Quarterly REPORT

AGFIRST FARM CREDIT BANK & DISTRICT ASSOCIATIONS

FIRST QUARTER 2014

Farm Credit

FIRST QUARTER 2014

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2014 quarterly report of AgFirst Farm Credit Bank and District Associations, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Robert H. Spiers, Jr.
Chairman of the Board

Leon T. Amerson
Chief Executive Officer & President

Charl L. Butler
Chief Financial Officer

May 9, 2014

Report on Internal Control Over Financial Reporting

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

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

The Bank's and each District Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2014. 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 and each District Association concluded that as of March 31, 2014, the internal control over financial reporting was effective based upon the COSO (1992) criteria. Additionally, based on this assessment, the Bank and each District Association determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2014.

Leon T. Amerson
Chief Executive Officer & President

Charl L. Butler
Chief Financial Officer

May 9, 2014

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

The following discussion reviews the combined financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the District, as of and for the three month period ended March 31, 2014. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Combined Financial Statements, and the 2013 Annual Report of AgFirst Farm Credit Bank and District Associations. The accompanying combined financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

As of March 31, 2014, the District included nineteen Associations, all of which were structured as Agricultural Credit Association (ACA) holding companies, with Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries. PCAs originate and service short- and intermediate-term loans; FLCAs originate and service long-term real estate mortgage loans; and ACAs originate both long-term and short- and intermediate-term loans. See Note 10, *Business Combinations,* in the Notes to the Combined Financial Statements for further information.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of the District. However, results of operations for the three months may not be indicative of an entire year due to the seasonal nature of a portion of the District's business.

FORWARD-LOOKING INFORMATION

Certain sections of this quarterly 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 the District's expectations and predictions due to a number of risks and uncertainties, many of which are beyond the District's control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, financial markets, and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural infrastructure, international, and farm-related business sectors, as well as in the general economy;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income of District borrowers;
- changes in United States Government support of the agricultural industry and the Farm Credit System (System) as a Government-sponsored enterprise (GSE), as well as investor and rating agency reactions to events involving the U.S. Government, other GSEs and other financial institutions; 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.

FINANCIAL CONDITION

Loan Portfolio

The District's aggregate loan portfolio consists primarily of direct loans made by the Associations to eligible borrowers located within their chartered territories. Diversification of the loan volume by type is illustrated in the following table:

Loan Portfolio *(dollars in thousands)*	**March 31, 2014**		**December 31, 2013**		**March 31, 2013**	
Real Estate Mortgage	$ 10,260,598	44%	$ 10,268,260	44%	$ 9,881,855	44%
Production and Intermediate-Term	7,101,602	31	7,479,455	32	7,294,518	33
Rural Residential Real Estate	2,838,403	12	2,833,416	12	2,705,830	12
Processing and Marketing	1,232,371	5	1,091,648	5	1,002,540	5
Energy and Water/Waste Disposal	500,930	2	496,898	2	536,565	2
Communication	403,103	2	358,601	2	319,177	1
Loans to Cooperatives	367,161	2	241,023	1	324,031	1
Farm-Related Business	361,492	2	352,315	2	377,930	2
Loans to Other Financing Institutions (OFIs)	83,375	–	83,116	–	67,579	–
Lease Receivables	4,650	–	4,922	–	5,980	–
Other (including Mission Related)	62,871	–	60,854	–	66,778	–
Total	$ 23,216,556	100%	$ 23,270,508	100%	$ 22,582,783	100%

Total loans outstanding were $23.217 billion at March 31, 2014, a decrease of $54.0 million, or 0.23 percent, compared to total loans outstanding at December 31, 2013. Loan volume since 2013 year end was negatively impacted by the seasonal nature of District lending activity as borrowers typically pay down loans during the first quarter using proceeds from crop sales. Also, district loan demand remains weak due to a number of reasons, including higher than the historical average capital and cash levels of borrowers. Low economic growth has inhibited loan demand from borrowers in economically dependent sectors and borrowers dependent on non-farm income. An increasingly competitive environment for agricultural loans has also challenged volume. Future District 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.

Credit Quality

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

	Total Loan Portfolio Credit Quality as of:		
Classification	**March 31, 2014**	**December 31, 2013**	**March 31, 2013**
Acceptable	92.63%	92.81%	90.27%
OAEM *	3.63%	3.36%	4.04%
Substandard/Doubtful/Loss	3.74%	3.83%	5.69%

**Other Assets Especially Mentioned*

Loan portfolio credit quality at the producer level between December 31, 2013 and March 31, 2014 was substantially unchanged, as reflected in the table above, primarily due to the 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 have remained at more normal levels due to higher than expected inventory and harvest levels. This benefitted the poultry, cattle, and swine sectors. Improved housing starts have positively impacted certain housing-related segments such as forestry and nursery/greenhouse. Credit quality is anticipated to improve incrementally during the remainder of 2014 assuming stable economic conditions.

Nonaccrual Loans

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the combined District at March 31, 2014 were $389.8 million compared to $414.2 million at December 31, 2013. The decrease of $24.4 million during the three month period ended March 31, 2014 resulted primarily from repayments of $39.7 million, transfers to other property owned of $11.9 million, and reinstatements to accrual status of $4.1 million. Offsetting these decreases were $13.3 million of loan balances transferred to nonaccrual status, advances of $5.1 million, and recoveries of charge-offs of $4.4 million. The largest nonaccrual borrower relationship accounted for 7.52 percent of the total nonaccrual balance. At March 31, 2014, total nonaccrual loans were primarily in the forestry (20.64 percent of the total), nursery/greenhouse (16.89 percent), poultry (10.31 percent), and tree fruits/nuts (7.35 percent) segments. Nonaccrual loans were 1.68 percent and 1.78 percent of total loans outstanding at March 31, 2014 and December 31, 2013, respectively.

Troubled Debt Restructurings

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank and District Associations would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms, rates, or amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by the Bank and District Associations. TDRs decreased $1.3 million since December 31, 2013 and totaled $278.2 million at March 31, 2014. TDRs at March 31, 2014 were comprised of $125.5 million of accruing restructured loans and $152.7 million of nonaccruing restructured loans. Restructured loans were primarily in the nursery/greenhouse (23.61 percent), forestry (22.04 percent of the total), and poultry (10.45 percent) segments.

Other Property Owned

Other property owned (OPO) consists primarily of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank and District Associations (or a lender group) in satisfaction of secured loans. OPO is generally comprised of real estate, equipment, and equity interests in companies or partnerships. OPO decreased $272 thousand since December 31, 2013 and totaled $68.5 million at March 31, 2014. The decrease was due to disposals of $11.7 million and net write-downs of OPO of $626 thousand. The largest disposal was $2.6 million in the forestry segment. Offsetting these decreases were transfers to OPO of $12.0 million. The largest transfer to OPO was $2.1 million in the aquaculture segment. The largest OPO holding at March 31, 2014 was an ethanol facility totaling $8.3 million. See discussion of OPO expense in the *Noninterest Expense* section below.

Allowance for Loan Losses

The District maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan portfolio as of each reported balance sheet date. The allowance for loan losses was $186.5 million at March 31, 2014, as compared with $187.4 million at December 31, 2013, which was a decrease of $889 thousand. Activity which reduced the allowance during the three months ended March 31, 2014 included loan charge-offs of $2.9 million, as loan collectability became more measurable and apparent, and a provision expense reversal of $2.3 million. Offsetting these decreases were recoveries of $4.4 million. Charge-offs during the three month period were related primarily to borrowers in the poultry (25.81 percent of the total), forestry (17.19 percent), and tree fruits/nuts (12.43 percent) segments. Recoveries during the three month period were related primarily to borrowers in the nursery/greenhouse (41.61 percent of the total), other real estate (18.87 percent), and forestry (13.29 percent) segments. The allowance at March 31, 2014 included specific reserves of $45.8 million (24.56 percent of the total) and $140.7 million (75.44 percent) of general reserves. The largest commodity segments included in the allowance at March 31, 2014 were the forestry (17.02 percent of the total), nursery/greenhouse (10.19 percent), and poultry (9.06 percent) segments. See Note 2*, Loans and Allowance for Loan Losses,* in the Notes to the Combined Financial Statements for further information. See *Provision for Loan Losses* section below for details regarding the effects on the allowance from provision for loan losses.

Liquidity and Funding Sources

AgFirst and the District Associations maintain adequate liquidity to satisfy the District's daily cash needs. Along with normal cash flows associated with lending operations, the District has two primary sources of liquidity: the capacity to issue Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation; and cash and investments. The Bank also maintains several lines of credit with commercial banks, as well as securities repurchase agreement facilities. Providing liquidity for the District's operations is primarily the responsibility of the Bank.

The U.S. Government does not guarantee, directly or indirectly, Systemwide Debt Securities. However, the Farm Credit System, as a GSE, has benefited from broad access to the domestic and global capital markets. This access has provided the System with a dependable source of competitively priced debt which is critical for supporting the System's mission of providing credit to agriculture and rural America. 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.

On September 24, 2013, the Farm Credit System Insurance Corporation (FCSIC) entered into an agreement with the Federal Financing Bank, a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the Federal Financing Bank could advance funds to FCSIC. Under its existing statutory authority, FCSIC would use these funds to provide assistance to the System banks in exigent market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to $10 billion and terminates on September 30, 2014, unless otherwise extended. Each funding obligation of the Federal Financing Bank is subject to various terms and conditions and, as a result, there can be no assurance that funding will be available when needed by AgFirst or the System.

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 needs.

At March 31, 2014, AgFirst had $25.255 billion in total debt outstanding compared to $26.225 billion at December 31, 2013. 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.

Cash and cash equivalents, which decreased $487.2 million from December 31, 2013 to a total of $743.2 million at March 31, 2014, consist primarily of cash on deposit and money market securities that are short-term in nature (from overnight maturities to maturities that range up to 90 days). Incremental movements in cash balances are due primarily to changes in liquidity needs in relation to upcoming debt maturities between reporting periods.

