development Board and the local cattleman's association. Mr. May has a BS in Agricultural Economics from the University of Kentucky and has attended special courses for farm managers and rural appraisers. Mr. May serves on the Independent Associations' Retirement Plan Sponsor Committee. Mr. May served as chair of the Board Governance Committee in 2013 and will serve on the Board Risk Policy Committee in 2014.

Bobby E. McCollum, Jr., is a poultry operator in Polkton, North Carolina. His operation includes eight broiler houses that produce 750,000 heavy broilers per year. Mr. McCollum also has a 100-head brood cow/calf commercial herd, and grows 100 acres of timber as well as hay, soybeans, wheat and corn. He is a member of Anson County Cattlemen's Association and serves on the Anson County Agriculture Advisory Board. He is a member of Carolina Farm Credit, ACA. Mr. McCollum is a licensed North Carolina property and casualty insurance agent specializing in farm insurance. Mr. McCollum served on the

Board Risk Policy Committee in 2013. Mr. McCollum's term expired on December 31, 2013.

Fred R. Moore, Jr., is from Eden, Maryland. He is president of Fred R. Moore & Sons, Inc. d/b/a Collins Wharf Sod, a turf and grain operation, which grows sod (turf), corn, soybeans and wheat on 650 acres. He is also partner of F&E Properties, LLC, a rental business. He currently serves on the boards of MidAtlantic Farm Credit, ACA, Wicomico Soil Conservation District and Wicomico County Farm Bureau. In addition, he is a member of the FFA Alumni Association and currently serves as an assistant chief of the Allen Volunteer Fire Company. Mr. Moore has a BS from the University of Maryland Eastern Shore. Mr. Moore was elected to the Board effective January 1, 2014 and will serve on the Board Audit Committee.

James M. Norsworthy, III, from Jackson, Louisiana runs 100 Cedars Cattle Farm, a 145-head cow-calf operation. He also has a commercial hay operation with 125 acres in Alicia Bermuda hay and 150 acres in Bahia Grass hay and manages a 500 acre pine and hardwood timber operation. He is a member of the board of directors of First South Farm Credit, ACA. He is a member of Feliciana Farm Bureau, East Feliciana Cattlemen's Association, American Angus Association and the Feliciana Forestry Association. Mr. Norsworthy served as a former mayor of the town of Jackson, Louisiana. Mr. Norsworthy has a BS of Vo Ag Education from Louisiana State University. Mr. Norsworthy served on the Board Governance Committee in 2013 and will serve as chair of the Board Governance Committee in 2014.

Katherine A. Pace, from Orlando, Florida, is a certified public accountant and principal of Family Business Consulting, LLC, which provides financial and strategic planning for closely-held businesses. Prior to forming her own company, she was a tax partner with KPMG, LLP, an audit, tax and advisory service firm, from 1985-2005. While at KPMG, her practice included a variety of cooperative and agribusiness clients as well as participation in trade associations, such as the National Society of Accountants for Cooperatives. Ms. Pace obtained her BS degree in accounting from Furman University. She currently serves as an independent director on the board of B & W Quality Growers, Inc., a grower and processor of specialty produce. She is a member of the American Institute of Certified Public Accountants, the Florida Institute of Certified Public Accountants and current and past member and director of numerous trade and charitable organizations. Ms. Pace serves as a member of and is the board designated financial expert on the Board Audit Committee.

Thomas E. Porter, Jr., is from Concord, North Carolina, where he is president of Porter Farms, Inc., a swine, poultry and cattle operation. He currently serves on the Carolina Farm Credit, ACA, board of directors, the Cabarrus County Ag Advisory Board, and the Cabarrus County Extension Advisory Board. He is also a member of the Cabarrus County Farm Bureau and the North Carolina Poultry Federation. Mr. Porter was elected to the Board effective January 1, 2014 and will serve on the Board Governance Committee.

Jimmy D. Poston, from Johnsonville, South Carolina, owns and operates Triple P Farms together with his brother. His operation consists of 2,500 acres of corn, peanuts, soybeans, tobacco, turf grass, strawberries and timber. Mr. Poston serves on the boards of ArborOne Farm Credit, ACA, Southern Agriculture Alumni, South Carolina Tobacco Growers Association and is a District Commissioner for the Florence County Soil and Water Conservation District. He is a member of the SC Farm Bureau, and the SC Corn and Soybean Growers Associations. Mr. Poston participated in the Phillip Morris Leadership Scholarship Program and the Advanced Phillip Morris Leadership Program. Mr. Poston serves on the Board Governance Committee.

Robert G. Sexton is from Vero Beach, Florida. He is President of Oslo Citrus Growers Association, co-owner of Lost Legend, LLC, and owner of Orchid Island Juice Company. He serves as a director of Farm Credit of Florida, ACA; Oslo Citrus Growers Association; Lost Legend, LLC; Florida Citrus Packers; Indian River Citrus League; Highland Exchange Service Co-op, a packinghouse supply cooperative; McArthur Management Company, a management company for a large dairy, cattle and citrus agribusiness, and an association borrower; Sexton Grove Holdings, a family citrus company; Sexton Properties, Oslo Packing Company, Patio Restaurant and Sexton, Inc., family commercial real estate companies; and Dancing Pigs, LLC, which owns Red, Hot and Blue BBQ restaurants. In addition, he is a member of the Indian River Farm Bureau. He obtained both his B.S. degree in business administration and his MBA in finance from the University of Florida. Mr. Sexton serves on the Board Audit Committee.

Ellis W. Taylor, from Roanoke Rapids, North Carolina, is an owner/operator of a row crop operation, Mush Island Farms, LLC, which consists of cotton, soybeans, wheat, corn and timber. He also is part owner of Roanoke Cotton Company, LLC, which operates three cotton gins and one warehouse. He is a director on the boards of AgCarolina Farm Credit, ACA, and Northampton County Farm Bureau. Mr. Taylor has a BS in Agronomy, a BS in Ag Business Management and a Master's of Economics from North Carolina State University. Mr. Taylor serves on the Board Audit Committee.

William H. Voss is from McComb, Mississippi. He has commercial cattle, hay and timber operations in Southwest Mississippi and is involved in land and commercial property management. His career includes production agriculture, agribusiness and real estate. He obtained his B.S. degree from the University of Southern Mississippi, and currently serves on the board of directors of First South Farm Credit, ACA. He is a former agricultural commodities and securities broker and has served as Chairman of the Mississippi Real Estate Commission and Chairman of the Pike County Farm Service Committee. Mr. Voss served as chair in 2013 and continues to serve on the Board Compensation Committee.

Committees

The Board has established an audit committee, compensation committee, risk policy committee, and governance committee. All members of the Board, other than the Chairman, serve on a committee. The Chairman of the Board serves as an ex officio member of all Board committees, and the Vice Chairman serves as a member of the Board compensation committee. The Board has one designated financial expert who serves on the audit committee. The responsibilities for each committee are set forth in its respective board approved charter.

Compensation of Directors

Directors were compensated in 2013 in cash at the rate of $55,594 per year, payable at $4,633 per month. This is compensation for attendance at Board meetings, Board committee meetings, certain other meetings pre-approved by the Board, and other duties as assigned. Farm Credit Administration (FCA) regulations also allow additional compensation to be paid to a director in exceptional circumstances where extraordinary time and effort are involved. In this regard, additional compensation was paid for certain leadership positions on the Board, including the Chairman of the Board, Vice Chairman of the Board, Chair of each Board standing committee as well as to members of the Board audit committee. Total cash compensation paid to all directors as a group during 2013 was $1,160,897. Directors received no non-cash compensation during 2013. Additional information for each director who served during 2013 is provided in the following table.

	Number of Days Served			
Name of Director	Board Meetings	Other Official Activities*	Farm Credit Council Bd. Activities	Total Comp. Paid During 2013
Jack W. Bentley, Jr.**	22.00	15.25	4.00	$ 55,594
James C. Carter, Jr.	22.00	16.75	4.00	64,345
Bonnie V. Hancock	22.00	8.25	4.00	59,346
Curtis R. Hancock, Jr.	22.00	12.25	4.50	55,594
Dale R. Hershey	22.00	15.25	4.00	59,346
Walter C. Hopkins	22.00	15.25	4.00	55,594
Paul M. House	22.00	14.75	4.00	55,594
William K. Jackson	22.00	12.00	4.00	55,594
M. Wayne Lambertson	22.00	8.75	4.00	55,594
John S. Langford	22.00	13.75	4.00	59,346
S. Alan Marsh	22.00	12.25	4.00	55,594
James L. May	22.00	13.00	4.00	59,346
Bobby E. McCollum, Jr.	22.00	15.00	4.00	55,594
James M. Norsworthy, III	22.00	13.00	4.00	55,594
Katherine A. Pace	22.00	13.75	4.00	59,346
Jimmy D. Poston	22.00	13.00	4.00	55,594
Robert G. Sexton	22.00	13.75	4.00	59,346
Robert H. Spiers, Jr.	22.00	15.75	4.00	65,844
Ellis W. Taylor	22.00	13.75	4.00	59,346
William H. Voss	22.00	12.25	4.00	59,346
Total				$ 1,160,897

* *Other official activities include Board committee meetings and Board training.*

** *Does not include 4.5 days served as Board-appointed member of the AgFirst and AgFirst/FCBT Plan Sponsor Committees.*

Directors are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars, laundry, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to shareholders upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $226,664 for 2013, $265,496 for 2012, and $243,537 for 2011.

Transactions with Senior Officers and Directors

The Bank's policies on loans to and transactions with its officers and directors, to be disclosed in this section, are incorporated herein by reference to Note 10, *Related Party Transactions,* to the Financial Statements included in this Annual Report to shareholders. There have been no transactions between the Bank and senior officers or directors which require reporting per FCA regulations.

Involvement in Certain Legal Proceedings

There were no matters which came to the attention of management or the Board of Directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

Relationship with Independent Certified Public Accountants

There were no changes in or material disagreements with the Bank's independent certified public accountants on any matter of accounting principles or financial statement disclosure during this period.

Aggregate fees expensed by the Bank for services rendered by its independent certified public accountants for the year ended December 31, 2013 were as follows:

	2013
Independent Certified Public Accountants	
PricewaterhouseCoopers LLP	
Audit services	$ 421,164
Non-audit services	85,084
Total	$ 506,248

Audit fees were for the annual audits of financial statements.

Non-audit fees were for agreed upon procedures for Financial Institution Shared Assessments Program, Farmer Mac minimum servicing standards attestation, and agreed upon procedures for Board of Directors elections.

All individual non-audit service engagements involving fees of $50,000 or more for the Bank require pre-approval by the Audit Committee.

Financial Statements

The Financial Statements, together with the report thereon of PricewaterhouseCoopers LLP, dated March 12, 2014, and the Report of Management, which appear in this Annual Report to shareholders are incorporated herein by reference.

Borrower Information Regulations

FCA regulations require that borrower information be held in strict confidence by Farm Credit institutions, their directors, officers, and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA Board adopted a policy that requires Farm Credit institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the annual report to shareholders. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

Shareholder Investment

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 and combined information concerning AgFirst Farm Credit Bank and District Associations are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, Financial Reporting Manager, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. This information can also be obtained at the Bank's website, **www.agfirst.com**.The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Report to shareholders within 90 days after the end of the fiscal year. The Bank prepares an electronic version of each Quarterly Report within 40 days after the end of each fiscal quarter, except that no report is prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board of Directors (the Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of AgFirst Farm Credit Bank (the Bank) and in the opinion of the Board of Directors, each is free of any relationship with the Bank or management that would interfere with the director's independent judgment on the Committee.

The Committee has adopted a written charter that has been approved by the Board of Directors. The Committee has reviewed and discussed the Bank's audited financial statements with management, which has primary responsibility for the financial statements. The financial statements were prepared under the oversight of the Committee.

PricewaterhouseCoopers LLP (PwC), the Bank's independent certified public accountant for 2013, is responsible for expressing an opinion on the conformity of the Bank's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance)*. PwC has provided to the Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 *(Independence Discussions with Audit Committees)*, and the Committee has discussed with PwC that firm's independence.

The Committee has also concluded that PwC's provision of non-audit services to the Bank is compatible with PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report for 2013. The foregoing report is provided by the following independent directors, who constitute the Committee:

John S. Langford
Chairman of the Audit Committee

Members of Audit Committee

Fred R. Moore, Jr.
Katherine A. Pace
Robert G. Sexton
Ellis W. Taylor

March 12, 2014

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

pwc

Report of Independent Certified Public Accountants

To the Board of Directors and Shareholders
of AgFirst Farm Credit Bank

We have audited the accompanying financial statements of AgFirst Farm Credit Bank (the Bank), which comprise the balance sheets as of December 31, 2013, 2012, and 2011, and the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Certified Public Accountants' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AgFirst Farm Credit Bank at December 31, 2013, 2012, and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 12, 2014

PricewaterhouseCoopers LLP, 401 E. Las Olas Blvd., Suite 1800, Fort Lauderdale, FL 33301
T: (954) 764-7111, F: (954)525-4453, www.pwc.com/us

BALANCE SHEETS

(dollars in thousands)	As of December 31, 2013	2012	2011
Assets			
Cash	**$ 1,038,870**	$ 723,576	$ 1,217,747
Cash equivalents	**144,885**	149,589	83,822
Investment securities:			
Available for sale (amortized cost of $6,462,222, $6,708,382, and $6,792,584, respectively)	**6,562,976**	6,882,929	6,925,410
Held to maturity (fair value of $599,601, $656,292, and $928,053, respectively)	**589,812**	601,482	854,862
Total investment securities	**7,152,788**	7,484,411	7,780,272
Loans	**20,201,235**	20,209,251	20,152,066
Allowance for loan losses	**(22,908)**	(44,539)	(27,714)
Net loans	**20,178,327**	20,164,712	20,124,352
Accrued interest receivable	**63,070**	72,549	78,906
Accounts receivable	**55,933**	76,257	68,190
Investments in other Farm Credit System institutions	**67,466**	66,828	65,964
Premises and equipment, net	**52,599**	41,662	15,013
Other property owned	**9,621**	19,477	44,157
Other assets	**80,783**	91,486	99,083
Total assets	**$ 28,844,342**	$ 28,890,547	$ 29,577,506
Liabilities			
Systemwide bonds payable	**$ 24,315,776**	$ 24,293,168	$ 23,927,260
Systemwide notes payable	**1,909,103**	1,993,590	3,158,888
Accrued interest payable	**54,059**	40,681	42,418
Accounts payable	**368,670**	213,591	225,213
Other liabilities	**49,987**	51,287	74,457
Total liabilities	**26,697,595**	26,592,317	27,428,236
Commitments and contingencies (Note 11)			
Shareholders' Equity			
Perpetual preferred stock	**125,250**	275,250	400,000
Capital stock and participation certificates	**308,972**	332,705	405,767
Additional paid-in-capital	**36,580**	36,580	—
Retained earnings			
Allocated	**726**	795	858
Unallocated	**1,577,676**	1,481,432	1,218,648
Accumulated other comprehensive income (loss)	**97,543**	171,468	123,997
Total shareholders' equity	**2,146,747**	2,298,230	2,149,270
Total liabilities and equity	**$ 28,844,342**	$ 28,890,547	$ 29,577,506

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

STATEMENTS OF INCOME

(dollars in thousands)	2013	2012	2011
	For the year ended December 31,		
Interest Income			
Investment securities and other	**$ 145,658**	$ 183,166	$ 196,349
Loans	**589,573**	631,806	693,419
Total interest income	**735,231**	814,972	889,768
Interest Expense	**197,173**	209,470	293,334
Net interest income	**538,058**	605,502	596,434
Provision for (reversal of allowance for) loan losses	**(10,589)**	14,946	80,222
Net interest income after provision for (reversal of allowance for) loan losses	**548,647**	590,556	516,212
Noninterest Income			
Loan fees	**10,070**	11,085	10,610
Building lease income	**4,355**	193	—
Total other-than-temporary impairment losses	**(2,652)**	(22,585)	(7,368)
Portion of loss recognized in other comprehensive income	**33**	18,823	(1,885)
Net other-than-temporary impairment losses	**(2,619)**	(3,762)	(9,253)
Gains (losses) on investments, net	**7,592**	—	3,048
Gains (losses) on called debt	**(5,360)**	(39,445)	(27,450)
Gains (losses) on other transactions	**868**	1,356	(2,677)
Insurance premium refund	**—**	10,363	—
Other noninterest income	**8,152**	7,660	7,634
Total noninterest income	**23,058**	(12,550)	(18,088)
Noninterest Expenses			
Salaries and employee benefits	**50,857**	49,127	46,881
Occupancy and equipment	**17,919**	15,034	14,360
Insurance Fund premiums	**6,457**	4,320	5,360
Other operating expenses	**39,430**	37,456	33,873
Losses (gains) from other property owned	**(294)**	3,459	12,192
Total noninterest expenses	**114,369**	109,396	112,666
Net income	**$ 457,336**	$ 468,610	$ 385,458

