2013 Annual REPORT

AGFIRST FARM CREDIT BANK & DISTRICT ASSOCIATIONS

FARM CREDIT

AgFirst Farm Credit Bank and District Associations

2013 ANNUAL REPORT

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Management

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

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Report of Management

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

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

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

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

The Combined Financial Statements, in the opinion of management, fairly present the combined financial condition of the Bank and District Associations. The undersigned certify that we have reviewed the 2013 Annual Report of the 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.
Robert H. Spiers, Jr.
Chairman of the Board

Leon T. Amerson
Leon T. Amerson
President and Chief Executive Officer

Charl L. Butler
Charl L. Butler
Senior Vice President and Chief Financial Officer

March 12, 2014

Report on Internal Control Over Financial Reporting

AgFirst Farm Credit Bank (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 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 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 and each District Association's assets that could have a material effect on its Consolidated Financial Statements.

The Bank and each District Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2013. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Bank's and each District Association's management concluded that as of December 31, 2013, the internal control over financial reporting was effective based upon the COSO (1992) criteria. Additionally, based on this assessment, the Bank's and each District Association's management determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2013.

Leon T. Amerson
President and Chief Executive Officer

Charl L. Butler
Senior Vice President and Chief Financial Officer

March 12, 2014

Five-Year Summary of Selected Combined Financial Data

(dollars in thousands)	2013	2012	2011	2010	2009
	As of or for the year ended December 31,				
Combined Balance Sheet Data					
Cash and cash equivalents	**$ 1,230,374**	$ 925,448	$ 1,340,167	$ 1,463,700	$ 981,041
Investment securities	**7,295,481**	7,649,417	7,955,553	8,259,552	8,442,230
Loans	**23,270,508**	22,929,205	22,481,505	23,032,893	23,208,189
Allowance for loan losses	**(187,437)**	(213,500)	(174,976)	(182,329)	(195,132)
Net loans	**23,083,071**	22,715,705	22,306,529	22,850,564	23,013,057
Other property owned	**68,801**	109,997	158,144	146,416	73,354
Other assets	**583,544**	698,578	750,475	829,775	895,815
Total assets	**$ 32,261,271**	$ 32,099,145	$ 32,510,868	$ 33,550,007	$ 33,405,497
Obligations with maturities of one year or less	**$ 9,654,289**	$ 11,145,685	$ 12,285,926	$ 12,734,829	$ 14,473,270
Obligations with maturities greater than one year	**17,432,308**	16,065,641	15,703,763	16,433,498	15,080,200
Mandatorily redeemable preferred stock	**—**	—	—	225,000	225,000
Total liabilities	**27,086,597**	27,211,326	27,989,689	29,393,327	29,778,470
Perpetual preferred stock	**125,250**	275,250	400,000	400,000	400,000
Protected borrower equity	**901**	1,351	3,269	3,641	4,205
At-risk equity:					
Capital stock and participation certificates	**156,382**	157,260	159,334	150,031	138,504
Additional paid in capital	**60,270**	60,270	7,873	—	—
Retained earnings					
Allocated	**1,693,689**	1,531,077	1,415,359	1,318,996	1,199,441
Unallocated	**3,313,471**	3,076,113	2,756,592	2,575,592	2,323,523
Accumulated other comprehensive income (loss)	**(175,289)**	(213,502)	(221,248)	(291,580)	(438,646)
Total shareholders' equity	**5,174,674**	4,887,819	4,521,179	4,156,680	3,627,027
Total liabilities and shareholders' equity	**$ 32,261,271**	$ 32,099,145	$ 32,510,868	$ 33,550,007	$ 33,405,497
Combined Statement of Income Data					
Net interest income	**$ 1,064,422**	$ 1,131,058	$ 1,118,449	$ 1,054,737	$ 940,418
Provision for loan losses	**14,687**	98,075	215,852	138,228	162,893
Noninterest income (expense), net	**(416,999)**	(399,324)	(416,668)	(364,630)	(412,658)
Net income	**$ 632,736**	$ 633,659	$ 485,929	$ 551,879	$ 364,867
Combined Key Financial Ratios					
Rate of return on average:					
Total assets	**1.99%**	1.99%	1.48%	1.66%	1.12%
Total shareholders' equity	**12.96%**	13.30%	10.93%	13.67%	10.79%
Net interest income as a percentage of average earning assets	**3.47%**	3.70%	3.57%	3.32%	2.94%
Net (chargeoffs) recoveries to average loans	**(0.18)%**	(0.26)%	(0.91)%	(0.66)%	(0.59)%
Total shareholders' equity to total assets	**16.04%**	15.23%	13.91%	12.39%	10.86%
Debt to shareholders' equity (:1)	**5.23**	5.57	6.19	7.07	8.21
Allowance for loan losses to loans	**0.81%**	0.93%	0.78%	0.79%	0.84%
Net Income Distribution					
Estimated patronage refunds and dividends:					
Cash	**$ 145,873**	$ 99,645	$ 91,015	$ 96,622	$ 78,191
Qualified allocated retained earnings	**20,103**	15,232	10,136	24,726	20,779
Nonqualified allocated retained earnings	**80,566**	63,802	60,966	51,457	45,462
Nonqualified retained earnings	**143,228**	100,756	84,680	101,245	62,269
Dividends	**1,565**	1,299	1,363	1,203	1,168
Perpetual preferred stock dividend	**6,347**	17,978	27,413	27,413	27,413