Investment securities totaled $7.039 billion, or 22.43 percent of total assets at March 31, 2014, compared to $7.295 billion, or 22.61 percent, as of December 31, 2013. Investment securities decreased $256 thousand (3.51 percent), compared to December 31, 2013. Management maintains the available-for-sale liquidity investment portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines.

Investment securities classified as being available-for-sale totaled $6.367 billion at March 31, 2014. Available-for-sale investments at March 31, 2014 included $4.419 billion in U.S. Government guaranteed securities, $1.697 billion in U.S. Government agency guaranteed securities, $172.2 million in non-agency collateralized mortgage obligations (CMOs), $40.4 million in asset-backed securities, and $37.7 million in mission related investments. Since the majority of the portfolio is invested in agency securities, the portfolio is highly liquid and potential credit loss exposure is limited.

As of March 31, 2014, AgFirst exceeded all applicable regulatory liquidity requirements. Farm Credit Administration (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 minimum liquidity coverage are met using only level 1 instruments, which include cash and cash equivalents. Days 16 through 30 of minimum liquidity coverage are met using level 1 and level 2 instruments. Level 2 consists primarily of U.S. Government guaranteed securities. Days 31 through 90 are met using level 1, level 2, and level 3 securities. Level 3 consists primarily of U.S. agency investments. 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 March 31, 2014, AgFirst met all individual level criteria and had a total of 280 days of maturing debt coverage compared to 246 days at December 31, 2013. 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.

Net unrealized gains related to investment securities were $106.3 million at March 31, 2014, compared to $99.9 million at December 31, 2013. 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 District performs periodic credit reviews, including other-than-temporary impairment analyses, on its entire investment securities portfolio. Based on the results of all analyses, the District recognized other-than-temporary credit related impairment of $1.4 million for the three months ended March 31, 2014, which was included in Net Other-than-temporary Impairment Losses in the Statements of Income. See Note 3, *Investment Securities*, in the Notes to the Combined Financial Statements for further information.

Capital Resources

Total shareholders' equity increased $151.1 million (2.92 percent) from December 31, 2013 to a total of $5.326 billion at March 31, 2014. This increase is primarily attributed to 2014 unallocated retained earnings from net income of $148.6 million.

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 AgFirst Board approved capital plan. The stock was redeemed at its par value together with accrued and unpaid dividends. See Note 5, *Shareholders' Equity* in the Notes to the Combined Financial Statements for further information.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2014 was $148.6 million, compared to $171.1 million for the three months ended March 31, 2013, a decrease of $22.5 million, or 13.14 percent.

Key Results of Operations Comparisons

	Annualized for the three months ended March 31, 2014	**For the year ended December 31, 2013**	**Annualized for the three months ended March 31, 2013**
Return on average assets	1.90%	1.99%	2.18%
Return on average shareholders' equity	11.69%	12.96%	14.43%
Net interest income as a percentage of average earning assets	3.34%	3.47%	3.55%
Net (charge-offs) recoveries to average loans	0.03%	(0.18)%	(0.09)%

Net Interest Income

Net interest income for the three months ended March 31, 2014 was $251.6 million compared to $267.5 million for the same period of 2013, a decrease of $15.8 million or 5.92 percent. The net interest margin was 3.34 percent for the first quarter of 2014, compared to the 3.55 percent for the prior year, a decrease of 21 basis points. The decline was primarily the result of lower earning asset yields, but was also negatively impacted by higher rates paid on interest bearing liabilities. Over time, as interest rates change and as assets prepay or reprice, the positive impact on the net interest margin that the District has experienced over the last several years from calling debt will continue to diminish. For the three month period ended March 31, 2014 compared with the corresponding periods in 2013, the negative impact of the rate related decrease was slightly offset by the positive impact of an increase in the average balance of loans.

The following table illustrates the changes in net interest income:

	For the three months ended March 31, 2014 vs. March 31, 2013		
	Increase (decrease) due to changes in:		
(dollars in thousands)	Volume	Rate	Total
Interest Income:			
Loans	$ 6,769	$ (7,909)	$ (1,140)
Investments & Cash Equivalents	(3,019)	(5,648)	(8,667)
Total Interest Income	$ 3,750	$ (13,557)	$ (9,807)
Interest Expense:			
Interest-Bearing Liabilities	$ (670)	$ 6,706	$ 6,036
Changes in Net Interest Income	$ 4,420	$ (20,263)	$ (15,843)

Provision for Loan Losses

The District measures risks inherent in its loan portfolio on an ongoing basis and, as necessary, recognizes provision for loan loss expense so that appropriate allowances for loan losses are maintained. Provision for loan losses was a net expense reversal of $2.3 million for the three month period ended March 31, 2014, compared to provision expense of $4.9 million for the three months ended March 31, 2013. Provision expense reversal for the three month period ended March 31, 2014 was related primarily to the forestry ($3.2 million), nursery/greenhouse ($1.4 million), and other real estate ($1.3 million) segments, partially offset by provision expense in the processing ($1.0 million), rural home ($1.0 million), and grain ($894 thousand) segments. See Note 2, *Loans and Allowance for Loan Losses,* in the Notes to the Combined Financial Statements for further information.

Noninterest Income

The following table illustrates the changes in noninterest income:

Change in Noninterest Income	For the three months ended March 31,		
(dollars in thousands)	2014	2013	Increase/ (Decrease)
Loan fees	$ 6,989	$ 8,985	$ (1,996)
Fees for financially related services	1,345	1,469	(124)
Building lease income	1,030	1,086	(56)
Net other-than-temporary impairment losses	(1,351)	(1,118)	(233)
Gains (losses) on investments, net	149	7,592	(7,443)
Gains (losses) on called debt	(2,863)	(1,706)	(1,157)
Gains (losses) on other transactions	1,352	1,189	163
Other noninterest income	2,961	3,568	(607)
Total noninterest income	$ 9,612	$ 21,065	$ (11,453)

Noninterest income decreased $11.5 million for the three months ended March 31, 2014 compared to the corresponding period in 2013. The decrease was primarily due to a decrease in gains on investments, a decrease in loan fees and an increase in losses on called debt.

Loan fees decreased $2.0 million for the three months ended March 31, 2014, compared to the same period last year. The decrease was primarily the result of a $799 thousand reduction in new loan fees and a $258 thousand reduction in servicing fees.

Gains on investments decreased $7.4 million during the three months ended March 31, 2014 compared to the same period in 2013, primarily due to $7.6 million of gains recognized in 2013 on the sale of $114.6 million of U.S. Government agency mortgage-backed securities. These securities were sold in order to maintain the portfolio size within revised regulatory limits. See discussion of investments in Note 3, *Investment Securities*, in the Notes to the Combined 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 increased $1.2 million for the three month period in 2014 compared to the same period in 2013. Call options were exercised on bonds totaling $2.855 billion for the three months ended March 31, 2014 compared to $2.771 billion for the same period of 2013. 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.

Noninterest Expense

The following table illustrates the changes in noninterest expense:

Change in Noninterest Expense	**For the three months ended March 31,**		
(dollars in thousands)	**2014**	**2013**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 71,150	$ 69,593	$ 1,557
Occupancy and equipment	9,955	9,028	927
Insurance Fund premiums	6,017	5,206	811
Other operating expenses	27,361	26,422	939
Losses (gains) from other property owned, net	(28)	2,150	(2,178)
Total noninterest expense	$ 114,455	$ 112,399	$ 2,056

Noninterest expense increased $2.1 million for the three months ended March 31, 2014, compared to the corresponding period in 2013. The increase for the three months ended March 31, 2014 was due primarily to an increase in salaries and employee benefits offset by a decrease in losses from other property owned.

Salaries and employee benefits increased $1.6 million for the three months ended March 31, 2014, compared to the prior year period. The increase was due primarily to a $3.4 million increase in cash incentive expense as certain Associations and the Bank changed accrual methodology for cash incentives in 2014 to record the related expense throughout the year as compared to recording primarily in the month of December in previous years. There was also a $1.0 million increase in health insurance related expense. A decrease of $3.4 million in pension expense partially offset these increases. The remainder of the net increase in salaries and employee benefits resulted from normal salary and benefit administration.

Occupancy and equipment expense for the three months ended March 31, 2014 increased $927 thousand compared to the corresponding period in 2013. This increase resulted primarily from increases in depreciation and amortization expense related to the Bank's new data center.

Insurance Fund premiums increased $811 thousand for the three month period ended March 31, 2014, compared to the prior year period, primarily as a result of an increase in the 2014 base annual premium rate to 12 basis points from the 2013 base annual premium rate of 10 basis points. The Insurance Fund Board makes premium rate adjustments, as necessary, to maintain the secure base amount, which is based upon insured debt outstanding at System banks.

Other operating expenses increased $939 thousand for the three months ended March 31, 2014, compared to the prior year. The increases resulted from numerous and varied expenses, none of which individually had a significant increase.

Losses on other property owned decreased $2.2 million for the three months ended March 31, 2014, compared to the prior year. This decrease resulted primarily from higher gains on sales and lower writedowns recorded during the first quarter of 2014 due to stabilized real estate values in most areas of the District. See *Other Property Owned* section above.

DISTRICT MERGER ACTIVITY

Please refer to Note 10, *Business Combinations*, in the Notes to the Combined Financial Statements for information regarding merger activity in the District.

REGULATORY MATTERS

On March 31, 2014, the FCA published an interim final rule rescinding all requirements for nonbinding advisory votes on senior officer compensation at System banks and associations. The comment period for the interim rule ended on April 30, 2014. A final effective date for the rule has not yet been published.

On May 8, 2014, the FCA approved a proposed rule to modify the regulatory capital requirements for System banks and associations. See Note 13, *Subsequent Events*, in the Notes to the Combined Financial Statements for further discussion on the proposed rule.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Combined Financial Statements, and the 2013 Annual Report of AgFirst Farm Credit Bank and District Associations for recently issued accounting pronouncements.