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

STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)	For the year ended December 31, 2013	2012	2011
Net income	**$ 457,336**	$ 468,610	$ 385,458
Other comprehensive income net of tax:			
Unrealized gains (losses) on investments:			
Other-than-temporarily impaired	**18,404**	(1,350)	2,396
Not other-than-temporarily impaired	**(92,253)**	43,071	86,726
Change in value of firm commitments - when issued securities	**(1,225)**	7,080	3,185
Employee benefit plans adjustments	**1,149**	(1,330)	(639)
Other comprehensive income (Note 7)	**(73,925)**	47,471	91,668
Comprehensive income	**$ 383,411**	$ 516,081	$ 477,126

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(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, 2010	$400,000	$ 417,333	$ —	$ 871	$1,052,248	$ 32,329	$ 1,902,781
Comprehensive income					385,458	91,668	477,126
Capital stock/participation certificates issued/(retired), net		(12,207)					(12,207)
Stock dividends declared/paid		648			(648)		—
Dividends paid on perpetual preferred stock					(27,413)		(27,413)
Patronage distribution							
Cash patronage declared					(191,060)		(191,060)
Nonqualified allocated retained earnings				14	(14)		—
Retained earnings retired				(27)			(27)
Patronage distribution adjustment		(7)			77		70
Balance at December 31, 2011	$400,000	$ 405,767	$ —	$ 858	$1,218,648	$ 123,997	$ 2,149,270
Comprehensive income					468,610	47,471	516,081
Capital stock/participation certificates issued/(retired), net		(73,745)					(73,745)
Redemption of perpetual preferred stock (Note 7)	(124,750)		36,580				(88,170)
Stock dividends declared/paid		683			(683)		—
Dividends paid on perpetual preferred stock					(17,978)		(17,978)
Cash patronage declared					(187,165)		(187,165)
Retained earnings retired				(63)			(63)
Balance at December 31, 2012	$275,250	$ 332,705	$ 36,580	$ 795	$ 1,481,432	$ 171,468	$ 2,298,230
Comprehensive income					**457,336**	**(73,925)**	**383,411**
Capital stock/participation certificates issued/(retired), net		**(24,665)**					**(24,665)**
Redemption of perpetual preferred stock (Note 7)	**(150,000)**						**(150,000)**
Stock dividends declared/paid		**932**			**(932)**		**—**
Dividends paid on perpetual preferred stock					**(6,347)**		**(6,347)**
Cash patronage declared					**(353,813)**		**(353,813)**
Retained earnings retired				**(69)**			**(69)**
Balance at December 31, 2013	**$125,250**	**$ 308,972**	**$ 36,580**	**$ 726**	**$ 1,577,676**	**$ 97,543**	**$ 2,146,747**

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

STATEMENTS OF CASH FLOWS

(dollars in thousands)	For the year ended December 31, 2013	2012	2011
Cash flows from operating activities:			
Net income	**$ 457,336**	$ 468,610	$ 385,458
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation on premises and equipment	**6,858**	6,602	6,614
Premium amortization (discount accretion) on investment securities	**12,983**	11,626	18,678
(Premium amortization) discount accretion on bonds and notes	**6,462**	5,350	144
Provision for (reversal of allowance for) loan losses	**(10,589)**	14,946	80,222
(Gains) losses on other property owned, net	**(519)**	2,966	11,402
Net impairment losses on investments	**2,619**	3,762	9,253
(Gains) losses on investments, net	**(7,592)**	—	(3,048)
(Gains) losses on other transactions	**(868)**	(1,356)	2,677
Net change in loans held for sale	**23,590**	26,447	22,793
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	**9,479**	6,357	5,786
(Increase) decrease in accounts receivable	**20,324**	(8,067)	4,465
(Increase) decrease in other assets	**(3,167)**	(3,347)	3,744
Increase (decrease) in accrued interest payable	**13,378**	(1,737)	(15,398)
Increase (decrease) in accounts payable	**(12,531)**	(6,879)	27,824
Increase (decrease) in other liabilities	**1,835**	(22,489)	8,292
Total adjustments	**62,262**	34,181	183,448
Net cash provided by (used in) operating activities	**519,598**	502,791	568,906
Cash flows from investing activities:			
Investment securities purchased	**(1,842,621)**	(1,427,265)	(1,174,147)
Investment securities sold or matured	**2,091,160**	1,756,539	1,537,976
Net (increase) decrease in loans	**(43,195)**	(88,930)	626,360
(Increase) decrease in investments in other Farm Credit System institutions	**(638)**	(864)	(664)
Purchase of premises and equipment, net	**(17,814)**	(33,252)	(9,257)
Proceeds from sale of other property owned	**25,857**	28,238	20,463
Net cash provided by (used in) investing activities	**212,749**	234,466	1,000,731
Cash flows from financing activities:			
Bonds and notes issued	**21,360,584**	40,927,927	41,651,117
Bonds and notes retired	**(21,415,057)**	(41,721,724)	(42,880,764)
Redemption of mandatorily redeeemable preferred stock	**—**	—	(225,000)
Capital stock and participation certificates issued/retired, net	**(24,665)**	(73,745)	(12,207)
Cash distribution to shareholders	**(186,203)**	(191,908)	(200,807)
Redemption of perpetual preferred stock	**(150,000)**	(88,170)	—
Dividends paid on perpetual preferred stock	**(6,347)**	(17,978)	(27,413)
Retained earnings retired	**(69)**	(63)	(27)
Net cash provided by (used in) financing activities	**(421,757)**	(1,165,661)	(1,695,101)
Net increase (decrease) in cash and cash equivalents	**310,590**	(428,404)	(125,464)
Cash and cash equivalents, beginning of period	**873,165**	1,301,569	1,427,033
Cash and cash equivalents, end of period	**$ 1,183,755**	$ 873,165	$ 1,301,569
Supplemental schedule of non-cash investing and financing activities:			
Receipt of property in settlement of loans	**$ 15,482**	$ 6,524	$ 36,303
Change in unrealized gains (losses) on investments, net	**(73,849)**	41,721	89,122
Change in fair value of derivative instruments	**—**	319	(9,100)
Employee benefit plans adjustments	**(1,149)**	1,330	639
Non-cash changes related to interest rate hedging activities:			
Increase (decrease) in bonds and notes	**$ (13,870)**	$ (10,943)	$ (9,917)
Decrease (increase) in other assets	**13,870**	10,943	9,917
Supplemental information:			
Interest paid	**$ 177,333**	$ 205,857	$ 307,749

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

NOTES TO THE FINANCIAL STATEMENTS

Note 1 — Organization and Operations

Organization: AgFirst Farm Credit Bank (the Bank or AgFirst) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers. The Bank is chartered to serve the states of Pennsylvania, Delaware, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, the Commonwealth of Puerto Rico and portions of Ohio, Tennessee, Kentucky and Louisiana.

AgFirst is a lending institution in the Farm Credit System (the System), a nationwide network of cooperatively owned banks, associations and related service organizations. It was established by Acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act).The System specializes in providing financing and related services to qualified borrowers for agricultural and rural purposes.

The nation is served by three Farm Credit Banks (FCBs) and one Agricultural Credit Bank (ACB) (collectively, the System Banks), each of which has specific lending authorities within its chartered territory. The ACB also has additional specific nationwide lending authorities. The System Banks obtain a substantial majority of the funds for their lending operations through the sale of consolidated Systemwide bonds and notes to the public, but also obtain a portion from internally generated earnings, the issuance of common and preferred stock and, to a lesser extent, the issuance of subordinated debt.

Each System Bank serves one or more Agricultural Credit Associations (ACAs) that originate long-term, short-term and intermediate-term loans, Production Credit Associations (PCAs) that originate and service short- and intermediate-term loans, and/or Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans. These associations borrow a majority of the funds for their lending activities from their related bank. System Banks are also responsible for supervising the activities of associations within their districts. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the AgFirst District. The District Associations jointly own all of AgFirst's voting stock. As of year end, the AgFirst District consisted of the Bank and nineteen District Associations. All nineteen were structured as ACA holding companies, with PCA and FLCA subsidiaries.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of System institutions to ensure their compliance with the Farm Credit Act, FCA regulations, and safe and sound banking practices.

The Farm Credit Act also established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used: (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured Debt), (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary uses by the Insurance Corporation to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank has been required to pay premiums, which may be passed on to the Associations, into the Insurance Fund, based on its annual average adjusted outstanding Insured Debt until the assets in the Insurance Fund reach the "secure base amount." The secure base amount is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of the aggregate obligations as the Insurance Corporation at its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums and may return excess funds above the secure base amount to System institutions. However, it must still ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

Premiums are charged based upon each bank's pro rata share of outstanding Insured Debt. Premiums of up to 20 basis points on adjusted Insured Debt obligations can be assessed along with a risk surcharge of 10 basis points on nonaccrual loans and other-than-temporarily impaired investments. For 2013, 2012 and 2011, the premium was 10, 5, and 6 basis points, respectively. Effective January 1, 2014, the premium was increased to 12 basis points.

The Bank owned the Farm Credit Finance Corporation of Puerto Rico (the Finance Corporation) whose operations were suspended and placed into inactive status effective December 31, 2005. The Finance Company was dissolved June 30, 2012.

AgFirst, in conjunction with other System Banks, jointly owns organizations that were created to provide a variety of services for the System:

- Federal Farm Credit Banks Funding Corporation (Funding Corporation) – provides for the issuance, marketing and processing of Systemwide Debt Securities using a network of investment dealers and dealer banks. The Funding Corporation also provides financial management and reporting services.

- FCS Building Association – leases premises and equipment to the FCA.

- Farm Credit System Association Captive Insurance Company – being a reciprocal insurer, provides insurance services to its member organizations.

In addition, the Farm Credit Council acts as a full-service federated trade association, which represents the System before Congress, the Executive Branch and others, and provides support services to System institutions on a fee basis.

Effective January 1, 2011, Farm Credit of North Florida, ACA, and Farm Credit of Southwest Florida, ACA, merged with and into Farm Credit of South Florida, ACA, which then changed its name to Farm Credit of Florida, ACA. Effective July 1, 2012, Chattanooga, ACA, merged with and into Jackson Purchase, ACA, which then changed its name to River Valley AgCredit, ACA, reducing the number of Associations in the District to nineteen.

Operations: The Farm Credit Act sets forth the types of authorized lending activity and financial services that can be offered by the Bank, and the persons eligible to borrow.

The Associations borrow from the Bank and in turn may originate and service both long-term real estate mortgage and short- and intermediate-term loans to their members.

The Bank primarily lends to the District Associations in the form of a line of credit to fund the Associations' loan portfolios and operations. These lines of credit (or Direct Notes) are collateralized by a pledge of substantially all of each Association's assets. The terms of the Direct Notes are governed by a lending agreement between the Bank and Association. Each advance is structured such that the principal cash flow, repricing characteristics, and underlying index (if any) of the advance match those of the assets being funded. By match-funding the Association loans, the Associations' exposure to interest rate risk is minimized.

In addition to providing loan funds, the Bank provides District Associations with banking and support services such as: accounting, human resources, information systems, and marketing. The costs of these support services are included in the interest charges to the Associations, or in some cases billed directly to certain Associations that use a specific service.

The Bank is also authorized to provide, in participation with other lenders and the secondary market, credit, credit commitments, and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses. The Bank may also lend to other financial institutions qualified to engage in lending to eligible borrowers.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Bank conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires the management of the Bank to make estimates and assumptions that affect the amounts reported in the Financial Statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results may differ from these estimates.

The accompanying Financial Statements include the accounts of the Bank, and reflect the investments in and allocated earnings of the service organizations in which the Bank has partial ownership interests. There were no transactions or balances between the Bank and the Finance Corporation for the years presented.

Certain amounts in the prior year 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.

A. **Cash and Cash Equivalents:** Cash and Cash Equivalents include cash on hand and short-term investments with original maturities of three months or less.

B. **Loans and Allowance for Loan Losses:** The loan portfolio includes Direct Notes, loan participations/syndications purchased, Correspondent Lending loans (primarily first lien rural residential mortgages), and loans to Other Financing Institutions (OFIs).

   Long-term real estate mortgage loans generally have original maturities up to 30 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less.

   Loans are carried at their principal amount outstanding adjusted for charge-offs, premiums, discounts, deferred loan fees or costs, and derivative instruments and hedging valuation adjustments, if any. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. The difference in the total investment in a loan and its principal amount is deferred as part of the carrying amount of the loan and the net difference is amortized over the life of the related loan as an adjustment to interest income using the effective interest method.

   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 and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan remains contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

   Loans are generally classified as nonaccrual when principal or interest is delinquent for 90 days or more (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) and/or charged against the allowance for loan losses (if accrued in prior years).

When loans are in nonaccrual status, if collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments received in cash is generally recognized as interest income. Otherwise, loan payments are applied against the recorded investment in the loan asset. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, and the loan is not classified "doubtful" or "loss."

Loans are charged off at the time they are determined to be uncollectible.

In cases where a borrower experiences financial difficulties and the Bank makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the Bank grants a concession to the debtor that it would not otherwise consider. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Bank has been identified. The allowance for loan losses is a valuation account used to reasonably estimate loan losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss.

Certain loan pools acquired from several of the District Associations are analyzed in accordance with the selling Association's allowance methodologies for assigning general and specific allowances.

The Bank considers the following factors, among others, when determining the allowance for loan losses:

- Credit risk classifications,
- Collateral values,
- Risk concentrations,
- Weather related conditions,
- Current production and economic conditions, and
- Prior loan loss experience.

A specific allowance may be established for impaired loans under Financial Accounting Standards Board (FASB) guidance on accounting by creditors for impairment of a loan. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or fair value of the collateral if the loan is collateral dependent.

A general allowance may also be established under FASB guidance on accounting for contingencies, to reflect estimated probable credit losses incurred in the remainder of the loan portfolio at the financial statement date, which excludes loans included under the specific allowance discussed above. A general allowance can be evaluated on a pool basis for those loans with similar characteristics. The level of the general allowance may be based on management's best estimate of the likelihood of default adjusted for other relevant factors reflecting the current environment.

The credit risk rating methodology is a key component of the Bank's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The Bank uses a two-dimensional loan rating model based on internally generated combined system risk rating guidance that incorporates a 14-point risk rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the 14 categories carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

C. **Loans Held for Sale:** Loans are classified as held for sale when there is intent to sell the loans within a reasonable period of time. Loans intended for sale are carried at the lower of cost or fair value.

   Generally, only home loans that are to be sold on the secondary mortgage market through various lenders or into a securitization are held for sale.

D. **Other Property Owned:** Other property owned, consisting of real estate, personal property and other assets acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income, expenses and carrying value adjustments related to other property owned are included in Losses (Gains) from Other Property Owned in the Statements of Income.

E. **Premises and Equipment:** Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense and improvements that extend the useful life of the asset are capitalized. From time to time, assets classified as premises and equipment are transferred to held for sale for various reasons. These assets are carried in other assets at the lower of the recorded investment in the asset or fair value less estimated cost to sell based upon the property's appraised value at the date of transfer. Any write-downs of property held for sale are recorded as other non-interest expense.

F. **Investments:** The Bank holds investments and investment securities as described below.

   Investments in Other Farm Credit System Institutions
   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 accounted for using the cost method and are analyzed for impairment similar to investment securities as discussed in the section below.

   Investment Securities
   The Bank, as permitted under the FCA regulations, holds investments for purposes of maintaining a liquidity reserve, managing short-term surplus funds, managing interest rate risk and, in the case of certain Mission Related Investments, to stimulate economic growth and development in rural areas. Investments are classified based on management's intention on the date of purchase and are generally recorded in the Balance Sheets as securities on the trade date. Investment securities classified as available-for-sale (AFS) are carried at fair value with net unrealized gains and losses included in other comprehensive income (OCI) in Shareholders' Equity. Investment securities which management has the intent and ability to hold to maturity are classified as held-to-maturity (HTM) and reported at amortized cost.

   The Bank reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. As mentioned above, changes in the fair value of AFS investments are reflected in other comprehensive income, unless the investment is deemed to be other than temporarily impaired. Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If the Bank intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but the Bank does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and is separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is charged to current earnings, with the remainder of the loss amount recognized in other comprehensive income.

   In subsequent periods, if the present value of cash flows expected to be collected is less than the amortized cost basis, the Bank will record an additional other-than-temporary impairment and adjust the yield of the security prospectively. The amount of total other-than-temporary impairment for an available-for-sale security that previously was impaired is determined as the difference between its carrying amount prior to the determination of other-than-temporary impairment and its fair value.

   Interest on investment securities, including amortization of premiums and accretion of discounts, is included in Interest Income. Realized gains and losses from the sales of investment securities are recognized in current earnings using the specific identification method.

G. **Debt Issuance Cost:** Direct expenses incurred in issuing debt and mandatorily redeemable preferred stock are deferred and amortized using the straight-line method (which approximates the interest method) over the term of the related indebtedness or term of the mandatorily redeemable preferred stock.

H. **Employee Benefit Plans:** Employees participate in District and multi-District sponsored benefit plans. These plans may include defined benefit final average pay retirement, defined benefit cash balance retirement, defined benefit other postretirement benefits, and defined contribution plans.

   Defined Contribution Plans
   Substantially all employees are eligible to participate in a defined contribution plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal

Revenue Service. Company contributions to the plan are expensed as funded.

Additional information for the above may be found in Note 9 and in the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' Annual Report.

Multi-Employer Defined Benefit Plans

Substantially all employees may participate in one or more defined benefit plans. The Plans are noncontributory and include eligible Bank and District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. The actuarially-determined costs of the Plans are allocated to each participating entity by multiplying the Plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all Plan participants. The cumulative excess of amounts funded by the Bank over the cost allocated to the Bank is reflected as prepaid retirement expense, a component of other assets in the Bank's Balance Sheets.

The Bank provides certain health care and life insurance benefits for retired employees (Other Postretirement Benefits) through a retiree healthcare plan. Substantially all employees are eligible for those benefits when they reach early retirement age while working for the Bank. Certain charges related to this plan are an allocation of District charges based on the Bank's proportional share of the plan liability. Authoritative accounting guidance requires the accrual of the expected cost of providing these benefits to an employee, their beneficiaries and covered dependents during the years the employee renders service necessary to become eligible for benefits. The cumulative excess of cost allocated to the Bank over the amounts funded by the Bank is reflected as postretirement benefits other than pensions, a component of Other Liabilities in the Bank's Balance Sheets.

Since the foregoing plans are multi-employer, District entities do not apply the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in their stand-alone financial statements. Rather, the effects of this guidance are reflected in the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations.

Additional information for the above may be found in Note 9 and in the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' Annual Report.

Single Employer Defined Benefit Plans

The Bank also sponsors a defined benefit postretirement plan for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the Bank's Balance Sheets in Other Liabilities.

The foregoing defined benefit plan is considered single employer, therefore the Bank applies the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements.

See Note 9 for additional information.

I. **Income Taxes:** The Bank evaluates tax positions taken in previous and current years according to FASB guidance. A tax position can result in a permanent reduction of income taxes payable, a deferral of income taxes otherwise currently payable to future years, or a change in the expected realizability of deferred tax assets. The term tax position also encompasses, but is not limited to an entity's status, including its status as a pass-through entity or tax-exempt entity.

J. **Derivative Instruments and Hedging Activity:** The Bank is party to derivative financial instruments, primarily interest rate swaps, which are principally used to reduce funding costs. The Bank may also enter into forward contracts to create a fixed purchase price. Derivatives are included in the Balance Sheets as assets and liabilities and reflected at fair value.

Changes in the fair value of a derivative are recorded in current period earnings or accumulated other comprehensive income (AOCI) depending on the risk being hedged. For fair-value hedge transactions, which hedge changes in the fair value of assets, liabilities, or firm commitments, changes in the fair value of the derivative will generally be offset by changes in the hedged item's fair value and changes reported in earnings. For cash-flow hedge transactions, which hedge the variability of future cash flows related to a variable-rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative will generally be deferred and reported in AOCI. The gains and losses on the derivative that are deferred and reported in AOCI will be reclassified into earnings in the periods during which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges is recorded in current period earnings. For derivatives not designated as a hedging instrument, if any, the related change in fair value is recorded in current period earnings.

The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to (1) specific assets or liabilities on the balance sheet or (2) firm commitments or forecasted transactions. The Bank also formally assesses at the hedge's inception whether the derivatives that are used in hedging transactions will be highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. The Bank uses regression analysis (or other statistical analysis) to assess the effectiveness of its hedges on an ongoing basis. The Bank discontinues hedge accounting prospectively when the Bank determines that a derivative has not been or is not expected to be effective as a hedge. For cash flow hedges, any remaining AOCI would be amortized into earnings over the remaining life of the original hedged item. For fair value hedges, changes in the fair value of the derivative would be recorded in current period earnings. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Bank will carry the derivative at its fair value on the balance sheet, recognizing changes in fair value in current period earnings.

The Bank may occasionally purchase a financial instrument in which a derivative instrument is "embedded." Upon purchasing the financial instrument, the Bank assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the financial instrument and whether a separate, non-embedded instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract and (2) a separate, stand-alone instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract, carried at fair value, and may be designated as either a fair value or cash flow hedge. However, if the entire contract were to be measured at fair value, with changes in fair value reported in current earnings, or if the Bank could not reliably identify and measure the embedded derivative for purposes of separating that derivative from its host contract, the entire contract would be carried on the balance sheet at fair value and not be designated as a hedging instrument.

K. **Valuation Methodologies:** FASB guidance defines fair value 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. This guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It prescribes three levels of inputs that may be used to measure fair value.

Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when active markets do not exist for the particular items being valued.

Management may utilize significant estimates and assumptions to value items for which an observable active market does not exist. Examples of these items include: impaired loans, other property owned, pension and other postretirement benefit obligations, certain derivatives, certain investment securities and other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing, and liquidation values. The use of different assumptions could produce significantly different asset or liability values, which could have material positive or negative effects on the Bank's results of operations.

Please see further discussion in Note 8.

L. **Off-Balance-Sheet Credit Exposures:** The credit risk associated with commitments to extend credit and letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee.

Letters of credit are commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party.

M. **Subsequent Events:** The Bank evaluates subsequent events and has determined that there are none requiring disclosure through March 12, 2014, which is the date the financial statements were issued, except as described in Note 14, *Business Combinations*.

N. **Accounting Standards Updates (ASUs):** In December 2013, the FASB issued ASU 2013-12, "Definition of a Public Business Entity — An Addition to the Master Glossary." The definition will be used in considering the scope of new financial accounting guidance and determines whether guidance applies or does not apply to public business entities. The definition improves U.S. generally accepted accounting principles by providing a single definition of public business entity for use in future financial accounting and reporting guidance and does not affect existing requirements. Based on the definition, the Bank would be considered a public business entity. There is no actual effective date for the amendment. However, the term public business entity will be used in new accounting guidance as it is issued.

In February 2013 the FASB issued ASU 2013-04, "Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for which the Total Amount of the Obligation Is Fixed at the Reporting Date," which addresses the recognition, measurement and disclosure of certain obligations including debt arrangements, other contractual obligations, and settled litigation and judicial rulings. The amendments are to be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the ASU's scope that exist at the beginning of an entity's fiscal year of adoption. An entity may elect to use hindsight for the comparative periods (if it changed its accounting as a result of adopting the amendments in the ASU) and should disclose that fact. The amendments are effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2014, and interim periods and annual periods thereafter. Early application is permitted. The adoption of this guidance did not have a material impact on the Bank's financial condition or results of operations but resulted in additional disclosures.

In February 2013 the FASB issued ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The update is intended to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. For nonpublic entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted. The Bank elected early adoption of this guidance (see Note 7). This election had no effect on the Bank's financial condition or results of operations.

In January 2013, the FASB issued ASU 2013-01 "Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." The Update clarifies that ordinary trade receivables and payables are not in the scope of ASU 2011-11, "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities." Specifically, ASU 2011-11 applies only to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria or subject to a master netting arrangement or similar agreement. The effective date is the same as that for ASU 2011-11.

In December 2011, the FASB issued ASU 2011-11, "Balance Sheet (Topic 220) - Disclosures about Offsetting Assets and Liabilities." The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in accordance with accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance will not impact the Bank's financial condition or its results of operations, but resulted in additional disclosures.

In September 2011, the FASB issued ASU 2011-09, "Compensation (Topic 715): Retirement Benefits – Multiemployer Plans." The amendment was intended to provide for more information about an employer's financial obligations to multiemployer pension and other postretirement benefit plans, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include the following: (1) a description of the nature of plan benefits; (2) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer, and (3) other quantitative information to help users understand the financial information about the plan. The amendments were effective for annual periods ending after December 15, 2011 for public entities. The amendments should be applied retrospectively for all prior periods presented. The adoption did not impact the Bank's financial condition or results of operations but did result in additional disclosures (see Note 9).

In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." This amendment was intended to increase the prominence of other comprehensive income in financial statements. The previous option that permitted the presentation of other comprehensive income in the statement of changes in equity has been eliminated. The main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements: (1) A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income; (2) In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. With either approach, an entity is required to present reclassification adjustments for items reclassified from other comprehensive income to net income in the statement(s). This guidance is to be applied retrospectively. For public entities, it was effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance did not impact the Bank's financial condition or results of operations, but resulted in changes to the presentation of comprehensive income. In December 2011, the FASB issued guidance (ASU 2011-12; Topic 220) to defer the new requirement to present components of accumulated other comprehensive income reclassified as components of net income on the face of the financial statements. All other requirements in the guidance for comprehensive income are required to be adopted as set forth in the June 2011 guidance. The deferral was effective at the same time the new standard on comprehensive income is adopted.

In May 2011, the FASB issued ASU 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following: (1) Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets (does not apply to financial assets and liabilities); (2) Aligns the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities. As a result, an entity should measure the fair value of its own equity instruments from the perspective of a market participant that holds the instruments as assets; (3) Clarifies that a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy; (4) An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to those risks; (5) Clarifies that the application of premiums and discounts in a fair value measurement is related to the unit of account for the asset or liability being measured at fair value. Premiums or discounts related to size as a characteristic of the entity's holding (that is, a blockage factor) instead of as a characteristic of the asset or liability (for example, a control premium), are not permitted. A fair value measurement that is not a Level 1 measurement may include premiums or discounts other than blockage factors when market participants would incorporate the premium or discount into the measurement at the level of the unit of account specified in other guidance; (6) Expansion of the disclosures about fair value measurements. The most significant change requires entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements.

New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed. The amendments are to be applied prospectively. The amendments were effective during interim and annual periods beginning after December 15, 2011. Early application was not permitted. The adoption of this guidance did not impact the Bank's financial condition or results of operations, but resulted in additional disclosures.

Note 3 — Loans and Allowance for Loan Losses

For a description of the Bank's accounting for loans, including impaired loans, and the allowance for loan losses, see Note 2 subsection B above.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation which exists in outstanding loans. 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.

The credit risk management process begins with an analysis of the obligor's credit history, repayment capacity and financial position. Repayment capacity focuses on the obligor's ability to repay the obligation based on cash flows from operations or other sources of income, including non-farm income. Real estate mortgage loans must be secured by first liens on the real estate collateral. As required by FCA regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures.

The credit risk rating process for loans uses a two-dimensional structure, incorporating a 14-point probability of default scale (see further discussion in Note 2 subsection B above) and a separate scale addressing estimated percentage loss in the event of default. The loan rating structure incorporates borrower risk and transaction risk. Borrower risk is the risk of loss driven by factors intrinsic to the borrower. The transaction risk or facility risk is related to the structure of a credit (tenor, terms, and collateral).

The Bank's loan portfolio, which includes purchased interests in loans, has been segmented by the following loan types as defined by the FCA:

• Direct Notes — direct loans to District Associations (see further discussion in Note 1).

• Real estate mortgage loans — generally to purchase farm real estate, refinance existing mortgages, construct various facilities used in agricultural operations, or purchase other rural residential/lifestyle real estate for both full-time and part-time farmers. In addition, credit for other agricultural purposes and family needs is available to full-time and part-time farmers. Real estate mortgage loans generally have maturities ranging from five to thirty years and must be secured by first liens on the real estate. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.

• Production and intermediate-term loans — for operating funds, equipment and other purposes. Eligible financing needs include operating inputs (such as labor, feed, fertilizer, and repairs), livestock, family living expenses, income taxes, debt payments on machinery or equipment, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically less than 12 months. Intermediate-term loans typically finance depreciable capital assets of a farm or ranch. Examples of the uses of intermediate-term loans are to purchase or refinance farm machinery, vehicles, equipment, breeding livestock, or farm buildings, to make improvements, or to provide working capital. Intermediate-term loans are made for a specific term, generally 10 years or less. These loans may be made on a secured or unsecured basis, but are normally secured.

• Loans to cooperatives — loans for any cooperative purpose other than for communication, energy, and water and waste disposal.

• Processing and marketing loans — for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.

• Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.

• Rural residential real estate loans — to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans must be secured by a first lien on the property, except that it may be secured by a second lien if the institution also holds the first lien on the property.

• Communication loans — primarily to finance rural communication companies.

• Energy loans — primarily to finance electric generation, transmission and distribution systems serving rural areas.

• Water and waste disposal loans — primarily to finance water and waste disposal systems serving rural areas.

• International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.

• Lease receivables — the net investment for all finance leases (such as direct financing leases, leveraged leases, and sales-type leases) where the Bank is the lessor.

• Loans to other financing institutions (OFIs) — loans to other financial institutions with which the Bank has a lending relationship.

• Other (including Mission Related) — In addition to making loans to accomplish the System's Congressionally mandated mission to finance agriculture and rural America, the Bank may make investments in rural America to address the diverse needs of agriculture and rural communities across the country. The FCA approves these investments on a program or a case-by-case basis. Examples of investment programs that the FCA will consider include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding follows:

	December 31,		
(dollars in thousands)	2013	2012	2011
Direct notes *	$ 13,990,178	$ 13,833,602	$ 14,094,384
Real estate mortgage	971,017	1,093,845	1,207,221
Production and intermediate-term	1,215,480	1,299,763	1,382,659
Loans to cooperatives	202,142	183,466	174,552
Processing and marketing	610,065	715,592	684,300
Farm-related business	141,530	128,680	114,826
Communication	198,546	207,852	136,899
Energy and water/waste disposal	453,361	488,416	274,930
Rural residential real estate	2,324,956	2,186,390	2,060,025
Loans to OFIs	83,116	60,479	5,250
Other (including Mission Related)	10,844	11,166	17,020
Total Loans	$ 20,201,235	$ 20,209,251	$ 20,152,066

**Balance is reflected net of $200.0 million of direct notes sold to an outside institution.*

A substantial portion of the Bank's loan portfolio consists of notes receivable from District Associations. As described in Note 1, these notes are used by the Associations to fund their loan portfolios, which collateralize the notes. Therefore, the Bank's concentration of credit risk in various agricultural commodities associated with these notes approximates that of the District as a whole. Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities, which would cause them to be similarly impacted by economic or other conditions. A substantial portion of the Associations' lending activities is collateralized, and their exposure to credit loss associated with lending activities is reduced accordingly, which further mitigates credit risk to the Bank.