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

Combined Balance Sheets

(dollars in thousands)	March 31, 2014	December 31, 2013
	(unaudited)	(audited)
Assets		
Cash	**$ 522,235**	$ 1,085,489
Cash equivalents	**220,972**	144,885
Investment securities:		
Available for sale (amortized cost of $6,260,468 and $6,504,339, respectively)	**6,366,792**	6,604,262
Held to maturity (fair value of $688,709 and $700,862, respectively)	**672,269**	691,219
Total investment securities	**7,039,061**	7,295,481
Loans held for sale	**9,263**	6,834
Loans	**23,216,556**	23,270,508
Allowance for loan losses	**(186,548)**	(187,437)
Net loans	**23,030,008**	23,083,071
Accrued interest receivable	**173,242**	176,986
Accounts receivable	**36,817**	38,196
Investments in other Farm Credit System institutions	**14,992**	14,962
Other investments	**439**	84,247
Premises and equipment, net	**173,916**	170,154
Other property owned	**68,529**	68,801
Other assets	**99,576**	92,165
Total assets	**$ 31,389,050**	$ 32,261,271
Liabilities		
Systemwide bonds payable	**$ 22,836,768**	$ 24,315,776
Systemwide notes payable	**2,624,478**	2,110,328
Accrued interest payable	**46,383**	54,198
Accounts payable	**38,211**	203,491
Advanced conditional payments	**16,160**	12,911
Other liabilities	**501,279**	389,893
Total liabilities	**26,063,279**	27,086,597
Commitments and contingencies (Note 8)		
Shareholders' Equity		
Perpetual preferred stock	**125,250**	125,250
Protected borrower equity	**850**	901
Capital stock and participation certificates	**160,423**	156,382
Additional paid-in-capital	**60,270**	60,270
Retained earnings		
Allocated	**1,686,875**	1,693,689
Unallocated	**3,456,100**	3,313,471
Accumulated other comprehensive income (loss)	**(163,997)**	(175,289)
Total shareholders' equity	**5,325,771**	5,174,674
Total liabilities and equity	**$ 31,389,050**	$ 32,261,271

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

Combined Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2014	2013
Interest Income		
Investments	**$ 35,248**	$ 43,915
Loans	**269,958**	271,098
Total interest income (loss)	**305,206**	315,013
Interest Expense	**53,572**	47,536
Net interest income	**251,634**	267,477
Provision for (reversal of allowance for) loan losses	**(2,344)**	4,900
Net interest income after provision for (reversal of allowance for) loan losses	**253,978**	262,577
Noninterest Income		
Loan fees	**6,989**	8,985
Fees for financially related services	**1,345**	1,469
Building lease income	**1,030**	1,086
Total other-than-temporary impairment losses	**(74)**	(613)
Portion of loss recognized in other comprehensive income	**(1,277)**	(505)
Net other-than-temporary impairment losses	**(1,351)**	(1,118)
Gains (losses) on investments, net	**149**	7,592
Gains (losses) on called debt	**(2,863)**	(1,706)
Gains (losses) on other transactions	**1,352**	1,189
Other noninterest income	**2,961**	3,568
Total noninterest income	**9,612**	21,065
Noninterest Expenses		
Salaries and employee benefits	**71,150**	69,593
Occupancy and equipment	**9,955**	9,028
Insurance Fund premiums	**6,017**	5,206
Other operating expenses	**27,361**	26,422
Losses (gains) from other property owned	**(28)**	2,150
Total noninterest expenses	**114,455**	112,399
Income (loss) before income taxes	**149,135**	171,243
Provision for income taxes	**540**	171
Net income (loss)	**$ 148,595**	$ 171,072

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

Combined Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2014	2013
Net income	**$ 148,595**	$ 171,072
Other comprehensive income net of tax:		
Unrealized gains (losses) on investments:		
Other-than-temporarily impaired	**6,929**	5,778
Not other-than-temporarily impaired	**(470)**	(5,711)
Change in value of firm commitments - when issued securities	**(263)**	(382)
Employee benefit plans adjustments	**5,096**	8,173
Other comprehensive income (Note 5)	**11,292**	7,858
Comprehensive income	**$ 159,887**	$ 178,930

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

Combined Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Protected Borrower Equity	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, 2012	$ 275,250	$ 1,351	$ 157,260	$ 60,270	$ 1,531,077	$ 3,076,113	$ (213,502)	$ 4,887,819
Comprehensive income						171,072	7,858	178,930
Protected borrower equity retired		(65)						(65)
Capital stock/participation certificates issued (retired), net			3,115					3,115
Dividends declared/paid			101			(148)		(47)
Dividends paid on perpetual preferred stock						(440)		(440)
Cash patronage distribution						(2,525)		(2,525)
Retained earnings retired					(6,930)	52		(6,878)
Patronage distribution adjustment					(1,211)	916		(295)
Balance at March 31, 2013	$ 275,250	$ 1,286	$ 160,476	$ 60,270	$ 1,522,936	$ 3,245,040	$ (205,644)	$ 5,059,614
Balance at December 31, 2013	$ 125,250	$ 901	$ 156,382	$ 60,270	$ 1,693,689	$ 3,313,471	$ (175,289)	$ 5,174,674
Comprehensive income						**148,595**	**11,292**	**159,887**
Protected borrower equity retired		**(51)**						**(51)**
Capital stock/participation certificates issued (retired), net			**3,928**					**3,928**
Dividends declared/paid			**113**			**(162)**		**(49)**
Dividends paid on perpetual preferred stock						**(435)**		**(435)**
Cash patronage distribution						**(4,750)**		**(4,750)**
Retained earnings retired					**(6,488)**	**11**		**(6,477)**
Patronage distribution adjustment					**(326)**	**(630)**		**(956)**
Balance at March 31, 2014	**$ 125,250**	**$ 850**	**$ 160,423**	**$ 60,270**	**$ 1,686,875**	**$ 3,456,100**	**$ (163,997)**	**$ 5,325,771**

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

Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	March 31, 2014	March 31, 2013
Cash flows from operating activities:		
Net income	**$ 148,595**	$ 171,072
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	**4,476**	4,199
Amortization of net deferred loan (fees) costs and premium amortization (discount accretion)	**(1,080)**	(962)
Premium amortization (discount accretion) on investment securities	**2,378**	1,628
(Premium amortization) discount accretion on bonds and notes	**1,805**	2,012
Amortization (accretion) of yield mark resulting from merger	**(595)**	(1,470)
Provision for loan losses	**(2,344)**	4,900
(Gains) losses on other property owned	**(725)**	1,712
Net impairment losses on investments	**1,351**	1,118
(Gains) losses on investments, net	**(149)**	(7,592)
(Gains) losses on other transactions	**(1,352)**	(1,189)
Net change in loans held for sale	**194**	7,983
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	**3,744**	5,995
(Increase) decrease in accounts receivable	**1,379**	7,422
(Increase) decrease in other assets	**(10,110)**	(4,771)
Increase (decrease) in accrued interest payable	**(7,815)**	(89)
Increase (decrease) in accounts payable	**(21,790)**	(21,988)
Increase (decrease) in other liabilities	**121,928**	68,163
Total adjustments	**91,295**	67,071
Net cash provided by (used in) operating activities	**239,890**	238,143
Cash flows from investing activities:		
Investment securities purchased	**(67,412)**	(537,511)
Proceeds from investment securities sold or matured	**326,322**	613,452
Net (increase) decrease in loans	**43,263**	332,563
(Increase) decrease in investments in other Farm Credit System institutions	**(30)**	(98)
Proceeds from payments received on other investments	**83,954**	83,954
Purchase of premises and equipment, net	**(8,331)**	(3,007)
Proceeds from sale of premises and equipment, net	**352**	259
Proceeds from sale of other property owned	**12,347**	11,759
Net cash provided by (used in) investing activities	**390,465**	501,371
Cash flows from financing activities:		
Bonds and notes issued	**6,037,210**	5,905,566
Bonds and notes retired	**(7,005,701)**	(6,970,137)
Net increase (decrease) in advanced conditional payments	**3,249**	7,179
Protected borrower equity retired	**(51)**	(65)
Capital stock and participation certificates issued/retired, net	**3,928**	3,115
Patronage refunds and dividends paid	**(149,245)**	(95,745)
Dividends paid on perpetual preferred stock	**(435)**	(440)
Retained earnings retired	**(6,477)**	(6,878)
Net cash provided by (used in) financing activities	**(1,117,522)**	(1,157,405)
Net increase (decrease) in cash and cash equivalents	**(487,167)**	(417,891)
Cash and cash equivalents, beginning of period	**1,230,374**	925,448
Cash and cash equivalents, end of period	**$ 743,207**	$ 507,557
Supplemental schedule of non-cash investing and financing activities:		
Financed sales of other property owned	**$ 663**	$ 3,551
Receipt of property in settlement of loans	**12,013**	10,243
Change in unrealized gains (losses) on investments, net	**6,459**	67
Employee benefit plans adjustments (Note 7)	**(5,096)**	(8,173)
Non-cash changes related to interest rate hedging activities:		
Increase (decrease) in bonds and notes	**$ (2,699)**	$ (3,560)
Decrease (increase) in other assets	**2,699**	3,560
Supplemental information:		
Interest paid	**$ 59,702**	$ 45,935
Taxes paid, net	**744**	163

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

Notes to the Combined Financial Statements

(unaudited)

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

Organization

The accompanying combined financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst or Bank) and its related Agricultural Credit Associations (Associations or District Associations), collectively referred to as the AgFirst District (District). A complete description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations of the District as of and for the year ended December 31, 2013 are contained in the 2013 Annual Report to Shareholders. These unaudited interim financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation

In the opinion of management, the accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. All significant transactions and balances between AgFirst and the District Associations have been eliminated in combination.

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

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

Significant Accounting Policies

The District maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the District has been identified. 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. The District considers factors such as credit risk classifications, collateral values, risk concentrations, weather related conditions, current production and economic conditions, and prior loan loss experience, among others, when determining the allowance for loan losses.

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, or at 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. The general allowance excludes loans included under the specific allowance discussed above, unless specific characteristics of the loan indicate that it is probable that there would be an incurred loss in a group of loans with those 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 District's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The District 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.

Recently Issued Accounting Pronouncements

In March 2014 The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-06, "Technical Corrections and Improvements Related to Glossary Terms (Master Glossary)." The amendments in this Update relate to glossary terms, cover a wide range of Topics in the Codification and are presented in four sections: Deletion of Master Glossary Terms, Addition of Master Glossary Term Links, Duplicate Master Glossary Terms, and Other Technical Corrections Related to Glossary Terms. These amendments did not have transition guidance and were effective upon issuance for both public entities and nonpublic entities.

In January 2014 the FASB issued ASU 2014-04, "Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40) - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The objective of the amendments in this Update is to reduce diversity by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The amendments are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For entities other than public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. An entity can elect to adopt the amendments in this Update using either a modified retrospective transition method or a prospective transition method. Early adoption is permitted.

Other recently issued accounting pronouncements are discussed in the 2013 Annual Report to Shareholders.

Note 2 — Loans and Allowance for Loan Losses

For a complete description of the District's accounting for loans (including impaired loans and the allowance for loan losses) and definitions of loan types, see the 2013 Annual Report to Shareholders.

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

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 Farm Credit Administration (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 (as discussed in Note 1 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 is related to the structure of a credit (tenor, terms, and collateral).
A summary of loans outstanding at period end follows:

(dollars in thousands)	March 31, 2014	December 31, 2013
Real estate mortgage	$ 10,260,598	$ 10,268,260
Production and intermediate-term	7,101,602	7,479,455
Loans to cooperatives	367,161	241,023
Processing and marketing	1,232,371	1,091,648
Farm-related business	361,492	352,315
Communication	403,103	358,601
Energy and water/waste disposal	500,930	496,898
Rural residential real estate	2,838,403	2,833,416
Lease receivables	4,650	4,922
Loans to other financing institutions (OFIs)	83,375	83,116
Other (including Mission Related)	62,871	60,854
Total Loans	$ 23,216,556	$ 23,270,508

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

	March 31, 2014					
	Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 174,647	$ 46,619	$ 78,147	$ 16,028	$ 252,794	$ 62,647
Production and intermediate-term	449,894	389,081	578,550	22,132	1,028,444	411,213
Loans to cooperatives	333,717	–	20,849	–	354,566	–
Processing and marketing	475,001	69,977	641,453	–	1,116,454	69,977
Farm-related business	129,876	1,800	52,643	–	182,519	1,800
Communication	388,415	–	9,925	–	398,340	–
Energy and water/waste disposal	496,068	–	6,870	–	502,938	–
Rural residential real estate	–	–	48	–	48	–
Lease receivables	2,258	–	–	–	2,258	–
Other (including Mission Related)	12,000	–	7,773	–	19,773	–
Total	$ 2,461,876	$ 507,477	$ 1,396,258	$ 38,160	$ 3,858,134	$ 545,637

	December 31, 2013					
	Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 182,668	$ 47,498	$ 81,468	$ 16,854	$ 264,136	$ 64,352
Production and intermediate-term	467,597	369,016	495,237	32,311	962,834	401,327
Loans to cooperatives	204,011	–	20,494	–	224,505	–
Processing and marketing	394,143	54,406	553,038	–	947,181	54,406
Farm-related business	117,830	490	48,734	–	166,564	490
Communication	343,584	–	9,950	–	353,534	–
Energy and water/waste disposal	492,027	–	6,870	–	498,897	–
Rural residential real estate	–	–	49	–	49	–
Lease receivables	2,396	–	–	–	2,396	–
Other (including Mission Related)	12,000	–	7,628	–	19,628	–
Total	$ 2,216,256	$ 471,410	$ 1,223,468	$ 49,165	$ 3,439,724	$ 520,575

A significant source of liquidity for the District 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:

	March 31, 2014			
(dollars in thousands)	Due less than 1 year	Due 1 through 5 years	Due after 5 years	Total
Real estate mortgage	$ 567,726	$ 2,415,801	$ 7,277,071	$ 10,260,598
Production and intermediate-term	1,789,381	3,117,414	2,194,807	7,101,602
Loans to cooperatives	118,161	183,588	65,412	367,161
Processing and marketing	173,909	604,205	454,257	1,232,371
Farm-related business	37,627	209,688	114,177	361,492
Communication	106,916	180,941	115,246	403,103
Energy and water/waste disposal	49,197	164,710	287,023	500,930
Rural residential real estate	25,720	66,284	2,746,399	2,838,403
Lease receivables	2,378	2,272	–	4,650
Loans to OFIs	40,255	40,670	2,450	83,375
Other (including Mission Related)	7,918	10,887	44,066	62,871
Total Loans	$ 2,919,188	$ 6,996,460	$ 13,300,908	$ 23,216,556
Percentage	12.57%	30.14%	57.29%	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:

	March 31, 2014	December 31, 2013
Real estate mortgage:		
Acceptable	92.01%	91.94%
OAEM	3.61	3.71
Substandard/doubtful/loss	4.38	4.35
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	89.11%	89.77%
OAEM	5.61	4.90
Substandard/doubtful/loss	5.28	5.33
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	98.13%	99.94%
OAEM	1.87	0.06
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	95.02%	97.00%
OAEM	3.73	1.48
Substandard/doubtful/loss	1.25	1.52
	100.00%	100.00%
Farm-related business:		
Acceptable	96.77%	96.78%
OAEM	1.99	2.03
Substandard/doubtful/loss	1.24	1.19
	100.00%	100.00%
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	March 31, 2014	December 31, 2013
Energy and water/waste disposal:		
Acceptable	99.91%	99.95%
OAEM	–	–
Substandard/doubtful/loss	0.09	0.05
	100.00%	100.00%
Rural residential real estate:		
Acceptable	99.07%	99.08%
OAEM	0.31	0.29
Substandard/doubtful/loss	0.62	0.63
	100.00%	100.00%
Lease receivables:		
Acceptable	96.37%	96.42%
OAEM	3.17	3.10
Substandard/doubtful/loss	0.46	0.48
	100.00%	100.00%
Loans to OFIs:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Other (including Mission Related):		
Acceptable	85.51%	85.05%
OAEM	5.05	5.25
Substandard/doubtful/loss	9.44	9.70
	100.00%	100.00%
Total Loans:		
Acceptable	92.63%	92.81%
OAEM	3.63	3.36
Substandard/doubtful/loss	3.74	3.83
	100.00%	100.00%

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

	March 31, 2014					
(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**
Real estate mortgage	$ 64,580	$ 90,343	$ 154,923	$ 10,189,513	$ 10,344,436	$ 853
Production and intermediate-term	48,662	73,025	121,687	7,036,645	7,158,332	183
Loans to cooperatives	–	–	–	368,489	368,489	–
Processing and marketing	–	1,218	1,218	1,234,443	1,235,661	–
Farm-related business	451	1	452	362,700	363,152	–
Communication	–	–	–	403,428	403,428	–
Energy and water/waste disposal	–	–	–	502,936	502,936	–
Rural residential real estate	34,982	11,062	46,044	2,803,066	2,849,110	6,658
Lease receivables	–	22	22	4,633	4,655	–
Loans to OFIs	–	–	–	83,488	83,488	–
Other (including Mission Related)	237	3,675	3,912	59,517	63,429	–
Total	$ 148,912	$ 179,346	$ 328,258	$ 23,048,858	$ 23,377,116	$ 7,694

	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**
Real estate mortgage	$ 62,733	$ 110,112	$ 172,845	$ 10,177,077	$ 10,349,922	$ 1,498
Production and intermediate-term	42,101	79,585	121,686	7,422,605	7,544,291	388
Loans to cooperatives	16	–	16	241,753	241,769	–
Processing and marketing	148	1,517	1,665	1,092,564	1,094,229	–
Farm-related business	405	13	418	353,752	354,170	–
Communication	–	–	–	358,880	358,880	–
Energy and water/waste disposal	–	–	–	497,996	497,996	–
Rural residential real estate	45,437	5,871	51,308	2,792,361	2,843,669	1,651
Lease receivables	–	24	24	4,903	4,927	–
Loans to OFIs	–	–	–	83,228	83,228	–
Other (including Mission Related)	–	3,800	3,800	57,685	61,485	–
Total	$ 150,840	$ 200,922	$ 351,762	$ 23,082,804	$ 23,434,566	$ 3,537

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

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

(dollars in thousands)	March 31, 2014	December 31, 2013
Nonaccrual loans:		
Real estate mortgage	$ 209,813	$ 218,030
Production and intermediate-term	155,830	172,394
Processing and marketing	6,103	6,423
Farm-related business	3,684	3,747
Energy and water/waste disposal	435	234
Rural residential real estate	10,231	9,531
Lease receivables	21	24
Other (including Mission Related)	3,668	3,794
Total nonaccrual loans	$ 389,785	$ 414,177
Accruing restructured loans:		
Real estate mortgage	$ 58,585	$ 60,376
Production and intermediate-term	54,563	48,951
Farm-related business	799	815
Rural residential real estate	1,530	1,835
Other (including Mission Related)	10,022	9,879
Total accruing restructured loans	$ 125,499	$ 121,856
Accruing loans 90 days or more past due:		
Real estate mortgage	$ 853	$ 1,498
Production and intermediate-term	183	388
Rural residential real estate	6,658	1,651
Other (including Mission Related)	–	–
Total accruing loans 90 days or more past due	$ 7,694	$ 3,537
Total nonperforming loans	$ 522,978	$ 539,570
Other property owned	68,529	68,801
Total nonperforming assets	$ 591,507	$ 608,371
Nonaccrual loans as a percentage of total loans	1.68%	1.78%
Nonperforming assets as a percentage of total loans and other property owned	2.54%	2.61%
Nonperforming assets as a percentage of capital	11.11%	11.76%

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

(dollars in thousands)	March 31, 2014	December 31, 2013
Impaired nonaccrual loans:		
Current as to principal and interest	$ 187,764	$ 179,231
Past due	202,021	234,946
Total impaired nonaccrual loans	389,785	414,177
Impaired accrual loans:		
Restructured	125,499	121,856
90 days or more past due	7,694	3,537
Total impaired accrual loans	133,193	125,393
Total impaired loans	$ 522,978	$ 539,570

Additional impaired loan information at period end is summarized as follows. Unpaid principal balance represents the contractual principal balance of the loan.