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

	December 31, 2013							
	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
Real estate mortgage	$ 780,538	$ 33,918	$ 163,856	$ 30,554	$ 15,607	$ –	$ 960,001	$ 64,472
Production and intermediate-term	1,137,162	210,211	346,781	220,747	185,446	18,333	1,669,389	449,291
Loans to cooperatives	4,409	4,425	188,961	–	13,942	–	207,312	4,425
Processing and marketing	45,388	282,395	371,087	17,685	497,901	–	914,376	300,080
Farm-related business	31,081	21,075	89,209	–	43,089	–	163,379	21,075
Communication	–	63,728	253,034	–	9,950	–	262,984	63,728
Energy and water/waste disposal	–	22,357	470,753	–	6,870	–	477,623	22,357
Rural residential real estate	202	–	–	–	–	–	202	–
Loans to OFIs	–	–	–	–	83,116	–	83,116	–
Other (including Mission Related)	10,911	–	–	–	–	–	10,911	–
Total	$ 2,009,691	$ 638,109	$ 1,883,681	$ 268,986	$ 855,921	$ 18,333	$ 4,749,293	$ 925,428

	December 31, 2012							
	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
Real estate mortgage	$ 912,209	$ 37,325	$ 126,184	$ 17,724	$ 16,844	$ –	$ 1,055,237	$ 55,049
Production and intermediate-term	1,205,548	193,837	324,578	195,659	162,896	–	1,693,022	389,496
Loans to cooperatives	4,633	11,116	181,041	–	10,000	–	195,674	11,116
Processing and marketing	83,780	245,475	358,943	36,731	563,424	4,053	1,006,147	286,259
Farm-related business	26,006	26,552	97,630	–	32,293	–	155,929	26,552
Communication	–	74,577	283,382	–	–	–	283,382	74,577
Energy and water/waste disposal	86	24,854	507,647	–	7,204	–	514,937	24,854
Rural residential real estate	334	–	–	–	–	–	334	–
Loans to OFIs	–	–	–	–	60,479	–	60,479	–
Other (including Mission Related)	46,474	12,494	–	19,776	–	2,910	46,474	35,180
Total	$ 2,279,070	$ 626,230	$ 1,879,405	$ 269,890	$ 853,140	$ 6,963	$ 5,011,615	$ 903,083

	December 31, 2011							
	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
Real estate mortgage	$ 1,055,560	$ 41,469	$ 107,889	$ 39,820	$ 17,806	$ –	$ 1,181,255	$ 81,289
Production and intermediate-term	1,470,251	287,117	244,382	245,785	204,505	–	1,919,138	532,902
Loans to cooperatives	12,355	29,805	164,560	–	28,717	–	205,632	29,805
Processing and marketing	130,893	266,819	251,802	29,271	618,541	8,750	1,001,236	304,840
Farm-related business	34,077	33,339	93,958	–	21,089	–	149,124	33,339
Communication	–	43,562	181,323	–	–	–	181,323	43,562
Energy and water/waste disposal	167	16,675	285,196	–	7,510	–	292,873	16,675
Rural residential real estate	269	–	–	–	–	–	269	–
Loans to OFIs	–	–	–	–	5,250	–	5,250	–
Other (including Mission Related)	57,171	13,913	–	22,022	–	3,240	57,171	39,175
Total	$ 2,760,743	$ 732,699	$ 1,329,110	$ 336,898	$ 903,418	$ 11,990	$ 4,993,271	$ 1,081,587

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

(dollars in thousands)	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Direct notes	$ 699,140	$ 2,962,323	$ 10,328,715	$ 13,990,178
Real estate mortgage	67,314	277,942	625,761	971,017
Production and intermediate-term	237,949	618,220	359,311	1,215,480
Loans to cooperatives	54,191	89,484	58,467	202,142
Processing and marketing	29,356	368,488	212,221	610,065
Farm-related business	8,939	101,281	31,310	141,530
Communication	–	103,353	95,193	198,546
Energy and water/waste disposal	13,021	170,959	269,381	453,361
Rural residential real estate	55	7,060	2,317,841	2,324,956
Loans to OFIs	36,698	45,218	1,200	83,116
Other (including Mission Related)	–	116	10,728	10,844
Total Loans	$ 1,146,663	$ 4,744,444	$ 14,310,128	$ 20,201,235
Percentage	5.68%	23.48%	70.84%	100.00%

The following table shows loans and related accrued interest classified under the FCA Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of December 31:

	2013	2012	2011
Direct notes:			
Acceptable	85.96%	90.12%	85.65%
OAEM	9.23	3.39	11.38
Substandard/doubtful/loss	4.81	6.49	2.97
	100.00%	100.00%	100.00%
Real estate mortgage:			
Acceptable	88.50%	86.49%	84.03%
OAEM	3.77	7.27	9.86
Substandard/doubtful/loss	7.73	6.24	6.11
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	88.34%	81.16%	78.21%
OAEM	4.95	5.94	15.09
Substandard/doubtful/loss	6.71	12.90	6.70
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	99.53%	98.40%
OAEM	–	0.47	1.60
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	99.99%	93.28%	88.78%
OAEM	–	2.05	5.05
Substandard/doubtful/loss	0.01	4.67	6.17
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	97.78%	97.96%	99.43%
OAEM	2.22	1.86	0.57
Substandard/doubtful/loss	–	0.18	–
	100.00%	100.00%	100.00%
Communication:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%

	2013	2012	2011
Energy and water/waste disposal:			
Acceptable	100.00%	100.00%	99.25%
OAEM	–	–	0.75
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	99.97%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	0.03	–	–
	100.00%	100.00%	100.00%
Loans to OFIs:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Other (including Mission Related):			
Acceptable	96.98%	97.73%	87.15%
OAEM	–	–	1.79
Substandard/doubtful/loss	3.02	2.27	11.06
	100.00%	100.00%	100.00%
Total Loans:			
Acceptable	89.00%	91.03%	87.09%
OAEM	6.89	3.19	9.79
Substandard/doubtful/loss	4.11	5.78	3.12
	100.00%	100.00%	100.00%

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

	December 31, 2013					
(dollars in thousands)	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Direct notes	$ –	$ –	$ –	$ 14,018,100	$ 14,018,100	$ –
Real estate mortgage	1,196	31,818	33,014	943,672	976,686	564
Production and intermediate-term	121	2,266	2,387	1,218,757	1,221,144	–
Loans to cooperatives	–	–	–	202,701	202,701	–
Processing and marketing	6	1,229	1,235	610,229	611,464	–
Farm-related business	–	–	–	141,930	141,930	–
Communication	–	–	–	198,721	198,721	–
Energy and water/waste disposal	–	–	–	454,410	454,410	–
Rural residential real estate	38,526	3,057	41,583	2,291,609	2,333,192	1,651
Loans to OFIs	–	–	–	83,228	83,228	–
Other (including Mission Related)	–	–	–	10,965	10,965	–
Total	$ 39,849	$ 38,370	$ 78,219	$ 20,174,322	$ 20,252,541	$ 2,215

(dollars in thousands)	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
	December 31, 2012					
Direct notes	$ –	$ –	$ –	$ 13,861,790	$ 13,861,790	$ –
Real estate mortgage	3,704	28,405	32,109	1,069,796	1,101,905	94
Production and intermediate-term	3,949	28,441	32,390	1,274,741	1,307,131	–
Loans to cooperatives	–	–	–	184,005	184,005	–
Processing and marketing	298	10,927	11,225	706,252	717,477	–
Farm-related business	–	–	–	128,893	128,893	–
Communication	–	–	–	208,156	208,156	–
Energy and water/waste disposal	–	–	–	489,532	489,532	–
Rural residential real estate	43,036	2,824	45,860	2,150,193	2,196,053	2,312
Loans to OFIs	–	–	–	60,544	60,544	–
Other (including Mission Related)	–	11	11	11,262	11,273	58
Total	$ 50,987	$ 70,608	$ 121,595	$ 20,145,164	$ 20,266,759	$ 2,464

(dollars in thousands)	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
	December 31, 2011					
Direct notes	$ –	$ –	$ –	$ 14,126,861	$ 14,126,861	$ –
Real estate mortgage	7,842	32,463	40,305	1,175,866	1,216,171	799
Production and intermediate-term	3,042	28,384	31,426	1,359,086	1,390,512	–
Loans to cooperatives	–	–	–	175,260	175,260	–
Processing and marketing	7	(319)	(312)	687,383	687,071	–
Farm-related business	–	–	–	115,135	115,135	–
Communication	–	–	–	137,126	137,126	–
Energy and water/waste disposal	–	–	–	276,488	276,488	–
Rural residential real estate	42,505	8,066	50,571	2,015,626	2,066,197	4,553
Loans to OFIs	–	–	–	5,259	5,259	–
Other (including Mission Related)	–	–	–	17,170	17,170	–
Total	$ 53,396	$ 68,594	$ 121,990	$ 20,091,260	$ 20,213,250	$ 5,352

The recorded investment in the 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.

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

(dollars in thousands)	December 31, 2013	2012	2011
Nonaccrual loans:			
Real estate mortgage	$ 47,017	$ 33,388	$ 40,293
Production and intermediate-term	10,188	33,941	32,986
Processing and marketing	–	10,927	4,316
Rural residential real estate	2,389	1,952	5,727
Other (including Mission Related)	–	–	1,900
Total nonaccrual loans	$ 59,594	$ 80,208	$ 85,222
Accruing restructured loans:			
Real estate mortgage	$ 4,218	$ 4,444	$ 4,134
Production and intermediate-term	–	–	10,017
Processing and marketing	–	–	24,606
Other (including Mission Related)	4,582	–	–
Total accruing restructured loans	$ 8,800	$ 4,444	$ 38,757
Accruing loans 90 days or more past due:			
Real estate mortgage	$ 564	$ 94	$ 799
Rural residential real estate	1,651	2,312	4,553
Other (including Mission Related)	–	58	–
Total accruing loans 90 days or more past due	$ 2,215	$ 2,464	$ 5,352
Total nonperforming loans	$ 70,609	$ 87,116	$ 129,331
Other property owned	9,621	19,477	44,157
Total nonperforming assets	$ 80,230	$ 106,593	$ 173,488
Nonaccrual loans as a percentage of total loans	0.30%	0.40%	0.42%
Nonperforming assets as a percentage of total loans and other property owned	0.40%	0.53%	0.86%
Nonperforming assets as a percentage of capital	3.74%	4.64%	8.07%

The following table presents information relating to impaired loans (including accrued interest) as defined in Note 2. 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.

	December 31,		
(dollars in thousands)	2013	2012	2011
Impaired nonaccrual loans:			
Current as to principal and interest	$ 23,234	$ 6,812	$ 16,133
Past due	36,360	73,396	69,089
Total impaired nonaccrual loans	59,594	80,208	85,222
Impaired accrual loans:			
Restructured	8,800	4,444	38,757
90 days or more past due	2,215	2,464	5,352
Total impaired accrual loans	11,015	6,908	44,109
Total impaired loans	$ 70,609	$ 87,116	$ 129,331

Additional impaired loan information at period end is summarized as follows:

	December 31, 2013			Year Ended December 31, 2013	
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 24,138	$ 32,509	$ 6,276	$ 19,141	$ –
Production and intermediate-term	8,715	12,779	2,099	18,906	14
Processing and marketing	–	–	–	5,192	–
Rural residential real estate	–	–	–	169	–
Other (including Mission Related)	4,557	4,535	153	903	–
Total	$ 37,410	$ 49,823	$ 8,528	$ 44,311	$ 14
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 27,661	$ 43,909	$ –	$ 27,311	$ 257
Production and intermediate-term	1,473	2,052	–	8,370	374
Processing and marketing	–	1,228	–	2,368	–
Rural residential real estate	4,040	4,040	–	4,338	104
Other (including Mission Related)	25	–	–	347	284
Total	$ 33,199	$ 51,229	$ –	$ 42,734	$ 1,019
Total impaired loans:					
Real estate mortgage	$ 51,799	$ 76,418	$ 6,276	$ 46,452	$ 257
Production and intermediate-term	10,188	14,831	2,099	27,276	388
Processing and marketing	–	1,228	–	7,560	–
Rural residential real estate	4,040	4,040	–	4,507	104
Other (including Mission Related)	4,582	4,535	153	1,250	284
Total	$ 70,609	$ 101,052	$ 8,528	$ 87,045	$ 1,033

	December 31, 2012			Year Ended December 31, 2012	
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 19,120	$ 20,249	$ 4,970	$ 17,922	$ –
Production and intermediate-term	30,386	33,872	15,747	23,113	–
Processing and marketing	10,880	10,880	3,430	6,221	–
Rural residential real estate	–	–	–	68	–
Other (including Mission Related)	–	–	–	140	–
Total	$ 60,386	$ 65,001	$ 24,147	$ 47,464	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 18,806	$ 39,694	$ –	$ 21,116	$ 982
Production and intermediate-term	3,555	5,166	–	12,133	1,184
Processing and marketing	47	1,228	–	6,119	837
Rural residential real estate	4,264	4,264	–	5,585	172
Other (including Mission Related)	58	–	–	670	36
Total	$ 26,730	$ 50,352	$ –	$ 45,623	$ 3,211
Total impaired loans:					
Real estate mortgage	$ 37,926	$ 59,943	$ 4,970	$ 39,038	$ 982
Production and intermediate-term	33,941	39,038	15,747	35,246	1,184
Processing and marketing	10,927	12,108	3,430	12,340	837
Rural residential real estate	4,264	4,264	–	5,653	172
Other (including Mission Related)	58	–	–	810	36
Total	$ 87,116	$ 115,353	$ 24,147	$ 93,087	$ 3,211

(dollars in thousands)	December 31, 2011 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2011 Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 19,149	$ 22,763	$ 3,851	$ 21,932	$ –
Production and intermediate-term	19,390	25,027	4,002	15,989	132
Processing and marketing	4,636	4,971	1,050	7,329	6
Energy and water/waste disposal	–	–	–	920	–
Rural residential real estate	104	104	36	52	–
Other (including Mission Related)	542	1,879	110	932	–
Total	$ 43,821	$ 54,744	$ 9,049	$ 47,154	$ 138
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 26,077	$ 45,426	$ –	$ 56,445	$ 518
Production and intermediate-term	23,613	43,473	–	46,060	370
Loans to cooperatives	–	–	–	601	–
Processing and marketing	24,286	29,771	–	33,556	1,774
Energy and water/waste disposal	–	–	–	248	22
Rural residential real estate	10,176	10,055	–	6,710	161
Other (including Mission Related)	1,358	9,641	–	1,390	–
Total	$ 85,510	$ 138,366	$ –	$ 145,010	$ 2,845
Total impaired loans:					
Real estate mortgage	$ 45,226	$ 68,189	$ 3,851	$ 78,377	$ 518
Production and intermediate-term	43,003	68,500	4,002	62,049	502
Loans to cooperatives	–	–	–	601	–
Processing and marketing	28,922	34,742	1,050	40,885	1,780
Energy and water/waste disposal	–	–	–	1,168	22
Rural residential real estate	10,280	10,159	36	6,762	161
Other (including Mission Related)	1,900	11,520	110	2,322	–
Total	$ 129,331	$ 193,110	$ 9,049	$ 192,164	$ 2,983

Unpaid principal balance represents the contractual principal balance of the loan.

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at any of the period ends presented.

The following table summarizes interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans:

(dollars in thousands)	Year Ended December 31, 2013	2012	2011
Interest income which would have been recognized under the original loan terms	$ 8,322	$ 9,488	$ 17,492
Less: interest income recognized	996	3,121	2,903
Foregone interest income	$ 7,326	$ 6,367	$ 14,589

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

(dollars in thousands)	Direct Note	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Other**	Total
Allowance for credit losses:									
Balance at December 31, 2012	$ –	$ 9,548	$ 26,933	$ 6,510	$ 405	$ 764	$ 1	$ 378	$ 44,539
Charge-offs	–	(1,040)	(8,455)	(3,782)	–	–	(413)	–	(13,690)
Recoveries	–	2,091	190	320	–	–	–	47	2,648
Provision for loan losses	–	(3,513)	(7,310)	(1,115)	92	59	1,464	(266)	(10,589)
Loan type reclassification	–	2,595	(2,595)	–	–	–	–	–	–
Balance at December 31, 2013	$ –	$ 9,681	$ 8,763	$ 1,933	$ 497	$ 823	$ 1,052	$ 159	$ 22,908
Balance at December 31, 2011	$ –	$ 8,882	$ 12,654	$ 4,974	$ 233	$ 305	$ 37	$ 629	$ 27,714
Charge-offs	–	(5,186)	(4,329)	(42)	–	–	(212)	(365)	(10,134)
Recoveries	–	3,689	8,318	–	–	–	–	6	12,013
Provision for loan losses	–	2,163	10,290	1,578	172	459	176	108	14,946
Balance at December 31, 2012	$ –	$ 9,548	$ 26,933	$ 6,510	$ 405	$ 764	$ 1	$ 378	$ 44,539
Balance at December 31, 2010	$ –	$ 4,836	$ 5,938	$ 2,722	$ 69	$ 307	$ –	$ 1,001	$ 14,873
Charge-offs	–	(24,572)	(26,023)	(3,847)	–	(3,218)	(36)	(10,083)	(67,779)
Recoveries	–	320	78	–	–	–	–	–	398
Provision for loan losses	–	28,298	32,661	6,099	164	3,216	73	9,711	80,222
Balance at December 31, 2011	$ –	$ 8,882	$ 12,654	$ 4,974	$ 233	$ 305	$ 37	$ 629	$ 27,714
Loans individually evaluated for impairment	$ –	$ 6,276	$ 2,099	$ –	$ –	$ –	$ –	$ 153	$ 8,528
Loans collectively evaluated for impairment	–	3,405	6,664	1,933	497	823	1,052	6	14,380
Balance at December 31, 2013	$ –	$ 9,681	$ 8,763	$ 1,933	$ 497	$ 823	$ 1,052	$ 159	$ 22,908
Loans individually evaluated for impairment	$ –	$ 4,970	$ 15,747	$ 3,430	$ –	$ –	$ –	$ –	$ 24,147
Loans collectively evaluated for impairment	–	4,578	11,186	3,080	405	764	1	378	20,392
Balance at December 31, 2012	$ –	$ 9,548	$ 26,933	$ 6,510	$ 405	$ 764	$ 1	$ 378	$ 44,539
Loans individually evaluated for impairment	$ –	$ 3,851	$ 4,002	$ 1,050	$ –	$ –	$ 36	$ 110	$ 9,049
Loans collectively evaluated for impairment	–	5,031	8,652	3,924	233	305	1	519	18,665
Balance at December 31, 2011	$ –	$ 8,882	$ 12,654	$ 4,974	$ 233	$ 305	$ 37	$ 629	$ 27,714
Recorded investment in loans outstanding:									
Loans individually evaluated for impairment	$ 14,018,100	$ 152,567	$ 81,899	$ 86	$ –	$ –	$ 2,332,989	$ 4,557	$ 16,590,198
Loans collectively evaluated for impairment	–	824,119	1,139,245	956,009	198,721	454,410	203	89,636	3,662,343
Ending balance at December 31, 2013	$ 14,018,100	$ 976,686	$ 1,221,144	$ 956,095	$ 198,721	$ 454,410	$ 2,333,192	$ 94,193	$ 20,252,541
Loans individually evaluated for impairment	$ 13,861,790	$ 125,908	$ 33,988	$ 10,927	$ –	$ –	$ 2,195,718	$ –	$ 16,228,331
Loans collectively evaluated for impairment	–	975,997	1,273,143	1,019,448	208,156	489,532	335	71,817	4,038,428
Ending balance at December 31, 2012	$ 13,861,790	$ 1,101,905	$ 1,307,131	$ 1,030,375	$ 208,156	$ 489,532	$ 2,196,053	$ 71,817	$ 20,266,759
Loans individually evaluated for impairment	$ 14,126,861	$ 137,024	$ 27,206	$ 4,317	$ –	$ –	$ 2,065,928	$ 1,517	$ 16,362,853
Loans collectively evaluated for impairment	–	1,079,147	1,363,306	973,149	137,126	276,488	269	20,912	3,850,397
Ending balance at December 31, 2011	$ 14,126,861	$ 1,216,171	$ 1,390,512	$ 977,466	$ 137,126	$ 276,488	$ 2,066,197	$ 22,429	$ 20,213,250

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

To mitigate risk of loan losses, the Bank and Associations may enter into guarantee arrangements with certain GSEs, including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Bank or the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was $3.872 billion, $3.921 billion, and $3.811 billion at December 31, 2013, 2012, and 2011, respectively. Fees paid for such guarantee commitments totaled $11.0 million, $10.7 million, and $9.8 million for 2013, 2012, and 2011, respectively. These amounts are classified as noninterest expense.

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 activity that occurred during the periods presented, related to TDRs. The tables do not include any purchased credit impaired loans.

	December 31, 2013			
	Pre-modification Outstanding Recorded Investment			
(dollars in thousands)	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 15,575	$ 2,488	$ –	$ 18,063
Production and intermediate-term	–	–	–	–
Other (including Mission Related)	–	4,535	–	4,535
Total	$ 15,575	$ 7,023	$ –	$ 22,598

	December 31, 2013				
	Post-modification Outstanding Recorded Investment				Effects of Modification
(dollars in thousands)	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Troubled debt restructurings:					
Real estate mortgage	$ 10,365	$ 2,488	$ –	$ 12,853	$ (7,824)
Production and intermediate-term	2,499	–	–	2,499	–
Other (including Mission Related)	–	4,535	–	4,535	–
Total	$ 12,864	$ 7,023	$ –	$ 19,887	$ (7,824)

	December 31, 2012			
	Pre-modification Outstanding Recorded Investment			
(dollars in thousands)	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 4,492	$ –	$ 4,492
Production and intermediate-term	–	1,608	–	1,608
Processing and marketing	–	10,883	–	10,883
Total	$ –	$ 16,983	$ –	$ 16,983

	December 31, 2012				
	Post-modification Outstanding Recorded Investment				Effects of Modification
(dollars in thousands)	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Troubled debt restructurings:					
Real estate mortgage	$ –	$ 4,492	$ –	$ 4,492	$ –
Production and intermediate-term	–	1,608	–	1,608	–
Processing and marketing	–	10,883	–	10,883	–
Total	$ –	$ 16,983	$ –	$ 16,983	$ –

	December 31, 2011			
	Pre-modification Outstanding Recorded Investment			
(dollars in thousands)	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 10,236	$ 8,706	$ 18,942
Production and intermediate-term	18,000	30,475	25,798	74,273
Other (including Mission Related)	–	–	1,554	1,554
Total	$ 18,000	$ 40,711	$ 36,058	$ 94,769

	December 31, 2011				
	Post-modification Outstanding Recorded Investment				Effects of Modification
(dollars in thousands)	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Troubled debt restructurings:					
Real estate mortgage	$ –	$ 11,886	$ 8,502	$ 20,388	$ (1,322)
Production and intermediate-term	18,000	29,522	25,476	72,998	(13,276)
Other (including Mission Related)	–	–	1,554	1,554	(679)
Total	$ 18,000	$ 41,408	$ 35,532	$ 94,940	$ (15,277)

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.

	Year Ended December 31,		
(dollars in thousands)	2013	2012	2011
Defaulted troubled debt restructurings:			
Real estate mortgage	$ –	$ 3,935	$ 6,500
Production and intermediate-term	–	635	13,287
Total	$ –	$ 4,570	$ 19,787

The following table provides information at each 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		
	December 31,			December 31,		
(dollars in thousands)	2013	2012	2011	2013	2012	2011
Real estate mortgage	$ 24,861	$ 18,686	$ 18,946	$ 20,643	$ 14,242	$ 14,812
Production and intermediate-term	7,393	8,489	26,596	7,393	8,489	16,579
Processing and marketing	–	10,880	24,287	–	10,880	(319)
Other (including Mission Related)	4,582	–	–	–	–	–
Total Loans	$ 36,836	$ 38,055	$ 69,829	$ 28,036	$ 33,611	$ 31,072
Additional commitments to lend	$ 2,325	$ 13,938	$ 35,972			

Note 4 — Investments

Other Farm Credit System Institutions
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 accounted for using the cost method.

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

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

The FCA considers a non-agency security ineligible if it falls below the AAA/Aaa credit rating criteria and requires System institutions to provide notification to the FCA. Non-agency CMO and ABS securities not rated in the top category by at least one of the NRSROs at December 31, 2013 had a fair value of $166.4 million and $33.1 million, respectively. For each of these investment securities in the Bank's portfolio rated below AAA/Aaa, the FCA has approved, with conditions, for the Bank to continue to hold these investments.

Held-to-maturity Mission Related Investments consist primarily of Rural America Bonds, which are private placement securities purchased under the Mission Related Investment Program approved by the FCA. In its Conditions of Approval for the program, the FCA considers a Rural America Bond ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9. FCA approval has been obtained to allow the Bank to continue to hold five Rural America Bonds whose credit quality has deteriorated beyond the program limits.

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

Available-for-sale

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

	December 31, 2013				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Guaranteed	$ 4,499,265	$ 109,799	$ (5,992)	$ 4,603,072	1.97%
U.S. Govt. Agency Guaranteed	1,741,732	20,351	(14,463)	1,747,620	1.04
Non-Agency CMOs (a)	200,246	18	(26,778)	173,486	0.63
Asset-Backed Securities (a)	20,979	18,502	(683)	38,798	6.38
Total	$ 6,462,222	$ 148,670	$ (47,916)	$ 6,562,976	1.69%

	December 31, 2012				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Guaranteed	$ 4,814,556	$ 198,488	$ (12,431)	$5,000,613	2.18%
U.S. Govt. Agency Guaranteed	1,621,428	30,002	(7,203)	1,644,227	1.17
Non-Agency CMOs (b)	246,179	27	(41,507)	204,699	0.67
Asset-Backed Securities (b)	26,219	8,236	(1,065)	33,390	5.67
Total	$ 6,708,382	$ 236,753	$ (62,206)	$6,882,929	1.89%

(dollars in thousands)	December 31, 2011 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Guaranteed	$ 4,831,529	$ 174,101	$ (3,129)	$5,002,501	2.46%
U.S. Govt. Agency Guaranteed	1,634,942	26,459	(10,572)	1,650,829	1.50
Non-Agency CMOs (c)	291,377	248	(49,869)	241,756	0.76
Asset-Backed Securities (c)	34,736	2,239	(6,651)	30,324	2.61
Total	$ 6,792,584	$ 203,047	$ (70,221)	$6,925,410	2.16%

(a) Gross unrealized losses include non-credit related other-than-temporary impairment included in AOCI of $19.7 million for Non-Agency CMOs and $0 for Asset-Backed Securities.
(b) Gross unrealized losses include non-credit related other-than temporary impairment included in AOCI of $27.9 million for Non-Agency CMOs and $0 for Asset-Backed Securities.
(c) Gross unrealized losses include non-credit related other-than temporary impairment included in AOCI of $15.7 million for Non-Agency CMOs and $5.0 million for Asset-Backed Securities.

Held-to-maturity

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

(dollars in thousands)	December 31, 2013 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	$ 449,938	$22,065	$(16,819)	$ 455,184	4.23%
Mission Related Investments (a)	139,874	7,619	(3,076)	144,417	6.02
Total	$ 589,812	$29,684	$(19,895)	$ 599,601	4.65%

(dollars in thousands)	December 31, 2012 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	$ 442,031	$38,420	$ (148)	$ 480,303	5.51%
Mission Related Investments	159,451	16,560	(22)	175,989	6.05
Total	$ 601,482	$54,980	$ (170)	$ 656,292	5.65%

(dollars in thousands)	December 31, 2011 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	$ 691,331	$59,389	$ (188)	$ 750,532	5.35%
Mission Related Investments	163,531	14,112	(122)	177,521	6.07
Total	$ 854,862	$73,501	$ (310)	$ 928,053	5.49%

(a) Gross unrealized losses include non-credit related other-than-temporary impairment included in AOCI of $56 thousand for Mission Related Investments.

Proceeds from sales and realized gains and losses on all sales of investment securities are as follows:

(dollars in thousands)	Year Ended December 31, 2013	2012	2011
Proceeds from sales	$ 122,165	$ –	$ 56,957
Realized gains	7,592	–	3,048
Realized losses	–	–	–

A summary of the contractual maturity, estimated fair value, and amortized cost of investment securities at December 31, 2013 follows:

Available-for-sale

(dollars in thousands)	Due in 1 year or less Amount	Weighted Average Yield	Due after 1 year through 5 years Amount	Weighted Average Yield	Due after 5 years through 10 years Amount	Weighted Average Yield	Due after 10 years Amount	Weighted Average Yield	Total Amount	Weighted Average Yield
U.S. Govt. Guaranteed	$ –	– %	$ 53	0.37 %	$ 7,893	1.30 %	$ 4,595,126	1.97 %	$ 4,603,072	1.97 %
U.S. Govt. Agency Guaranteed	8	1.20	6,852	2.59	68,142	1.51	1,672,618	1.01	1,747,620	1.04
Non-Agency CMOs	–	–	–	–	1,356	0.87	172,130	0.63	173,486	0.63
Asset-Backed Securities	–	–	–	–	–	–	38,798	6.38	38,798	6.38
Total fair value	$ 8	1.20 %	$ 6,905	2.57 %	$ 77,391	1.47 %	$ 6,478,672	1.70 %	$ 6,562,976	1.69 %
Total amortized cost	$ 7		$ 6,735		$ 76,843		$ 6,378,637		$ 6,462,222	

Held-to-maturity

(dollars in thousands)	Due in 1 year or less Amount	Weighted Average Yield	Due after 1 year through 5 years Amount	Weighted Average Yield	Due after 5 years through 10 years Amount	Weighted Average Yield	Due after 10 years Amount	Weighted Average Yield	Total Amount	Weighted Average Yield
U.S. Govt. Agency Guaranteed	$ –	– %	$ –	– %	$ 584	4.73 %	$ 449,354	4.23 %	$ 449,938	4.23 %
Mission Related Investments	–	–	33,506	6.40	13,684	5.74	92,684	5.93	139,874	6.02
Total amortized cost	$ –	– %	$ 33,506	6.40 %	$ 14,268	5.70 %	$ 542,038	4.52 %	$ 589,812	4.65 %
Total fair value	$ –		$ 36,147		$ 15,264		$ 548,190		$ 599,601	

A substantial portion of these investments have 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.

	December 31, 2013					
	Less than 12 Months		Greater than 12 Months		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Guaranteed	$ 880,174	$ (4,540)	$ 146,638	$ (1,452)	$ 1,026,812	$ (5,992)
U.S. Govt. Agency Guaranteed	935,615	(23,928)	380,282	(7,354)	1,315,897	(31,282)
Non-Agency CMOs	–	–	173,289	(26,778)	173,289	(26,778)
Asset-Backed Securities	–	–	7,915	(683)	7,915	(683)
Mission Related Investments	42,919	(2,745)	2,282	(331)	45,201	(3,076)
Total	$ 1,858,708	$ (31,213)	$ 710,406	$ (36,598)	$ 2,569,114	$ (67,811)

	December 31, 2012					
	Less than 12 Months		Greater than 12 Months		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Guaranteed	$ 318,804	$ (10,537)	$ 183,098	$ (1,894)	$ 501,902	$ (12,431)
U.S. Govt. Agency Guaranteed	98,792	(410)	446,896	(6,941)	545,688	(7,351)
Non-Agency CMOs	–	–	204,459	(41,507)	204,459	(41,507)
Asset-Backed Securities	–	–	9,526	(1,065)	9,526	(1,065)
Mission Related Investments	2,631	(22)	–	–	2,631	(22)
Total	$ 420,227	$ (10,969)	$ 843,979	$ (51,407)	$ 1,264,206	$ (62,376)

	December 31, 2011					
	Less than 12 Months		Greater than 12 Months		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Guaranteed	$ 50,348	$ (29)	$ 260,965	$ (3,101)	$ 311,313	$ (3,130)
U.S. Govt. Agency Guaranteed	227,889	(1,646)	442,142	(9,114)	670,031	(10,760)
Non-Agency CMOs	–	–	241,092	(49,868)	241,092	(49,868)
Asset-Backed Securities	–	–	27,356	(6,651)	27,356	(6,651)
Mission Related Investments	11,987	(122)	–	–	11,987	(122)
Total	$ 290,224	$ (1,797)	$ 971,555	$ (68,734)	$ 1,261,779	$ (70,531)

FASB guidance contemplates numerous factors in determining whether an impairment is other-than-temporary. These factors include: (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 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 non-credit 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 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 credit worthiness 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 results of all analyses, the Bank has recognized credit-related other-than-temporary impairment of $2.1 million for 2013, which is included in Impairment Losses on Investments in the Statements of Income. Since the Bank does not intend to sell these other-than-temporarily impaired debt securities and is not more likely than not to be required to sell before recovery, the total other-than -temporary impairment is reflected in the Statements of Income with: (1) a net other-than-temporary impairment amount related to estimated credit loss, and (2) an amount relating to all other factors, recognized as a reclassification to or from Other Comprehensive Income.

Following are the assumptions used for the periods presented:

Assumptions Used	Mortgage-backed Securities	Asset-backed Securities
December 31, 2013		
Default rate by range	0.46% to 46.36%	7.77% to 61.91%
Prepayment rate by range	4.59% to 10.37%	5.02% to 15.08%
Loss severity by range	4.16% to 64.28%	57.46% to 100.00%
December 31, 2012		
Default rate by range	0.53% to 32.62%	5.49% to 57.89%
Prepayment rate by range	7.07% to 19.62%	5.65% to 17.57%
Loss severity by range	3.88% to 71.36%	56.22% to 100.00%
December 31, 2011		
Default rate by range	1.39% to 40.59%	21.42% to 82.87%
Prepayment rate by range	6.73% to 19.96%	3.85% to 6.31%
Loss severity by range	4.27% to 60.03%	59.59% to 100.00%

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

For the year ended December 31, 2013, net unrealized losses of $92.3 million were recognized in other comprehensive income on available-for-sale investments that are not other-than-temporarily impaired.

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

	For the Year Ended December 31,		
(dollars in thousands)	2013	2012	2011
Amount related to credit loss-beginning balance	$ 55,654	$ 52,980	$ 44,791
Additions for initial credit impairments	408	1,768	1,943
Additions for subsequent credit impairments	2,211	1,994	7,310
Reductions for increases in expected cash flows	(1,042)	(1,088)	(1,064)
Reductions for securities sold/settled/matured	(100)	–	–
Amount related to credit loss-ending balance	57,131	55,654	52,980
Life to date incurred credit losses	(19,404)	(17,437)	(16,756)
Remaining unrealized credit losses	$ 37,727	$ 38,217	$ 36,224

Note 5 — Real Estate and Other Property

Premises and Equipment

Premises and equipment consisted of the following:

	December 31,		
(dollars in thousands)	2013	2012	2011
Land	$ 11,353	$ 11,349	$ 888
Buildings and improvements	28,172	27,940	9,040
Furniture and equipment	56,240	63,337	62,591
Work in progress	15,952	1,165	1,307
	111,717	103,791	73,826
Less: accumulated depreciation	59,118	62,129	58,813
Total	$ 52,599	$ 41,662	$ 15,013

In 2012, the Bank purchased two buildings and land to serve as its future headquarters. The purchase price was approximately $29.3 million.