	March 31, 2014			Quarter Ended March 31, 2014	
(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	$ 84,131	$ 102,329	$ 18,665	$ 78,744	$ 608
Production and intermediate-term	76,492	98,507	23,634	75,269	706
Loans to cooperatives	–	–	–	–	–
Processing and marketing	6,078	6,050	936	6,172	71
Farm-related business	3,624	4,009	193	3,663	39
Communication	–	–	–	–	–
Energy and water/waste disposal	435	443	435	441	5
Rural residential real estate	3,803	4,155	1,393	3,845	41
Lease receivables	–	–	–	–	–
Other (including Mission Related)	8,554	8,383	564	7,449	33
Total	$ 183,117	$ 223,876	$ 45,820	$ 175,583	$ 1,503
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 185,120	$ 249,246	$ –	$ 192,196	$ 1,709
Production and intermediate-term	134,084	189,785	–	138,250	1,358
Loans to cooperatives	–	32	–	–	–
Processing and marketing	25	5,312	–	44	–
Farm-related business	859	921	–	868	9
Communication	–	–	–	–	–
Energy and water/waste disposal	–	–	–	–	–
Rural residential real estate	14,616	16,758	–	13,011	127
Lease receivables	21	74	–	22	–
Other (including Mission Related)	5,136	5,207	–	6,281	114
Total	$ 339,861	$ 467,335	$ –	$ 350,672	$ 3,317
Total impaired loans:					
Real estate mortgage	$ 269,251	$ 351,575	$ 18,665	$ 270,940	$ 2,317
Production and intermediate-term	210,576	288,292	23,634	213,519	2,064
Loans to cooperatives	–	32	–	–	–
Processing and marketing	6,103	11,362	936	6,216	71
Farm-related business	4,483	4,930	193	4,531	48
Communication	–	–	–	–	–
Energy and water/waste disposal	435	443	435	441	5
Rural residential real estate	18,419	20,913	1,393	16,856	168
Lease receivables	21	74	–	22	–
Other (including Mission Related)	13,690	13,590	564	13,730	147
Total	$ 522,978	$ 691,211	$ 45,820	$ 526,255	$ 4,820

(dollars in thousands)	December 31, 2013 Recorded Investment	December 31, 2013 Unpaid Principal Balance	December 31, 2013 Related Allowance	Year Ended December 31, 2013 Average Impaired Loans	Year Ended December 31, 2013 Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 78,718	$ 97,096	$ 19,946	$ 103,696	$ 2,238
Production and intermediate-term	84,603	112,526	23,806	124,148	3,162
Processing and marketing	6,099	6,100	950	13,831	293
Farm-related business	3,682	4,043	410	4,067	158
Energy and water/waste disposal	234	241	234	305	11
Rural residential real estate	4,159	4,535	1,252	5,150	176
Lease receivables	–	–	–	–	–
Other (including Mission Related)	11,576	11,651	856	6,152	223
Total	$ 189,071	$ 236,192	$ 47,454	$ 257,349	$ 6,261
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 201,186	$ 269,005	$ –	$ 211,607	$ 7,373
Production and intermediate-term	137,130	189,670	–	153,332	6,001
Loans to cooperatives	–	32	–	406	–
Processing and marketing	324	6,803	–	11,069	16
Farm-related business	880	1,644	–	959	38
Communication	–	–	–	6	–
Energy and water/waste disposal	–	–	–	(2)	–
Rural residential real estate	8,858	10,985	–	9,410	307
Lease receivables	24	398	–	29	1
Other (including Mission Related)	2,097	990	–	2,462	349
Total	$ 350,499	$ 479,527	$ –	$ 389,278	$ 14,085
Total impaired loans:					
Real estate mortgage	$ 279,904	$ 366,101	$ 19,946	$ 315,303	$ 9,611
Production and intermediate-term	221,733	302,196	23,806	277,480	9,163
Loans to cooperatives	–	32	–	406	–
Processing and marketing	6,423	12,903	950	24,900	309
Farm-related business	4,562	5,687	410	5,026	196
Communication	–	–	–	6	–
Energy and water/waste disposal	234	241	234	303	11
Rural residential real estate	13,017	15,520	1,252	14,560	483
Lease receivables	24	398	–	29	1
Other (including Mission Related)	13,673	12,641	856	8,614	572
Total	$ 539,570	$ 715,719	$ 47,454	$ 646,627	$ 20,346

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at each reporting period.

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

(dollars in thousands)	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Lease Receivables	Other Loans (including Mission Related)	Total
Allowance for credit losses:									
Balance at December 31, 2013	$ 74,933	$ 92,180	$ 10,049	$ 1,065	$ 1,427	$ 6,487	$ 91	$ 1,205	$ 187,437
Charge-offs	(1,683)	(1,150)	(1)	–	–	(90)	–	–	(2,924)
Recoveries	1,567	1,224	1,565	–	–	19	–	4	4,379
Provision for loan losses	(801)	(1,813)	(715)	43	216	1,027	(9)	(292)	(2,344)
Balance at March 31, 2014	$ 74,016	$ 90,441	$ 10,898	$ 1,108	$ 1,643	$ 7,443	$ 82	$ 917	$ 186,548
Balance at December 31, 2012	$ 76,832	$ 110,409	$ 18,990	$ 863	$ 1,364	$ 3,968	$ 40	$ 1,034	$ 213.500
Charge-offs	(4,427)	(3,233)	(9)	–	–	(64)	–	–	(7,733)
Recoveries	1,379	1,057	33	–	–	192	–	47	2,708
Provision for loan losses	180	5,196	(1,470)	97	444	212	11	230	4,900
Loan type reclassifications	170	–	–	–	(61)	–	–	(109)	–
Balance at March 31, 2013	$ 74,134	$ 113,429	$ 17,544	$ 960	$ 1,747	$ 4,308	$ 51	$ 1,202	$ 213,375
Loans individually evaluated for impairment	$ 18,657	$ 23,261	$ 1,129	$ –	$ 435	$ 1,393	$ –	$ 564	$ 45,439
Loans collectively evaluated for impairment	55,351	66,807	9,769	1,108	1,208	6,050	82	353	140,728
Loans acquired with deteriorated credit quality	8	373	–	–	–	–	–	–	381
Balance at March 31, 2014	$ 74,016	$ 90,441	$ 10,898	$ 1,108	$ 1,643	$ 7,443	$ 82	$ 917	$ 186,548
Loans individually evaluated for impairment	$ 19,758	$ 23,433	$ 1,360	$ –	$ 234	$ 1,252	$ –	$ 856	$ 46,893
Loans collectively evaluated for impairment	54,987	68,374	8,689	1,065	1,193	5,235	91	349	139,983
Loans acquired with deteriorated credit quality	188	373	–	–	–	–	–	–	561
Balance at December 31, 2013	$ 74,933	$ 92,180	$ 10,049	$ 1,065	$ 1,427	$ 6,487	$ 91	$ 1,205	$ 187,437
Recorded investment in loans outstanding:									
Loans individually evaluated for impairment	$ 315,924	$ 172,231	$ 10,476	$ –	$ 435	$ 2,324,767	$ 318	$ 8,265	$ 2,832,416
Loans collectively evaluated for impairment	10,023,308	6,981,041	1,956,826	403,428	502,501	524,167	4,337	138,652	20,534,260
Loans acquired with deteriorated credit quality	5,204	5,060	–	–	–	176	–	–	10,440
Ending balance at March 31, 2014	$ 10,344,436	$ 7,158,332	$ 1,967,302	$ 403,428	$ 502,936	$ 2,849,110	$ 4,655	$ 146,917	$ 23,377,116
Loans individually evaluated for impairment	$ 342,341	$ 253,785	$ 11,901	$ –	$ 234	$ 2,316,950	$ 323	$ 8,231	$ 2,933,765
Loans collectively evaluated for impairment	9,998,917	7,285,303	1,678,267	358,880	497,762	526,536	4,604	136,482	20,486,751
Loans acquired with deteriorated credit quality	8,664	5,203	–	–	–	183	–	–	14,050
Ending balance at December 31, 2013	$ 10,349,922	$ 7,544,291	$ 1,690,168	$ 358,880	$ 497,996	$ 2,843,669	$ 4,927	$ 144,713	$ 23,434,566

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

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 purchased credit impaired loans.