Other Property Owned

Net losses (gains) from other property owned and held for sale consisted of the following:

	December 31,		
(dollars in thousands)	2013	2012	2011
Losses (gains) on sale, net	$ (5,420)	$ (1,315)	$ 397
Carrying value adjustments	4,901	4,281	11,005
Operating (income) expense, net	225	493	790
Net Total	$ (294)	$ 3,459	$ 12,192

Deferred gains on sales of other property owned totaled $2.4 million, $4.7 million, and $7.6 million at December 31, 2013, 2012, and 2011, respectively. Gains were deferred as the sales involved financing from the Bank and did not meet the criteria for immediate recognition. Deferred gains of $2.4 million are included in Loans and no deferred gains are included in Other Liabilities in the Balance Sheets.

Note 6 — Debt

Bonds and Notes

The System, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide Debt Securities issued by the 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. The System banks and the Funding Corporation have entered into the Second Amended and Restated Market Access Agreement (MAA), which establishes criteria and procedures for the banks to provide certain information and, under certain circumstances, for restricting or prohibiting an individual bank's participation in Systemwide debt issuances, thereby reducing other System banks' exposure to statutory joint and several liabilities. At December 31, 2013, AgFirst was in compliance with the conditions of participation for the issuances of Systemwide Debt Securities.

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

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

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

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

In the following table, regarding AgFirst's participation in outstanding Systemwide Debt Securities, weighted average interest rates include the effect of related derivative financial instruments.

	Bonds		Discount Notes		Total	
Maturities	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate
			(dollars in thousands)			
2014	$ 7,162,337	0.30%	$ 1,909,103	0.12%	$ 9,071,440	0.26%
2015	5,034,886	0.44	–	–	5,034,886	0.44
2016	3,329,726	0.77	–	–	3,329,726	0.77
2017	2,483,928	1.04	–	–	2,483,928	1.04
2018	1,725,188	1.43	–	–	1,725,188	1.43
2019 and after	4,579,711	2.22	–	–	4,579,711	2.22
Total	$ 24,315,776	0.91%	$ 1,909,103	0.12%	$ 26,224,879	0.85%

Discount notes are issued with maturities ranging from 1 to 365 days. The average maturity of discount notes at December 31, 2013 was 113 days.

Systemwide debt includes callable bonds consisting of the following:

Amortized Cost	First Call Date	Year of Maturity
(dollars in thousands)		
$ 14,165,142	2014	2014 – 2028
$ 14,165,142	Total	

Most callable debt may be called on the first call date and any time thereafter.

As described in Note 1, the Insurance Fund is available to ensure the timely payment of principal and interest on Systemwide Debt Securities (Insured Debt) of System banks to the extent net assets are available in the Insurance Fund and not designated for specific use. All other liabilities on the financial statements are uninsured. At December 31, 2013, the assets of the Insurance Fund aggregated $3.496 billion; however, due to the other authorized uses of the Insurance Fund there is no assurance that any available amount in the Insurance Fund will be sufficient to fund the timely payment of principal or interest on an

Insured Debt obligation in the event of a default by any System bank having primary liability thereon.

Mandatorily Redeemable Preferred Stock

On May 17, 2001, AgFirst issued $225.0 million of Mandatorily Redeemable Cumulative Preferred Stock at a par value of $1 thousand per share. This stock was redeemed on December 15, 2011. The stock carried a stated annual dividend rate of 8.393 percent, with dividends paid semi-annually in arrears on June 15th and December 15th.

Note 7 — Shareholders' Equity

Descriptions of the Bank's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below:

A. **Description of Equities:** In accordance with the Farm Credit Act and the Bank's capitalization bylaws, the Bank is authorized to issue and have outstanding Classes B, C, and D Common Stock, Participation Certificates, Preferred Stock, and other classes of equity as may be provided for in the bylaws. All Common Stock and Participation Certificates have a par or face value of five dollars ($5.00) per share.

The Bank had the following shares of common equities outstanding at December 31, 2013:

		Shares Outstanding (dollars in thousands)	
Class	Protected Status	Number	Aggregate Par Value
B Common/Nonvoting	No	1,537,064	$ 7,685
C Common/Voting	No	57,614,210	288,071
D Common/Nonvoting	No	2,427,873	12,140
Participation Certificates/Nonvoting	No	215,228	1,076
Total Capital Stock and Participation Certificates		61,794,375	$ 308,972

B. **Perpetual Preferred Stock:** On October 14, 2003, AgFirst issued $150.0 million of Perpetual Non-Cumulative Preferred Stock at a par value of $1 thousand per share. Dividends on the stock are non-cumulative and payable on the 15th day of June and December in each year, commencing December 15, 2003, at an annual rate equal to 7.30 percent. In the event dividends are not declared on the preferred stock for payment on any dividend payment date, then such dividends shall not cumulate and shall cease to accrue and be payable. On or after the dividend payment date in December 2008, AgFirst may, at its option, redeem the preferred stock in whole or in part at any time at the redemption price of $1 thousand per share plus accrued and unpaid dividends for the then current dividend period to the date of redemption.

On May 15, 2013, the Bank redeemed and cancelled the entire $150.0 million of Perpetual Non-Cumulative Preferred Stock issued October 14, 2003. The stock was redeemed at its par value together with accrued and unpaid dividends.

On June 8, 2007, AgFirst issued $250.0 million of Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock, Series 1. Dividends on the stock are non-cumulative and are payable semi-annually in arrears on the 15th day of June and December in each year, commencing December 15, 2007, and ending on June 15, 2012, at an annual rate equal to 6.585 percent of the par value of $1 thousand per share, and will thereafter, commencing September 15, 2012, be payable quarterly in arrears on the 15th day of March, June, September, and December in each year, at an annual rate equal to 3-Month USD LIBOR plus 1.13 percent. In the event dividends are not declared on the Class B, Series 1 Preferred Stock for payment on any dividend payment date, then such dividends shall not accumulate and shall cease to accrue and be payable. The stock may be redeemed on any five-year anniversary of its issuance at a price of $1 thousand per share plus accrued and unpaid dividends for the then current dividend period to the date of redemption.

During 2012, the Bank repurchased, through privately negotiated transactions, and cancelled Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with a par value of $124.8 million. The effect of the repurchases on shareholders' equity was to reduce preferred stock outstanding by $124.8 million and increase additional paid-in-capital by $36.6 million.

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

C. **Capital Stock:** District Associations are required to maintain ownership in the Bank in the form of Class B or Class C Common Stock as determined by the Bank. At December 31, 2013, 2012, and 2011, the Associations' minimum stock requirement was 1.40 percent, 1.40 percent, and 1.75 percent, respectively, of Association Direct Note balances, and a stock equalization computation is made annually. The Bank may require additional capital contributions to maintain its capital levels.

Additionally, the Bank has issued Class D Common Stock in connection with participations purchased by the Bank from other System institutions. Class D Common Stock issued in connection with participations has no voting rights. Such Stock may be retired at the discretion of the Board, and if retired, shall be retired at book value not to exceed its par value.

Class D Common Stock shall also be purchased by borrowers eligible to hold it as a condition for obtaining a loan in an amount as may be determined by the Board at its discretion within a range between a minimum of two percent (2.00%) of the loan amount or $1 thousand, whichever is less, and a maximum not to exceed ten percent (10.00%) of the loan amount. The Bank currently has no such loans outstanding.

D. **Other Equity:** Other Financing Institutions (OFIs) are required to capitalize their loans at the same level as the District Associations. See section C above.

E. **Order of Priority Upon Impairment or Liquidation:**

Impairment

Net losses, to the extent they exceed unallocated surplus, shall, except as otherwise provided in the Act, be treated as impairing Stock in the following order:

First, Class B Common Stock, Class C Common Stock, Class D Common Stock, and Participation Certificates, pro rata, in proportion to the number of shares or units of each such class of Stock then issued and outstanding, until such Stock is fully impaired; and

Second, Preferred Stock in proportion to the number of shares of each class and series thereof then issued and outstanding (applied, as among series that rank differently upon liquidation or dissolution of AgFirst, in reverse order of priority first to the most junior ranking series and then successively to each next most junior ranking series) and consistent with the terms of each such class or series until such Stock is fully impaired; and

Third, subject to the Act, as amended, and the regulations thereunder, in such manner as shall be determined by the Board.

Liquidation

In the event of liquidation or dissolution of AgFirst, any assets of AgFirst remaining after payment or retirement of all liabilities shall be distributed in the following order or priority:

First, to the holders of Preferred Stock, in proportion to the number of shares of each class and series thereof then issued and outstanding and consistent with the terms of each such series until an amount equal to the liquidation preference provided for in the terms of such series of Preferred Stock has been distributed to such holders (applied, as among series that rank differently upon liquidation or dissolution of AgFirst, in order of priority first to the most senior ranking series and then successively to each next most senior ranking series); and

Second, to the holders of Class B Common Stock, Class C Common Stock, Class D Common Stock, and Participation Certificates, pro rata, in proportion to the number of shares or units of each such class of Stock then issued and outstanding, until an amount equal to the aggregate par or face value of all such shares or units has been distributed to such holders; and

Third, in accordance with the memorandum accounting established in the Agreement and Plan of Consolidation between The Farm Credit Bank of Columbia and The Farm Credit Bank of Baltimore, dated as of October 31, 1994; and

Fourth, all remaining assets of AgFirst after such distributions shall be to the extent practicable distributed to all Stockholders and holders of Participation Certificates on a patronage basis.

F. **Regulatory Capitalization Requirements and Restrictions:** FCA's capital adequacy regulations require the Bank to achieve permanent capital of seven percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the seven percent permanent capital requirement can lead to the initiation of certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Bank's operations and Financial Statements. The Bank is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless the prescribed capital standard is met. FCA regulations also require all System institutions to achieve and maintain additional capital adequacy ratios as defined by FCA regulations. These required ratios are total surplus as a percentage of risk-adjusted assets of seven percent and core surplus as a percentage of risk-adjusted assets of three and one-half percent. The Bank's permanent capital, total surplus and core surplus ratios at December 31, 2013 were 22.85 percent, 22.81 percent and 19.98 percent, respectively. The FCA notified AgFirst that the June 2007 issuance of $250.0 million of Perpetual Non-Cumulative Subordinated Preferred Stock could be included in core surplus only up to an amount not to exceed 25.00 percent of total core surplus, inclusive of the preferred stock component. At December 31, 2013 and 2012, the remaining amount of this preferred stock issuance could be included in core surplus. Subsequent to the redemption of the $225.0 million of Mandatorily Redeemable Cumulative Preferred Stock on December 15, 2011, the FCA further notified AgFirst that the October 2003 issuance of $150.0 million of Perpetual Non-Cumulative Preferred Stock could also be included in core surplus up to an amount not to exceed 25.00 percent of total core surplus, inclusive of the preferred stock component. Prior to December 15, 2011, the $150.0 million Perpetual Non-Cumulative Preferred Stock was not included in core surplus.

Capital adequacy is also evaluated using a ratio of net collateral to total liabilities. FCA requires a minimum net collateral ratio of 103.00 percent. Subsequent to the issuance of the mandatorily redeemable preferred stock and until its redemption on December 15, 2011, FCA required AgFirst to maintain a minimum net collateral ratio of 104.00 percent. At December 31, 2013, the Bank's net collateral ratio was 106.83 percent. For purposes of calculating this ratio, net collateral is not risk adjusted.

An FCA regulation empowers it to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Bank has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

G. **Accumulated Other Comprehensive Income:** The following presents activity related to AOCI for the periods ended December 31:

	Changes in Accumulated Other Comprehensive Income by Component *(a)*		
(dollars in thousands)	**2013**	**2012**	**2011**
Unrealized Gains (Losses) on Investments:			
Balance at beginning of period	$ 174,547	$ 132,826	$ 43,704
Other comprehensive income before reclassifications	(68,876)	37,959	82,917
Amounts reclassified from AOCI	(4,973)	3,762	6,205
Net current period other comprehensive income	(73,849)	41,721	89,122
Balance at end of period	$ 100,698	$ 174,547	$ 132,826
Firm Commitments:			
Balance at beginning of period	$ 1,514	$ (5,566)	$ (8,751)
Other comprehensive income before reclassifications	–	7,970	3,035
Amounts reclassified from AOCI	(1,225)	(890)	150
Net current period other comprehensive income	(1,225)	7,080	3,185
Balance at end of period	$ 289	$ 1,514	$ (5,566)
Employee Benefit Plans:			
Balance at beginning of period	$ (4,593)	$ (3,263)	$ (2,624)
Other comprehensive income before reclassifications	776	(1,780)	(949)
Amounts reclassified from AOCI	373	450	310
Net current period other comprehensive income	1,149	(1,330)	(639)
Balance at end of period	$ (3,444)	$ (4,593)	$ (3,263)
Total Accumulated Other Comprehensive Income:			
Balance at beginning of period	$ 171,468	$ 123,997	$ 32,329
Other comprehensive income before reclassifications	(68,100)	44,149	85,003
Amounts reclassified from AOCI	(5,825)	3,322	6,665
Net current period other comprehensive income	(73,925)	47,471	91,668
Balance at end of period	$ 97,543	$ 171,468	$ 123,997

(dollars in thousands)	Reclassifications Out of Accumulated Other Comprehensive Income *(b)* 2013	2012	2011	Income Statement Line Item
Investment Securities:				
Sales gains & losses	$ 7,592	$ –	$ 3,048	Gains (losses) on investments, net
Holding gains & losses	(2,619)	(3,762)	(9,253)	Net other-than-temporary impairment
Net amounts reclassified	4,973	(3,762)	(6,205)	
Cash Flow Hedges:				
Interest income	1,225	890	(150)	See Note 15.
Net amounts reclassified	1,225	890	(150)	
Defined Benefit Pension Plans:				
Periodic pension costs	(373)	(450)	(310)	See Note 9.
Net amounts reclassified	(373)	(450)	(310)	
Total reclassifications for period	$ 5,825	$ (3,322)	$ (6,665)	

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

Note 8 — 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 of the Bank's assets and liabilities within the fair value hierarchy are as follows:

Level 1

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 1 assets consist of assets held in trust funds related to deferred compensation and supplemental retirement plans. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

For cash and cash equivalents, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2

Level 2 inputs to the valuation methodology 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.

The fair value of substantially all investment securities is determined from third-party valuation services that estimate current market prices. Inputs and assumptions related to third-party market valuation services are typically observable in the marketplace. Such services incorporate prepayment assumptions and underlying mortgage- or asset-backed collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. Third-party valuations also incorporate information regarding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. Such valuations represent an estimated exit price, or price to be received by a seller in active markets to sell the investment securities to a willing participant.

Level 2 assets include investments in U.S. government and agency mortgage-backed securities and U.S. agency debt securities, all of which use unadjusted values from third parties or internal pricing models. The underlying loans for these investment securities are residential mortgages. Also included are federal funds sold, securities purchased under resale agreements, and other highly-liquid funds, all of which are non-exchange-traded instruments. The market value of these federal funds sold and other instruments is generally their face value, plus accrued interest, as these instruments are highly-liquid, readily convertible to cash, and short-term in nature.

The fair value of derivative financial instruments is the estimated amount to be received to sell a derivative asset or paid to transfer a derivative liability in active markets among willing participants at the reporting date. Estimated fair values are determined through internal market valuation models which use an income approach. These models incorporate benchmark interest rate curves (primarily the LIBOR swap curve), potential volatilities of future interest rate movements, and other inputs which are observable directly or indirectly in the marketplace. The Bank compares internally calculated derivative valuations to broker/dealer quotes to substantiate the results.

Collateral liabilities are also considered Level 2. The majority of derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of credit exposure are reached. Face value approximates the fair value of collateral liabilities.

Level 3

Level 3 inputs to the valuation methodology 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.

Because no active market exists for the Bank's loans, fair value is estimated by discounting the expected future cash flows using interest rates at which similar loans would currently be made to borrowers with similar credit risk. For purposes of determining fair value of accruing loans, the portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves. Certain loans evaluated for impairment under FASB guidance have fair values based upon the underlying collateral, as the loans were collateral-dependent. Specific reserves were established for these loans when the value of the collateral, less estimated cost to sell, was less than the principal balance of the loan. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters.

The Bank's non-agency ABS and CMO investment portfolios are also considered Level 3. The underlying loans for the ABSs are mortgage related. The underlying loans for the CMO securities are residential mortgages. Based on the currently illiquid marketplace for these investments and the lack of marketplace information available as inputs and assumptions to the valuation process, the Bank classified the non-agency ABS and CMO investment portfolios as Level 3 assets. Fair value estimates are obtained from third-party valuation services.

For other investments, fair value is estimated by discounting expected future cash flows using prevailing rates for similar instruments at the measurement date.

Other property owned is classified as a Level 3 asset. The fair value is generally determined using formal appraisals of each individual property. These assets are held for sale. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Other property owned consists primarily of real and personal property acquired through foreclosure or deed in lieu of foreclosure and is carried as an asset held for sale, which is generally not its highest and best use. These properties are part of the Bank's credit risk mitigation efforts, not its ongoing business. In addition, FCA regulations require that these types of property be disposed of within a reasonable period of time.

Systemwide Debt Securities are not all traded in the secondary market and those that are traded may not have readily available quoted market prices. Therefore, the fair value of the instruments is estimated by calculating the discounted value of the expected future cash flows. The discount rates used are based on the sum of quoted market yields for the Treasury yield curve and an estimated yield-spread relationship between Systemwide Debt Securities and Treasury securities. An appropriate yield-spread is estimated, taking into consideration selling group member (banks and securities dealers) yield indications, observed new GSE debt security pricing, and pricing levels in the related U.S. Dollar (USD) interest rate swap market.

The following tables present 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 into or out of Level 1, Level 2, or Level 3 during the reporting period.

(dollars in thousands)	**Asset-Backed Securities**	**Non-Agency CMOs**	**Standby Letters of Credit**
Balance at January 1, 2013	$ 33,390	$ 204,699	$ 1,089
Total gains or (losses) realized/unrealized:			
Included in earnings	(106)	(2,174)	–
Included in other comprehensive income	10,648	14,720	–
Purchases	–	–	–
Issuances	–	–	–
Sales	–	–	–
Settlements	(5,134)	(43,759)	(344)
Transfers in and/or out of level 3	–	–	–
Balance at December 31, 2013	$ 38,798	$ 173,486	$ 745

(dollars in thousands)	**Asset-Backed Securities**	**Non-Agency CMOs**	**Standby Letters of Credit**
Balance at January 1, 2012	$ 30,324	$ 241,756	$ 1,787
Total gains or (losses) realized/unrealized:			
Included in earnings	–	(3,762)	–
Included in other comprehensive income	11,583	8,140	–
Purchases	–	–	–
Issuances	–	–	–
Sales	–	–	–
Settlements	(8,517)	(41,435)	(698)
Transfers in and/or out of level 3	–	–	–
Balance at December 31, 2012	$ 33,390	$ 204,699	$ 1,089

(dollars in thousands)	Asset-Backed Securities	Non-Agency CMOs	Standby Letters of Credit
Balance at January 1, 2011	$ 34,437	$ 295,526	$ 1,263
Total gains or (losses) realized/unrealized:			
Included in earnings	(3,583)	(5,670)	–
Included in other comprehensive income	4,355	12,502	–
Purchases	–	–	–
Issuances	–	–	524
Sales	–	–	–
Settlements	(4,885)	(60,602)	–
Transfers in and/or out of level 3	–	–	–
Balance at December 31, 2011	$ 30,324	$ 241,756	$ 1,787

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

Investment Securities

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

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

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

Derivative Instruments

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

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

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

Other Property Owned/Impaired Loans

Other property owned and impaired loans are valued using appraisals, market comparable sales, replacement costs and income and expense (cash flow) techniques. Certain unobservable inputs are used within these techniques to determine the Level 3 fair value of these properties. The significant unobservable inputs are primarily sensitive only to industry, geographic and overall economic conditions, and/or specific attributes of each property.

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
Forward contracts-when issued securities	$	–	Broker/Consensus pricing	Offered quotes	None outstanding
Non-agency securities	$	212,284	Vendor priced	**	
Impaired loans and other property owned	$	72,468	Appraisal	Income and expense	*
				Comparable sales	*
				Replacement cost	*
				Comparability adjustments	*

* *Ranges for this type of input are not useful because each collateral property is unique.*
** *The significant unobservable inputs used to estimate fair value for Level 3 assets and liabilities that are obtained from third party vendors are not included in the table as the specific inputs applied are not provided by the vendor.*

Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

	Valuation Technique(s)	Input
Investments available for sale	Discounted cash flow	Constant prepayment rate
		Probability of default
		Loss severity
	Quoted prices	Price for similar security
	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

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

Information about Other Financial Instrument Fair Value Measurements

	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
Other investments	Discounted cash flow	Prepayment rates
		Probability of default
		Loss severity
Assets held in trust funds	Quoted prices	Price for identical security
Mission Related Investments	Discounted cash flow	Risk adjusted spread
Bonds and notes	Discounted cash flow	Benchmark yield curve
		Derived yield spread
		Own credit risk
Cash collateral	Carrying value	Par/principal and appropriate interest yield

The following tables present the carrying amounts and fair values of assets and liabilities that are measured at fair value on a recurring and nonrecurring basis, as well as those financial instruments not measured at fair value, for each of the hierarchy levels at the period ended:

(dollars in thousands)	**At or for the Year Ended December 31, 2013** Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. Guaranteed	$ 4,603,072	$ –	$ 4,603,072	$ –	$ 4,603,072	
U.S. Govt. Agency Guaranteed	1,747,620	–	1,747,620	–	1,747,620	
Non-Agency CMOs	173,486	–	–	173,486	173,486	
Asset-backed securities	38,798	–	–	38,798	38,798	
Total investments available-for-sale	6,562,976	–	6,350,692	212,284	6,562,976	
Federal funds sold, securities purchased under resale agreements, and other	144,885	–	144,885	–	144,885	
Interest rate swaps and other derivative instruments	27,514	–	27,514	–	27,514	
Assets held in trust funds	6,533	6,533	–	–	6,533	
Recurring Assets	$ 6,741,908	$ 6,533	$ 6,523,091	$ 212,284	$ 6,741,908	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	–	–	–	–	–	
Standby letters of credit	745	–	–	745	745	
Recurring Liabilities	$ 745	$ –	$ –	$ 745	$ 745	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 62,081	$ –	$ –	$ 62,081	$ 62,081	$ 4,577
Other property owned	9,621	–	–	10,387	10,387	519
Nonrecurring Assets	$ 71,702	$ –	$ –	$ 72,468	$ 72,468	$ 5,096
Other Financial Instruments						
Assets:						
Cash	$ 1,038,870	$ 1,038,870	$ –	$ –	$ 1,038,870	
Investments held to maturity	589,812	–	455,184	144,417	599,601	
Loans	20,116,246	–	–	19,938,324	19,938,324	
Other investments	–	–	–	–	–	
Other Financial Assets	$ 21,744,928	$ 1,038,870	$ 455,184	$ 20,082,741	$ 21,576,795	
Liabilities:						
Systemwide debt securities	$ 26,224,879	$ –	$ –	$ 25,994,336	$ 25,994,336	
Other Financial Liabilities	$ 26,224,879	$ –	$ –	$ 25,994,336	$ 25,994,336	

(dollars in thousands)	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
	At or for the Year Ended December 31, 2012					
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. Guaranteed	$ 5,000,613	$ –	$ 5,000,613	$ –	$ 5,000,613	
U.S. Govt. Agency Guaranteed	1,644,227	–	1,644,227	–	1,644,227	
Non-Agency CMOs	204,699	–	–	204,699	204,699	
Asset-backed securities	33,390	–	–	33,390	33,390	
Total investments available-for-sale	6,882,929	–	6,644,840	238,089	6,882,929	
Federal funds sold, securities purchased under resale agreements, and other	149,589	–	149,589	–	149,589	
Interest rate swaps and other derivative instruments	41,384	–	41,384	–	41,384	
Assets held in trust funds	4,816	4,816	–	–	4,816	
Recurring Assets	$ 7,078,718	$ 4,816	$ 6,835,813	$ 238,089	$ 7,078,718	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	–	–	–	–	–	
Standby letters of credit	1,089	–	–	1,089	1,089	
Recurring Liabilities	$ 1,089	$ –	$ –	$ 1,089	$ 1,089	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 62,969	$ –	$ –	$ 62,969	$ 62,969	$ (13,219)
Other property owned	19,477	–	–	20,807	20,807	(2,966)
Nonrecurring Assets	$ 82,446	$ –	$ –	$ 83,776	$ 83,776	$ (16,185)
Other Financial Instruments						
Assets:						
Cash	$ 723,576	$ 723,576	$ –	$ –	$ 723,576	
Investments held to maturity	601,482	–	480,303	175,989	656,292	
Loans	20,101,743	–	–	20,319,578	20,319,578	
Other investments	–	–	–	–	–	
Other Financial Assets	$ 21,426,801	$ 723,576	$ 480,303	$ 20,495,567	$ 21,699,446	
Liabilities:						
Systemwide debt securities	$ 26,286,758	$ –	$ –	$ 26,378,278	$ 26,378,278	
Other Financial Liabilities	$ 26,286,758	$ –	$ –	$ 26,378,278	$ 26,378,278	

(dollars in thousands)	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
	At or for the Year Ended December 31, 2011					
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. Guaranteed	$ 5,002,501	$ –	$ 5,002,501	$ –	$ 5,002,501	
U.S. Govt. Agency Guaranteed	1,650,829	–	1,650,829	–	1,650,829	
Non-Agency CMOs	241,756	–	–	241,756	241,756	
Asset-backed securities	30,324	–	–	30,324	30,324	
Total investments available-for-sale	6,925,410	–	6,653,330	272,080	6,925,410	
Federal funds sold, securities purchased under resale agreements, and other	83,822	–	83,822	–	83,822	
Interest rate swaps and other derivative instruments	52,647	–	52,328	319	52,647	
Assets held in trust funds	3,151	3,151	–	–	3,151	
Recurring Assets	$ 7,065,030	$ 3,151	$ 6,789,480	$ 272,399	$ 7,065,030	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	22,139	–	22,139	–	22,139	
Standby letters of credit	1,787	–	–	1,787	1,787	
Recurring Liabilities	$ 23,926	$	$ 22,139	$ 1,787	$ 23,926	
Nonrecurring Measurements						
Assets:						
Impaired loans *	$ 120,282	$ –	$ –	$ 120,282	$ 120,282	$ (71,913)
Other property owned *	44,157	–	–	48,014	48,014	(11,402)
Nonrecurring Assets	$ 164,439	$ –	$ –	$ 168,296	$ 168,296	$ (83,315)
Other Financial Instruments **						
Assets:						
Cash	$ 1,217,747				$ 1,217,747	
Investments held to maturity	854,862				928,053	
Loans	20,004,070				20,285,801	
Other investments	–				–	
Other Financial Assets	$ 22,076,679				$ 22,431,601	
Liabilities:						
Systemwide debt securities	$ 27,086,148				$ 27,221,361	
Other Financial Liabilities	$ 27,086,148				$ 27,221,361	

* *Amounts have been revised to conform with the current period presentation.*
** *Accounting guidance did not provide for leveling of other financial instruments prior to 2012.*

Note 9 — Employee Benefit Plans

The Bank participates in four District sponsored benefit plans. These plans include two multiemployer defined benefit pension plans, the AgFirst Farm Credit Retirement Plan which is a final average pay plan (FAP) and the AgFirst Farm Credit Cash Balance Retirement Plan which is a cash balance plan (CB). In addition the Bank participates in a multiemployer defined benefit other postretirement benefits plan (OPEB), the Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plan and a defined contribution 401(k) plan. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

a) Assets contributed to multiemployer plans by one employer may be used to provide benefits to employees of other participating employers.

b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

c) If the Bank chooses to stop participating in some of its multiemployer plans, the Bank may be required to contribute to eliminate the underfunded status of the plan related to its participants.

The Bank's participation in the multiemployer defined benefit plans for the annual periods ended December 31, 2013, 2012 and 2011 is outlined in the table below. The "Percentage Funded to Projected Benefit Obligation" or "Percentage Funded to Accumulated Postretirement Benefit Obligation" represents the funded amount for the entire plan and the "Contributions" and "Percentage of Total Contributions" columns represent the Bank's respective amounts.

Pension Plan	Percentage Funded to Projected Benefit Obligation			Contributions			Percentage of Total Contributions		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
AgFirst Farm Credit Retirement Plan	89.47%	77.35%	74.82%	$7,498	$7,153	$6,281	14.90%	15.71%	15.83%
AgFirst Farm Credit Cash Balance Retirement Plan	95.06%	86.01%	81.77%	$469	$359	$230	26.55%	26.29%	27.90%

Other Postretirement Benefit Plan	Percentage Funded to Accumulated Postretirement Benefit Obligation			Contributions			Percentage of Total Contribution		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plans	0.00%	0.00%	0.00%	$1,011	$915	$885	14.55%	14.74%	14.84%

The District's multiemployer plans are not subject to ERISA and no Form 5500 is required to be filed. As such, the following information is neither available for nor applicable to the plans:

1. The Employee Identification Number (EIN) and three-digit Pension Plan Number.

2. The most recent Pension Protection Act (PPA) zone status. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.

3. The "FIP/RP Status" indicating whether a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.

4. The expiration date(s) of collective-bargaining agreement(s).

Substantially all employees of the Bank are eligible to participate in either the FAP Plan or the CB Plan. These two Plans are noncontributory and include eligible Bank and other District employees. For participants hired prior to January 1, 2003, benefits are provided under the FAP Plan and are based on eligible compensation and years of service. For participants hired on or after January 1, 2003, benefits are provided under the CB Plan and are determined using a percent of eligible compensation formula. The employer contribution into the CB Plan is based on a formula of 3.00-5.00 percent of eligible compensation (depending on years of service) and interest credits as allocated to an employee's theoretical account balance. The actuarially-determined costs of these plans are allocated to each participating entity, including the Bank, by multiplying the plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all plan participants. Plan expenses included in employee benefit costs were $8.8 million for 2013, $8.8 million for 2012, and $8.8 million for 2011. The cumulative excess of amounts funded by the Bank over the cost allocated to the Bank is reflected as prepaid retirement expense, a component of Other Assets in the Balance Sheets.

In addition to providing pension benefits, the Bank provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Bank employees may become eligible for the benefits if they reach early retirement age while working for the Bank. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Additionally, employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. Certain Bank charges related to this plan are an allocation of District charges based on the Bank's proportional share of the plan liability. This plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs were $1.1 million for 2013, $894 thousand for 2012, and $1.2 million for 2011. The cumulative excess of cost allocated to the Bank over the amounts funded by the Bank is reflected as postretirement benefits other than pensions, a component of Other Liabilities in the Bank's Balance Sheets.

The Bank also participates in defined contribution plan, as described in Note 2, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Bank contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Bank contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $1.3 million, $1.2 million, and $1.1 million for the years ended December 31, 2013, 2012, and 2011, respectively.

In addition to the multi-employer plans above, the Bank sponsors a single employer defined benefit supplemental retirement plan and offers a FCBA supplemental 401(k) plan for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the Bank's Balance Sheets in Other Liabilities. The Bank funded the benefit payments of $577 thousand, $435 thousand, and $292 thousand for the years ended December 31, 2013, 2012, and 2011, respectively, for the defined benefit supplemental retirement plan. The expenses of these nonqualified plans included in the Bank's employee benefit costs were $0, $158 thousand, and $115 thousand for the years ended December 31, 2013, 2012, and 2011, respectively.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2013, 2012, and 2011, $1.1 million, $(1.3) million and $(639) thousand, respectively, has been recognized as a net credit and net debits to AOCI to reflect these elements.

The supplemental retirement plan is unfunded and had a projected benefit obligation of $10.5 million and a net under-funded status of $10.5 million at December 31, 2013. Net periodic pension cost for 2013 was $941 thousand. Assumptions used to determine the projected benefit obligation as of December 31, 2013 included a discount rate of 5.00 percent and a rate of compensation increase of 4.50 percent.

Additional financial information for the four District sponsored multi-employer plans may be found in the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' 2013 Annual Report.

Note 10 — Related Party Transactions

As discussed in Note 1, the Bank lends funds to the District Associations primarily to fund their loan portfolios. Further disclosure regarding these related party transactions is found in Notes 3, 7, and 11.

Interest income recognized on direct notes receivable from District Associations was $330.7 million, $356.8 million and $411.2 million for 2013, 2012, and 2011, respectively.

The Bank has had participation loans outstanding during the last year to certain of its directors, their immediate family members, and organizations with which the directors are affiliated. These loans were made in the ordinary course of business, and were made on substantially the same terms, including interest rate, amortization schedule and collateral, as those prevailing at the time for comparable transactions with unaffiliated persons. No loan to a director, or to any organization affiliated with such person, or to any immediate family member who resides in the same household as such person or in whose loan or business operation such person has a material financial or legal interest, involved more than the normal risk of collectability.