	Three months ended March 31, 2014			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 1,332	$ 3,211	$ –	$ 4,543
Production and intermediate-term	953	10,158	–	11,111
Rural residential real estate	255	118	–	373
Total	$ 2,540	$ 13,487	$ –	$ 16,027

	Three months ended March 31, 2014				
	Post-modification Outstanding Recorded Investment				Effects of Modification
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Troubled debt restructurings:					
Real estate mortgage	$ 2,046	$ 2,762	$ –	$ 4,808	$ –
Production and intermediate-term	953	9,125	–	10,078	–
Rural residential real estate	254	100	–	354	–
Total	$ 3,253	$ 11,987	$ –	$ 15,240	$ –

	Three months ended March 31, 2013			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 2,736	$ 10,248	$ –	$ 12,984
Production and intermediate-term	–	6,724	642	7,366
Rural residential real estate	130	–	–	130
Total	$ 2,866	$ 16,972	$ 642	$ 20,480

	Three months ended March 31, 2013				
	Post-modification Outstanding Recorded Investment				Effects of Modification
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Troubled debt restructurings:					
Real estate mortgage	$ 2,738	$ 10,123	$ –	$ 12,861	$ –
Production and intermediate-term	–	6,808	642	7,450	–
Rural residential real estate	131	–	–	131	–
Total	$ 2,869	$ 16,931	$ 642	$ 20,442	$ –

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

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

	Three months ended March 31,	
	2014	2013
Defaulted troubled debt restructurings:		
Real estate mortgage	$ 417	$ 1,594
Production and intermediate-term	1,735	4,316
Processing and marketing	–	10,258
Farm-related business	–	–
Rural residential real estate	–	–
Total	$ 2,152	$ 16,168

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

	Total TDRs		Nonaccrual TDRs	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Real estate mortgage	$ 138,835	$ 146,018	$ 80,250	$ 85,642
Production and intermediate-term	121,328	115,909	66,765	66,958
Processing and marketing	–	24	–	24
Farm-related business	4,046	4,107	3,247	3,292
Rural residential real estate	3,967	3,605	2,437	1,770
Other (including Mission Related)	10,022	9,879	–	–
Total Loans	$ 278,198	$ 279,542	$ 152,699	$ 157,686
Additional commitments to lend	$ 2,998	$ 5,770		

Purchased Credit Impaired Loans

District entities acquire loans individually and in groups or portfolios. For certain acquired loans that experienced deterioration in credit quality between origination and acquisition, the amount paid for the loan will reflect this fact. At acquisition, each loan is reviewed to determine whether there is evidence of deterioration of credit quality since origination and if it is probable that the holder would be unable to collect all amounts due according to the loan's contractual terms. If both conditions exist, the purchaser determines whether each such loan is to be accounted for individually or whether such loans would be assembled into pools of loans based on common risk characteristics (credit score, loan type, and date of origination, for example). Considerations of value should include expected prepayments, the estimated amount and timing of undiscounted expected principal, interest, and other cash flows (expected at acquisition) for each loan and the subsequently aggregated pool of loans. The amount of any excess of the loan's or pool's scheduled contractual principal and contractual interest payments over all of the cash flows expected at acquisition is not accreted to income (nonaccretable difference). The remaining amount, representing the excess of the loan's cash flows expected to be collected over the amount paid, is accreted into interest income over the remaining life of the loan or pool (accretable yield).

Accounting guidance requires that the purchaser continue to estimate cash flows expected to be collected over the life of the loan or pool. It then evaluates at the balance sheet date whether the present value of its loans, determined using the effective interest rate, has decreased and if so, recognizes a loss. For loans or pools that are not accounted for as debt securities, the present value of any subsequent increase in the loan's or pool's actual cash flows or cash flows expected to be collected is used first to reverse any existing valuation allowance for that loan or pool. For any remaining increases in cash flows expected to be collected, or for loans or pools accounted for as debt securities, a purchaser adjusts the amount of accretable yield recognized on a prospective basis over the loan's or pool's remaining life.

Valuation allowances for all purchased impaired loans reflect only those losses incurred after acquisition, that is, the present value of cash flows expected at acquisition that are not expected to be collected. Valuation allowances are established only subsequent to acquisition of the loans.

In connection with past mergers, certain Associations purchased impaired loans that are not accounted for as debt securities. The carrying amounts of those loans included in the balance sheet amounts of loans receivable at March 31, 2014, were as follows.

(dollars in thousands)	
Real estate mortgage	$ 5,204
Production and intermediate-term	5,060
Rural residential real estate	176
Total Loans	$ 10,440

At March 31, 2014, the allowance for loan losses related to these loans was $381 thousand compared with $561 thousand at December 31, 2013. During the three months ended March 31, 2014, provision for loan losses on these loans was an expense reversal of $163 thousand compared with an expense reversal of $613 thousand for the three month period ended March 31, 2013. See above for a summary of changes in the total allowance for loan losses for the period ended March 31, 2014.

There were no credit impaired loans purchased during 2014 or 2013. The total of loans acquired during previous periods for which it was probable at acquisition that all contractually required payments would not be collected are as follows.

(dollars in thousands)	2012	2011
Real estate mortgage	$ 3,488	$ 57,735
Production and intermediate-term	4,105	18,862
Processing and marketing	–	2,196
Farm-related business	–	1,734
Rural residential real estate	236	1,769
Total Loans	$ 7,829	$ 82,296

Certain loans that are within the scope of purchased impaired loan guidance are accounted for using a cash basis method of income recognition because the acquiring Associations could not reasonably estimate cash flows expected to be collected. Substantially all of the loans acquired were real estate collateral dependent loans. At the time of purchase, the real estate markets were very unpredictable, making estimation of the amount and timing of a sale of loan collateral in essentially the same condition as received upon foreclosure indeterminate. As such, the acquiring Associations did not have the information necessary to reasonably estimate cash flows expected to be collected to compute their yield. Management determined a nonaccrual classification would be the most appropriate and that no income would be recognized on these loans as is allowed under accounting guidance.

Note 3 — Investment Securities

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

Included in the available-for-sale investments are 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 when a security is downgraded below that rating. Non-agency CMO and ABS securities not rated in the top category by at least one of the NRSROs at March 31, 2014 had a fair value of $170.9 million and $35.1 million, respectively. For each of these investment securities in the District's portfolio rated below AAA/Aaa, the FCA has approved, with conditions, for the District to continue to hold these investments.

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

Held-to-maturity securities also include ABSs issued through the Small Business Administration and guaranteed by the full faith and credit of the United States government. They are held for managing short-term surplus funds and reducing interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

In its Conditions of Approval for the program, the FCA considers 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 District to continue to hold eight 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 (Mission Related Investments) 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.

During the first three months of 2014, proceeds from sales of investments were $7.6 million and realized gains were $149 thousand. During the first three months of 2013, proceeds from sales of investments were $122.2 million, and realized gains were $7.6 million.

Available-for-sale

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

	March 31, 2014				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. Guaranteed	$ 4,321,470	$ 106,975	$ (9,129)	$ 4,419,316	1.94%
U.S. Govt. Agency Guaranteed	1,688,611	21,172	(12,632)	1,697,151	1.05
Non-Agency CMOs (a)	193,183	32	(20,973)	172,242	0.63
Asset-Backed Securities (a)	20,018	20,765	(392)	40,391	4.47
RABs and Other (a)	37,186	1,874	(1,368)	37,692	6.12
Total	$ 6,260,468	$ 150,818	$ (44,494)	$ 6,366,792	1.69%

	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 (b)	200,246	18	(26,778)	173,486	0.63
Asset-Backed Securities (b)	20,979	18,502	(683)	38,798	6.38
RABs and Other (b)	42,117	1,190	(2,021)	41,286	6.04
Total	$ 6,504,339	$ 149,860	$ (49,937)	$ 6,604,262	1.72%

(a) Gross unrealized losses include noncredit related other-than-temporary impairment included in AOCI of $15.2 million for Non-Agency CMOs, $0 for Asset-Backed Securities, and $284 thousand for RABs and Other.

(b) Gross unrealized losses include noncredit related other-than temporary impairment included in AOCI of $19.7 million for Non-Agency CMOs, $0 for Asset-Backed Securities, and $363 thousand for RABs and Other.

Held-to-maturity

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

	March 31, 2014				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. Agency Guaranteed	$ 427,379	$ 21,904	$ (13,510)	$ 435,773	4.06%
Asset-Backed Securities	50,642	1,024	(164)	51,502	1.58
RABs and Other (a)	194,248	10,831	(3,645)	201,434	5.94
Total	$ 672,269	$ 33,759	$ (17,319)	$ 688,709	4.42%

	December 31, 2013				
(dollars in thousands)	**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%
Asset-Backed Securities	53,782	1,190	(172)	54,800	1.58
RABs and Other (b)	187,499	9,038	(5,659)	190,878	5.93
Total	$ 691,219	$ 32,293	$ (22,650)	$ 700,862	4.48%

(a) Gross unrealized losses include noncredit related other-than-temporary impairment included in AOCI of $0 for RABs and Other.

(b) Gross unrealized losses include noncredit related other-than-temporary impairment included in AOCI of $56 thousand for RABs and Other.

A summary of the contractual maturity, estimated fair value and amortized cost of investment securities at March 31, 2014 follows:

Available-for-sale

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Guaranteed	$ –	– %	$ 47	0.36 %	$ 7,464	1.31 %	$ 4,411,805	1.94 %	$ 4,419,316	1.94 %
U.S. Govt. Agency Guaranteed	2	1.88	26,331	1.08	67,699	1.49	1,603,119	1.03	1,697,151	1.05
Non-Agency CMOs	–	–	–	–	1,323	0.84	170,919	0.62	172,242	0.63
Asset-Backed Securities	–	–	–	–	–	–	40,391	4.47	40,391	4.47
RABs and Other	–	–	920	6.12	–	–	36,772	6.12	37,692	6.12
Total fair value	$ 2	1.88 %	$ 27,298	1.25 %	$ 76,486	1.46 %	$ 6,263,006	1.70 %	$ 6,366,792	1.69 %
Total amortized cost	$ 2		$ 27,160		$ 75,720		$ 6,157,586		$ 6,260,,468	

Held-to-maturity

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Agency Guaranteed	$ –	– %	$ –	– %	$ 527	4.68 %	$ 426,852	4.06 %	$ 427,379	4.06 %
Asset-Backed Securities	643	0.81	31,537	1.72	9,155	1.32	9,307	1.43	50,642	1.58
RABs and Other	222	5.26	37,139	6.36	39,872	5.92	117,015	5.82	194,248	5.94
Total amortized cost	$ 865	1.95 %	$ 68,676	4.23 %	$ 49,554	5.06 %	$ 553,174	4.39 %	$ 672,269	4.42 %
Total fair value	$ 852		$ 71,285		$ 52,978		$ 563,594		$ 688,709	