Note 11 — Commitments and Contingencies

From time to time, legal actions are pending against the Bank in which claims for money damages are asserted. On at least a quarterly basis, the

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

In the normal course of business, the Bank may participate in credit related financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers or the borrowers of the District Associations. These financial instruments may include commitments to extend credit, letters of credit, or various guarantees.

The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these financial instruments have off-balance-sheet credit risk because their amounts could be drawn upon at the option of the borrower. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and the same credit policies are applied by management. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the loan collateral is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

At December 31, 2013, $1.510 billion of commitments to extend credit were outstanding with a related contingent loss of $622 thousand included in Other Liabilities in the Balance Sheets.

The Bank also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2013, standby letters of credit outstanding totaled $84.9 million, with expiration dates ranging from January 2014 to December 2019. The maximum potential amount of future payments the Bank may be required to make under these existing guarantees is $84.9 million.

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 Insurance Corporation 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 is 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 the aggregate of the banks' 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 the Insurance Corporation as the receiver for the defaulting bank. The receiver would be required to expeditiously liquidate 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:

	December 31,		
(dollars in billions)	**2013**	**2012**	**2011**
Total System bonds and notes	$ 207.489	$ 197.966	$ 184.780
AgFirst bonds and notes	26.225	26.287	27.086

The Bank also guarantees certain loans held by District Associations in the amount of $3.9 million expiring in less than one year. The notional amounts of these guarantees represent the maximum amount of exposure the Bank has related to these instruments as of December 31, 2013.

See Note 14, *Business Combinations*, for information related to a financial assistance agreement between the Bank and a District Association.

Note 12 — Income Taxes

The Bank is exempt from federal and other income taxes as provided in the Farm Credit Act.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

Quarterly results of operations follow:

	2013				
(dollars in thousands)	First	Second	Third	Fourth	Total
Net interest income	$ 140,284	$ 136,337	$ 131,840	$ 129,597	$ 538,058
Provision for (reversal of allowance for) loan losses	334	(1,814)	(5,732)	(3,377)	(10,589)
Noninterest income (expense), net	(18,762)	(27,319)	(19,508)	(25,722)	(91,311)
Net income	$ 121,188	$ 110,832	$ 118,064	$ 107,252	$ 457,336

	2012				
	First	Second	Third	Fourth	Total
Net interest income	$ 156,238	$ 151,819	$ 150,294	$ 147,151	$ 605,502
Provision for (reversal of allowance for) loan losses	(2,721)	(174)	13,838	4,003	14,946
Noninterest income (expense), net	(35,956)	(21,790)	(32,052)	(32,148)	(121,946)
Net income	$ 123,003	$ 130,203	$ 104,404	$ 111,000	$ 468,610

	2011				
	First	Second	Third	Fourth	Total
Net interest income	$ 144,248	$ 148,274	$ 150,855	$ 153,057	$ 596,434
Provision for (reversal of allowance for) loan losses	10,896	19,380	27,997	21,949	80,222
Noninterest income (expense), net	(30,447)	(23,789)	(36,352)	(40,166)	(130,754)
Net income	$ 102,905	$ 105,105	$ 86,506	$ 90,942	$ 385,458

Other Assets and Other Liabilities

A summary of other assets and other liabilities follows:

	December 31,		
(dollars in thousands)	2013	2012	2011
Other assets:			
Unamortized debt issue costs	$ 23,602	$ 23,174	$ 20,759
Prepaid retirement expenses	15,709	16,498	17,792
Derivative assets	27,514	41,384	52,647
Other	13,958	10,430	7,885
Total	$ 80,783	$ 91,486	$ 99,083
Other liabilities:			
Postretirement benefits other than pensions	$ 15,901	$ 15,835	$ 15,856
Cash collateral pledged from derivative counterparties	–	–	22,139
Payroll liabilities	6,838	6,281	6,181
Bank drafts payable	10,770	8,655	11,579
Other	16,478	20,516	18,702
Total	$ 49,987	$ 51,287	$ 74,457

Offsetting of Financial and Derivative Assets

	December 31, 2013					
				Gross Amounts Not Offset in the Balance Sheets		
(dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets Presented in the Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	$ 27,514	$ –	$ 27,514	$ (8,589)	$ –	$ 18,925
Reverse repurchase and similar arrangements	144,885	–	144,885	(144,885)	–	–
Total	$ 172,399	$ –	$ 172,399	$ (153,474)	$ –	$ 18,925

December 31, 2012						
				Gross Amounts Not Offset in the Balance Sheets		
(dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets Presented in the Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	$ 41,384	$ –	$ 41,384	$ (19,551)	$ –	$ 21,833
Reverse repurchase and similar arrangements	149,589	–	149,589	(149,589)	–	–
Total	$ 190,973	$ –	$ 190,973	$ (169,140)	$ –	$ 21,833

December 31, 2011						
				Gross Amounts Not Offset in the Balance Sheets		
(dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets Presented in the Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	$ 52,647	$ –	$ 52,647	$ (22,139)	$ –	$ 30,508
Reverse repurchase and similar arrangements	83,822	–	83,822	(83,822)	–	–
Total	$ 136,469	$ –	$ 136,469	$ (105,961)	$ –	$ 30,508

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

A description of the rights of setoff associated with recognized derivative assets and liabilities subject to enforceable master netting arrangements is located in Note 15, *Derivative Financial Instruments and Hedging Activities*.

The reverse repurchase agreements are accounted for as collateralized lending.

Additional Derivative Financial Instruments and Other Financial Instruments

The table below provides information about derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including debt obligations and interest rate swaps. The debt information below represents the principal cash flows and related weighted average interest rates by expected maturity dates. The derivative information below represents the notional amounts and weighted average interest rates by expected maturity dates.

	Maturities of Interest Rate Derivative Products and Other Financial Instruments							
December 31, 2013 *(dollars in millions)*	2014	2015	2016	2017	2018	2019 and after	Total	Fair Value
Systemwide Debt Securities:								
Fixed rate	$ 5,831	$ 3,716	$ 2,693	$ 2,427	$ 1,725	$ 4,552	$ 20,944	$ 20,737
Weighted average interest rate	0.33%	0.54%	0.91%	1.06%	1.43%	2.23%	1.03%	
Variable rate	3,240	1,319	637	56	–	28	5,280	5,258
Weighted average interest rate	0.13%	0.16%	0.20%	0.19%	–%	0.21%	0.15%	
Derivative Instruments:								
Receive fixed swaps								
Notional value	$ –	$ 100	$ 100	$ 50	$ –	$ –	$ 250	$ 28
Weighted average receive rate	–%	5.01%	5.18%	4.95%	–%	–%	5.07%	
Weighted average pay rate	–%	0.94%	2.10%	3.08%	–%	–%	1.83%	
Total notional value	$ –	$ 100	$ 100	$ 50	$ –	$ –	$ 250	$ 28
Total weighted average rates on swaps:								
Receive rate	–%	5.01%	5.18%	4.95%	–%	–%	5.07%	
Pay rate	–%	0.94%	2.10%	3.08%	–%	–%	1.83%	

Note 14 — Business Combinations

Mergers are accounted for under the acquisition method. The accounting acquirer accounts for the transaction by using its historical information and accounting policies and adding the identifiable assets and liabilities of the acquiree as of the acquisition date at their respective fair values.

Effective July 1, 2012, Chattanooga, ACA, merged with and into Jackson Purchase, ACA. Jackson Purchase, ACA, then changed its name to River Valley AgCredit, ACA.

Effective January 1, 2011, Farm Credit of North Florida, ACA, and Farm Credit of Southwest Florida, ACA, merged with and into Farm Credit of South Florida, ACA. Farm Credit of South Florida then changed its name to Farm Credit of Florida, ACA. As part of the merger, those Associations entered into an agreement with the Bank under which the Bank would provide limited financial assistance to the merged Association in the event of substantial further deterioration in the combined high risk asset portfolio of the merged Association. This agreement relates only to a finite pool of high risk assets of the merged Association existing at the merger date, which had a net book value at January 1, 2011 of $250.0 million. At December 31, 2013, those assets had a net book value of $77.2 million. This agreement with the Bank does not include losses that are sustained outside of the high risk asset pool. Protection to the Bank, such as limitations on the merged Association's ability to make patronage distributions and certain other restrictions, is provided in the agreement if certain merged Association capital ratios fail to meet minimum established levels.

Under the financial assistance agreement, if specified minimum levels of capital allocated to the high risk asset pool are not maintained by the merged Association, the Bank would provide financial assistance as stipulated in the agreement. The assistance consists of three components. First, the Bank would allow the merged Association to include Bank allocated stock owned by the merged Association in its capital ratio computations. This allocated stock has been counted entirely by the Bank in its capital ratio computations under an existing capital sharing arrangement. Second, the Bank would redeem purchased stock held by the merged Association, up to the total amount outstanding, and the redeemed amount would be included in capital ratio computations by the merged Association. This purchased stock has been counted entirely by the Bank in its capital ratio computations under an existing capital sharing arrangement. The third and final level of assistance, if elected by the merged Association, would be a purchase by the Bank of the high risk asset pool from the merged Association at net book value. There would also be a corresponding repurchase by the merged Association of its previously redeemed stock in the Bank and a return to the capital sharing arrangement allowing the Bank to count the allocated stock in its capital ratio computations in amounts necessary to satisfy the capitalization requirement under the Bank's capitalization plan then in effect.

Total assistance provided by the Bank to the merged Association under the first support level of the agreement was $0, $3.3 million, and $0 at December 31, 2013, 2012, and 2011, respectively. A total of $9.8 million of assistance was available at December 31, 2013 to the merged Association under the first and second support levels of the agreement. Any assistance provided in the future likely would not have a material adverse impact on either the financial condition or future operating results of the Bank.

In February 2014, the Boards of Directors of AgChoice Farm Credit, ACA and MidAtlantic Farm Credit, ACA (collectively referred to as the "Merger Associations") signed a Letter of Intent to merge. The Letter of Intent to merge allows the Merger Associations to explore the benefits of a merger. If Boards of the Merger Associations agree to proceed with a merger, a Plan of Merger ("Merger") will be prepared and submitted to the Bank and the FCA for approval. Upon approval by the Bank and FCA, the Merger will be submitted to shareholders of the Merger Associations for their review and approval. The Letter of Intent to merge contains a proposed merger effective date of January 1, 2015 pending all necessary approvals.

Note 15 — 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 lower cost of funding or to reduce interest rate risk. Currently, the primary derivative type used by the Bank is interest rate swaps, which convert fixed interest rate debt to a lower floating interest rate than was achievable from issuing floating rate debt with identical repricing characteristics. They may allow the Bank to lower funding costs, allow it to 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 type of derivative instrument used and the amount of activity for each year ended is summarized in the following table:

	2013		2012		2011	
Notional Amounts *(dollars in millions)*	**Receive-Fixed Swaps**	**Forward Contracts**	**Receive-Fixed Swaps**	**Forward Contracts**	**Receive-Fixed Swaps**	**Forward Contracts**
Balance at beginning of period	$ 360	$ –	$ 535	$ 66	$ 1,135	$ 445
Additions	–	–	–	542	–	330
Maturities/amortization	(110)	–	(175)	(608)	(600)	(709)
Terminations	–	–	–	–	–	–
Balance at end of period	$ 250	$ –	$ 360	$ –	$ 535	$ 66

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

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

Counterparty exposure related to derivatives at:

	December 31,		
(dollars in millions)	**2013**	**2012**	**2011**
Estimated Gross Credit Risk	$27.5	$41.4	$52.3
Percent of Notional	11.01%	11.50%	9.78%
Cash Collateral Held *(on balance sheet)*	$–	$–	$22.1
Securities Collateral Held *(off balance sheet)*	$8.6	$19.6	$–
Cash Collateral Posted *(off balance sheet)*	$–	$–	$–
Securities Collateral Posted *(on balance sheet)*	$–	$–	$–

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

Fair-Value Hedges

For derivative instruments designated as fair value hedges, the gains or losses on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings. The Bank includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. The amount of the loss on interest rate swaps recognized in interest expense for the year ended December 31, 2013 was $13.9 million, while the amount of the gain on the Systemwide Debt Securities was $13.9 million. Gains and losses on each derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Cash Flow Hedges

From time to time, the Bank may acquire when-issued securities, generally Government Agency guaranteed bonds. The when-issued transactions are contracts to purchase securities that will not be delivered until 30, or more, days in the future. These purchase commitments are considered derivatives (cash flow hedges) in the form of forward contracts. Any difference in market value of the contracted securities, between the purchase and reporting or settlement date, represent the value of the forward contracts. These amounts are included in Other Comprehensive Income (OCI), and Other Liabilities or Other Assets as appropriate, as firm commitments in the Bank's Balance Sheet for each period end. At December 31, 2013, and December 31, 2012, the Bank had no commitments to purchase any when-issued bonds. At December 31, 2011, the Bank had committed to purchase $66.4 million in when-issued Agency bonds that had a market value of $66.7 million, a $319 thousand increase in value.

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.

The following tables represent the fair value of derivative instruments at periods ended:

(dollars in thousands)	Balance Sheet Classification Assets	12/31/13 Fair Value	Balance Sheet Classification Liabilities	12/31/13 Fair Value
Derivatives designated as hedging instruments:				
Receive-fixed swaps	Other Assets	$ 27,514	Other Liabilities	$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		$ 27,514		$ –

(dollars in thousands)	Balance Sheet Classification Assets	12/31/12 Fair Value	Balance Sheet Classification Liabilities	12/31/12 Fair Value
Derivatives designated as hedging instruments:				
Receive-fixed swaps	Other Assets	$ 41,384	Other Liabilities	$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		$ 41,384		$ –

(dollars in thousands)	Balance Sheet Classification Assets	12/31/11 Fair Value	Balance Sheet Classification Liabilities	12/31/11 Fair Value
Derivatives designated as hedging instruments:				
Receive-fixed swaps	Other Assets	$ 52,328	Other Liabilities	$ –
Forward contracts	Other Assets	319	Other Liabilities	–
Total		$ 52,647		$ –

The following tables set forth the amount of net gain (loss) recognized in the Statements of Income and, for cash flow hedges, the amount of net gain (loss) recognized in the Balance Sheets for the years ended December 31:

(dollars in thousands)	Location of Gain or (Loss) Recognized in the Statement of Income	2013 Amount of Gain or (Loss) Recognized in the Statement of Income	2012 Amount of Gain or (Loss) Recognized in the Statement of Income	2011 Amount of Gain or (Loss) Recognized in the Statement of Income
Derivatives – Fair Value Hedging Relationships:				
Receive-fixed swaps	Noninterest Income	$ –	$ –	$ –
Total		$ –	$ –	$ –

(dollars in thousands)	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Derivatives – Cash Flow Hedging Relationships:					
Firm Commitments					
2013	$ –	Interest Income	$1,225	Interest Income	$ –
2012	7,970	Interest Income	890	Interest Income	–
2011	3,035	Interest Income	(150)	Interest Income	–

GLOSSARY OF CERTAIN ACRONYMS

ABO	Accumulated benefit obligation
ABS	Asset backed security
ACA	Agricultural Credit Association
ACB	Agricultural Credit Bank
AFS	Available for sale
ALCO	Asset-Liability Management Committee
ALM	Asset and liability management
AOCI	Accumulated Other Comprehensive Income
ARM	Adjustable rate mortgage
ASU	Accounting Standards Update
CFPB	Consumer Financial Protection Bureau
CFTC	Commodity Futures Trading Commission
CMO	Collateralized Mortgage Obligation
FAMC	Federal Agricultural Mortgage Corporation (Farmer Mac)
FASB	Financial Accounting Standards Board
FCA	Farm Credit Administration
FCB	Farm Credit Bank
FCBA	Farm Credit Benefits Alliance
FCSIC	Farm Credit System Insurance Corporation
FHA	Federal Housing Administration
FHLMC	Federal Home Loan Mortgage Corporation (Freddie Mac)
FLCA	Federal Land Credit Association
FNMA	Federal National Mortgage Association (Fannie Mae)
GAAP	Generally Accepted Accounting Principles
GNMA	Government National Mortgage Association (Ginnie Mae)
GSE	Government-sponsored enterprise
HTM	Held to maturity
LIBOR	London Inter-Bank Offered Rate
LLC	Limited liability company
MBS	Mortgage-backed security
MD&A	Management's Discussion and Analysis
NRSRO	Nationally Recognized Statistical Rating Organization
OAEM	Other Assets Especially Mentioned
OCI	Other Comprehensive Income
OPO	Other property owned
OTTI	Other-than-temporary impairment
PBO	Projected benefit obligation
PCA	Production Credit Association
RHMS	Rural Housing Mortgage-Backed Security
SEC	Securities and Exchange Commission
SIIC	Successor-in-Interest Contract
TDR	Troubled debt restructuring
UBE	Unincorporated business entity
USDA	United States Department of Agriculture

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