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

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

	March 31, 2014					
	Less than 12 Months		12 Months or Greater		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Guaranteed	$ 1,118,390	$ (7,375)	$ 163,298	$ (1,754)	$ 1,281,688	$ (9,129)
U.S. Govt. Agency Guaranteed	726,677	(18,549)	521,777	(7,593)	1,248,454	(26,142)
Non-Agency CMOs	7,210	(106)	164,827	(20,867)	172,037	(20,973)
Asset-Backed Securities	2,839	(22)	13,290	(534)	16,129	(556)
RABs and Other	34,092	(1,513)	54,677	(3,500)	88,769	(5,013)
Total	$ 1,889,208	$ (27,565)	$ 917,869	$ (34,248)	$ 2,807,077	$ (61,813)

	December 31, 2013					
	Less than 12 Months		12 Months or Greater		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Guaranteed	$ 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	1,968	(17)	14,366	(838)	16,334	(855)
RABs and Other	79,497	(5,496)	10,909	(2,184)	90,406	(7,680)
Total	$ 1,897,254	$ (33,981)	$ 725,484	$ (38,606)	$ 2,622,738	$ (72,587)

Numerous factors are considered in determining whether an impairment is other-than-temporary. They 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 District intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss recognized equals the full difference between amortized cost and fair value of the security. When the District does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and noncredit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

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

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

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

Based on the results of all analyses, the District has recognized $1.4 million of credit-related other-than-temporary impairment for 2014, which is included in Net Other-than-temporary Impairment Losses in the Combined Statements of Income. Since the District 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 at:

	March 31, 2014	
Assumptions Used	**Mortgage-backed Securities**	**Asset-backed Securities**
Default rate by range	0.43% to 45.67%	7.55% to 62.82%
Prepayment rate by range	4.78% to 10.90%	5.09% to 15.56%
Loss severity by range	4.19% to 62.85%	57.93% to 100.00%

	December 31, 2013	
Assumptions Used	**Mortgage-backed Securities**	**Asset-backed Securities**
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%

For all other impaired investments, the District has not recognized any credit losses as the impairments are deemed temporary and result from noncredit related factors. The District has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities. Substantially all of these investments were in U.S. Government agency securities and the District expects these securities would not be settled at a price less than their amortized cost. For the three months ended March 31, 2014, net unrealized losses of $470 thousand were recognized in other comprehensive income for investments that are not other-than-temporarily impaired.

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

	For the three months ended March 31,	
(dollars in thousands)	**2014**	**2013**
Amount related to credit loss-beginning balance	$ 60,071	$ 55,654
Additions for initial credit impairments	–	–
Additions for subsequent credit impairments	1,351	1,118
Reductions for increases in expected cash flows	(177)	(384)
Securities sold/settled/matured	109	–
Amount related to credit loss-ending balance	61,354	56,388
Life to date incurred credit losses	(20,127)	(17,859)
Remaining unrealized credit losses	$ 41,227	$ 38,529

Note 4 — Debt

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

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

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

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

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

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. The table does not include $205.8 million of intra-system obligations.

	March 31, 2014					
	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)			
2015	$ 6,022,198	0.23%	$ 2,418,727	0.14%	$ 8,440,925	0.20%
2016	5,258,811	0.41	–	–	5,258,811	0.41
2017	3,571,239	0.86	–	–	3,571,239	0.86
2018	2,197,234	1.04	–	–	2,197,234	1.04
2019	1,606,610	1.45	–	–	1,606,610	1.45
2020 and after	4,180,676	2.25	–	–	4,180,676	2.25
Total	$ 22,836,768	0.90%	$ 2,418,727	0.14%	$ 25,255,495	0.83%

Discount notes are issued with maturities ranging from 1 to 365 days. The average maturity of discount notes at March 31, 2014 was 123 days.

Note 5 — Shareholders' Equity

Perpetual Preferred Stock

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

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.

Accumulated Other Comprehensive Income

The following presents activity related to AOCI for the three month periods ended March 31:

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

	For the three months ended March 31,			
(dollars in thousands)		**2014**		**2013**
Unrealized Gains (Losses) on Investments:				
Balance at beginning of period	$	99,865	$	180,394
Other comprehensive income before reclassifications		5,257		6,541
Amounts reclassified from AOCI		1,202		(6,474)
Net current period other comprehensive income		6,459		67
Balance at end of period	$	106,324	$	180,461
Firm Commitments:				
Balance at beginning of period	$	289	$	1,514
Other comprehensive income before reclassifications		–		–
Amounts reclassified from AOCI		(263)		(382)
Net current period other comprehensive income		(263)		(382)
Balance at end of period	$	26	$	1,132
Employee Benefit Plans:				
Balance at beginning of period	$	(275,443)	$	(395,410)
Other comprehensive income before reclassifications		–		–
Amounts reclassified from AOCI		5,096		8,173
Net current period other comprehensive income		5,096		8,173
Balance at end of period	$	(270,347)	$	(387,237)
Total Accumulated Other Comprehensive Income:				
Balance at beginning of period	$	(175,289)	$	(213,502)
Other comprehensive income before reclassifications		5,257		6,541
Amounts reclassified from AOCI		6,035		1,317
Net current period other comprehensive income		11,292		7,858
Balance at end of period	$	(163,997)	$	(205,644)

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

(dollars in thousands)	For the three months ended March 31,				
		2014		**2013**	**Income Statement Line Item**
Investment Securities:					
Sales gains & losses	$	149	$	7,592	Gains (losses) on investments, net
Holding gains & losses		(1,351)		(1,118)	Net other-than-temporary impairment
Net amounts reclassified		(1,202)		6,474	
Cash Flow Hedges:					
Interest income		263		382	See Note 11.
Net amounts reclassified		263		382	
Defined Benefit Pension Plans:					
Periodic pension costs		(5,096)		(8,173)	See Note 7.
Net amounts reclassified		(5,096)		(8,173)	
Total reclassifications for period	$	(6,035)	$	(1,317)	

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

Note 6 — Fair Value Measurement

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

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

The classifications of the District'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 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.

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.

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

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

(dollars in thousands)	**Asset-Backed Securities**	**Non-Agency CMOs**	**RABs and Other**	**Standby Letters of Credit**
Balance at December 31, 2013	$ 38,798	$ 173,486	$ 41,286	$ 1,476
Total gains or (losses) realized/unrealized:				
Included in earnings	–	(1,220)	96	–
Included in other comprehensive income	2,554	5,819	1,338	–
Purchases	–	–	–	–
Sales	–	–	(4,886)	–
Issuances	–	–	–	–
Settlements	(961)	(5,843)	(142)	(266)
Transfers in and/or out of Level 3	–	–	–	–
Balance at March 31, 2014	$ 40,391	$ 172,242	$ 37,692	$ 1,210

(dollars in thousands)		Asset-Backed Securities		Non-Agency CMOs		RABs and Other		Standby Letters of Credit
Balance at December 31, 2012	$	33,390	$	204,699	$	53,491	$	2,046
Total gains or (losses) realized/unrealized:								
Included in earnings		–		(1,118)		–		–
Included in other comprehensive income		1,609		8,086		(1,868)		–
Purchases		–		–		116		–
Sales		–		–		–		–
Issuances		–		–		–		–
Settlements		(1,210)		(12,460)		(43)		(180)
Transfers in and/or out of Level 3		–		–		–		–
Balance at March 31, 2013	$	33,789	$	199,207	$	51,696	$	1,866

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Firm commitments-when issued securities	$ –	Broker/Consensus pricing	Offered quotes	None outstanding
RABs and other	$ 37,692	Discounted cash flow	Risk adjusted spread	0.01% – 91.61%
Non-agency securities	$ 212,633	Vendor priced	**	
Impaired loans and other property owned	$ 552,048	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*
Other investments – RBIC	$ 439	Third party evaluation	Income, expense, capital	Not applicable

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

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:

	At or for the Three Months Ended March 31, 2014					
(dollars in thousands)	**Total Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**	**Fair Value Effects On Earnings**
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. Guaranteed	$ 4,419,316	$ –	$ 4,419,316	$ –	$ 4,419,316	
U.S. Govt. Agency Guaranteed	1,697,151	–	1,697,151	–	1,697,151	
Non-Agency CMOs	172,242	–	–	172,242	172,242	
Asset-backed securities	40,391	–	–	40,391	40,391	
RABs and other	37,692	–	–	37,692	37,692	
Total investments available-for-sale	6,366,792	–	6,116,467	250,325	6,366,792	
Federal funds sold, securities purchased under resale agreements, and other	220,972	–	220,972	–	220,972	
Interest rate swaps and other derivative instruments	24,816	–	24,816	–	24,816	
Assets held in trust funds	19,244	19,244	–	–	19,244	
Recurring Assets	$ 6,631,824	$ 19,244	$ 6,362,255	$ 250,325	$ 6,631,824	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	–	–	–	–	–	
Standby letters of credit	1,210	–	–	1,210	1,210	
Recurring Liabilities	$ 1,210	$ –	$ –	$ 1,210	$ 1,210	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 477,158	$ –	$ –	$ 477,158	$ 477,158	$ 2,994
Other property owned	68,529	–	–	74,890	74,890	725
Other Investments	439	–	–	439	439	–
Nonrecurring Assets	$ 546,126	$ –	$ –	$ 552,487	$ 552,487	$ 3,719
Other Financial Instruments						
Assets:						
Cash	$ 522,235	$ 522,235	$ –	$ –	$ 522,235	
Investments held to maturity	672,269	–	487,275	201,434	688,709	
Loans	22,562,113	–	–	22,486,233	22,486,233	
Other investments	–	–	–	–	–	
Other Financial Assets	$ 23,756,617	$ 522,235	$ 487,275	$ 22,687,667	$ 23,697,177	
Liabilities:						
Systemwide debt securities	$ 25,461,246	$ –	$ –	$ 25,315,868	$ 25,315,868	
Other Financial Liabilities	$ 25,461,246	$ –	$ –	$ 25,315,868	$ 25,315,868	

(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, 2013					
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	
RABs and other	41,286	–	–	41,286	41,286	
Total investments available-for-sale	6,604,262	–	6,350,692	253,570	6,604,262	
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	17,547	17,547	–	–	17,547	
Recurring Assets	$ 6,794,208	$ 17,547	$ 6,523,091	$ 253,570	$ 6,794,208	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	–	–	–	–	–	
Standby letters of credit	1,476	–	–	1,476	1,476	
Recurring Liabilities	$ 1,476	$ –	$ –	$ 1,476	$ 1,476	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 492,116	$ –	$ –	$ 492,116	$ 492,116	$ 3,797
Other property owned	68,801	–	–	75,936	75,936	(14,857)
Other investments	439	–	–	439	439	(1,133)
Nonrecurring Assets	$ 561,356	$ –	$ –	$ 568,491	$ 568,491	$ (12,193)
Other Financial Instruments						
Assets:						
Cash	$ 1,085,489	$ 1,085,489	$ –	$ –	$ 1,085,489	
Investments held to maturity	691,219	–	509,984	190,878	700,862	
Loans	22,597,789	–	–	22,495,644	22,495,644	
Other investments	83,808	–	–	83,913	83,913	
Other Financial Assets	$ 24,458,305	$ 1,085,489	$ 509,984	$ 22,770,435	$ 24,365,908	
Liabilities:						
Systemwide debt securities	$ 26,426,104	$ –	$ –	$ 26,194,373	$ 26,194,373	
Other Financial Liabilities	$ 26,426,104	$ –	$ –	$ 26,194,373	$ 26,194,373	

Note 7 — Employee Benefit Plans

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

	For the three months ended March 31,	
(dollars in thousands)	**2014**	**2013**
Pension	$ 8,951	$ 12,390
401k	2,103	1,856
Other postretirement benefits	2,615	2,523
Total	$ 13,669	$ 16,769

Following are retirement and other postretirement benefit contributions for the District. Projections are based upon actuarially determined amounts as of the most recent measurement date of December 31, 2013.

(dollars in thousands)	**Actual YTD Through 3/31/14**	**Projected Contributions for Remainder of 2014**	**Projected Total Contributions 2014**
Pensions	$ 257	$ 47,067	$ 47,324
Other postretirement benefits	1,823	5,607	7,430
Total	$ 2,080	$ 52,674	$ 54,754

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the District participates. These amounts may change when a total funding amount and allocation is determined by the respective Plans' Sponsor Committees. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2014.

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

Note 8 — Commitments and Contingent Liabilities

Under the Farm Credit Act of 1971, each Farm Credit System (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 assets of the bank.

During the periods presented, AgFirst did not make any payments, and as of the report date does not anticipate making any payments, on behalf of its co-obligors under the Joint and Several Liability Allocation Agreement.

(dollars in billions)	**3/31/14**	**12/31/13**
Total System bonds and notes	$ 211.658	$ 207.489
AgFirst bonds and notes	$ 25.255	$ 26.225

Legal actions are pending against the District in which claims for money damages are asserted. 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 combined financial position of AgFirst and District Associations.

Note 9 — Additional Financial Information

Offsetting of Financial and Derivative Assets

March 31, 2014

(dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets Presented in the Balance Sheets	Gross Amounts Not Offset in the Balance Sheets: Financial Instruments	Gross Amounts Not Offset in the Balance Sheets: Cash Collateral Received	Net Amount
Derivatives	$ 24,816	$ –	$ 24,816	$ (6,241)	$ –	$ 18,575
Reverse repurchase and similar arrangements	220,972	–	220,972	(220,972)	–	–
Total	$ 245,788	$ –	$ 245,788	$ (227,213)	$ –	$ 18,575

December 31, 2013

(dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets Presented in the Balance Sheets	Gross Amounts Not Offset in the Balance Sheets: Financial Instruments	Gross Amounts Not Offset in the Balance Sheets: 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

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

A description of the rights of setoff associated with recognized derivative assets and liabilities subject to enforceable master netting arrangements is located in Note 11, *Derivative Financial Instruments and Hedging Activities*.

The reverse repurchase agreements are accounted for as collateralized lending.

Bank Only Financial Data

Condensed financial information of AgFirst Farm Credit Bank follows:

Balance Sheets

(dollars in thousands)	March 31, 2014	December 31, 2013
	(unaudited)	*(audited)*
Cash, cash equivalents and investment securities	$ 7,611,046	$ 8,336,543
Loans	19,696,017	20,201,235
Allowance for loan losses	(23,456)	(22,908)
Net loans	19,672,561	20,178,327
Other assets	315,446	329,472
Total assets	$ 27,599,053	$ 28,844,342
Bonds and notes	$ 25,255,495	$ 26,224,879
Other liabilities	103,432	472,716
Total liabilities	25,358,927	26,697,595
Perpetual preferred stock	125,250	125,250
Capital stock and participation certificates	309,393	308,972
Additional paid-in-capital	36,580	36,580
Retained earnings	1,666,436	1,578,402
Accumulated other comprehensive income (loss)	102,467	97,543
Total shareholders' equity	2,240,126	2,146,747
Total liabilities and equity	$ 27,599,053	$ 28,844,342

Statements of Income

(dollars in thousands)	For the three months ended March 31, 2014	2013
	(unaudited)	
Interest income	$ 170,038	$ 187,382
Interest expense	53,310	47,098
Net interest income	116,728	140,284
Provision for (reversal of) loan losses	549	334
Net interest income after provision for loan losses	116,179	139,950
Noninterest expense, net	(27,701)	(18,762)
Net income	$ 88,478	$ 121,188

Note 10 — Business Combinations

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.

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 March 31, 2014, those assets had a net book value of $68.3 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 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 Association to include AgFirst 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.

No assistance was provided by the Bank to the merged Association under the agreement at March 31, 2014 or December 31, 2013. A total of $9.8 million of assistance was available at March 31, 2014 and 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.

Disclosures related to acquired impaired loans are contained in Note 2, *Loans and Allowance for Loan Losses*.

Note 11 — Derivative Financial Instruments and Hedging Activities

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

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

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

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

	For the Three Months Ended March 31,			
	2014		2013	
Notional Amounts *(dollars in millions)*	**Receive-Fixed Swaps**	**Forward Contracts**	**Receive-Fixed Swaps**	**Forward Contracts**
Balance at beginning of period	$ 250	$ –	$ 360	$ –
Additions	–	–	–	–
Maturities/amortization	–	–	(50)	–
Terminations	–	–	–	–
Balance at end of period	$ 250	$ –	$ 310	$ –

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

To minimize the risk of credit losses, the District transacts with counterparties that have an investment grade credit rating from a major rating agency and also monitors the credit standing of, and levels of exposure to, individual counterparties. The District typically enters into master agreements that contain netting provisions. These provisions allow the District to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. The District does not anticipate nonperformance by any of these counterparties. A number of swaps are supported by collateral arrangements with counterparties. Accounting guidance requires a pledgee to reflect as a liability the value of any cash collateral held in its statement of condition. However, securities held as collateral are not reported in the pledgee's statement of condition, even though in the custody of the pledgee.

At March 31, 2014, the District had not posted collateral with respect to any of these arrangements.

Counterparty exposure related to derivatives at:

(dollars in millions)	**March 31, 2014**	**December 31, 2013**
Estimated Gross Credit Risk	$24.8	$27.5
Percent of Notional	9.93%	11.01%
Cash Collateral Held *(on balance sheet)*	$–	$–
Securities Collateral Held *(off balance sheet)*	$6.2	$8.6
Cash Collateral Posted *(off balance sheet)*	$–	$–
Securities Collateral Posted *(on balance sheet)*	$–	$–

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

Fair Value Hedges

For derivative instruments designated as fair value hedges, the gains or losses on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings. The District includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. The amount of the loss on interest rate swaps recognized in interest expense for the three months ended March 31, 2014 was $2.7 million, while the amount of the gain on the Systemwide Debt Securities was $2.7 million. The amount of the loss on interest rate swaps recognized in interest expense for the three months ended March 31, 2013 was $3.6 million, while the amount of the gain on the Systemwide Debt Securities was $3.6 million. Gains and losses on each derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Cash Flow Hedges

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

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

Fair Values of Derivative Instruments

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

(dollars in thousands)	**Balance Sheet Classification – Assets**	**3/31/14 Fair Value**	**Balance Sheet Classification Liabilities**	**3/31/14 Fair Value**
Derivatives designated as hedging instruments:				
Receive-fixed swaps	Other Assets	$ 24,816	Other Liabilities	$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		$ 24,816		$ –

(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		$ –

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 periods presented.

	Location of Gain or (Loss) Recognized in the Statements of Income	Amount of Gain or (Loss) Recognized in the Statements of Income	
(dollars in thousands)		2014	2013
Derivatives – Fair Value Hedging Relationships:			
Receive-fixed swaps	Noninterest Income	$ –	$ –

	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)	
(dollars in thousands)	2014	2013		2014	2013		2014	2013
Derivatives – Cash Flow Hedging Relationships:								
Firm Commitments	$ –	$ –	Interest Income	$ 263	$ 382	Interest Income	$ –	$ –

Note 12 — Regulatory Enforcement Matters

At March 31, 2014, five District Associations, with combined assets of approximately $3.665 billion, were operating under written agreements with the FCA. Those agreements require the District Associations to take corrective actions with respect to one or more of the following: asset quality, capital, portfolio management, and corporate governance. These enforcement actions are not expected to have a significant adverse impact on the District's financial condition or results of operations.

Note 13 — Subsequent Events

The District has evaluated subsequent events and has determined that, except as described below, there are none requiring disclosure through May 9, 2014, which is the date the financial statements were issued.

On April 30, 2014, the Bank sold its former headquarters building for an amount that approximated recorded value.

On May 8, 2014, the FCA approved a proposed rule to modify the regulatory capital requirements for System banks and associations. The objectives of the proposed rule are as follows:

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

The proposed rule will require the 30-day period for congressional review before being published in the Federal Register with a 120-day comment period.