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

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

The District is part of the Farm Credit System (the System), the country's oldest government-sponsored enterprise (GSE), created by Congress to provide sound, adequate, and constructive credit and closely related services to agriculture and rural America.

AgFirst and each Association are federally chartered instrumentalities of the United States and are individually regulated by the Farm Credit Administration (FCA). In creating the System, it was the stated objective of Congress to "*encourage farmer- and rancher-borrowers' participation in the management, control, and ownership of a permanent system of credit for agriculture which will be responsive to the credit needs of all types of agricultural producers having a basis for credit, and to modernize and improve the authorizations and means for furnishing such credit and credit for housing in rural areas made available through the institutions constituting the Farm Credit System.*" Consequently, the Associations are structured as cooperatives, and each Association is owned by its borrowers. AgFirst also operates as a cooperative. The District Associations jointly own all of AgFirst's voting stock. As such, the benefits of ownership flow to the same farmer/rancher-borrowers that the System was created to serve. Additional information related to the District's structure is discussed in Note 1, *Organization and Operations,* in the Notes to the Combined Financial Statements in this Annual Report to shareholders.

As of December 31, 2013, the District consisted of the Bank and nineteen District Associations. All nineteen 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 14, *Business Combinations,* in the Notes to the Combined Financial Statements for a discussion of recent District Associations' merger activity.

AgFirst provides funding and related services to the District Associations, which, in turn, provide loans and related services to agricultural and rural borrowers. AgFirst has in place with each of the District Associations, a revolving line of credit, referred to as a "Direct Note." Each Association primarily funds its lending and general corporate activities by borrowing through its Direct Note. All assets of the Associations secure the Direct Notes. Lending terms are specified in a separate General Financing Agreement (GFA) between AgFirst and each Association, including the subsidiaries of the Associations.

AgFirst and the Associations are chartered to serve eligible borrowers in Alabama, Delaware, Florida, Georgia, Maryland, Mississippi, North Carolina, Pennsylvania, South Carolina, Virginia, West Virginia, Puerto Rico, and portions of Kentucky, Louisiana, Ohio, and Tennessee. As of December 31, 2013, two other Farm Credit Banks (FCBs) and an Agricultural Credit Bank (ACB), through a number of associations, provided loans and related services to eligible borrowers in the remaining portion of the United States. While owned by its related associations, each FCB manages and controls its own business activities and operations. The ACB is owned by its related associations as well as other agricultural and rural institutions, including agricultural cooperatives. Associations are not commonly owned or controlled and each manages and controls its own business activities and operations. Nevertheless, each FCB and its related associations operate in such an interdependent manner that the financial results of each bank are generally viewed on a combined basis with its related associations.

While combined District statements reflect the financial and operational interdependence of AgFirst and its Associations, AgFirst does not own or control the Associations and has limited access to Association capital. Therefore, Bank-only financial information (e.g. not combined with the Associations) has been set forth in Note 13, *Additional Financial Information,* in the Notes to the Combined Financial Statements for the purposes of additional analysis. In addition, AgFirst publishes a Bank-only financial report (electronic version of which is available on AgFirst's website at **www.agfirst.com**) that may be referred to for a more complete analysis of AgFirst's financial condition and results of operations.

FORWARD-LOOKING INFORMATION

Certain sections of this Annual Report contain forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from 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 System as a GSE, as well as investor and rating agency reactions to events involving the U.S. government, other GSEs and other financial institutions; and
- actions taken by the Federal Reserve System in implementing monetary and fiscal policy, as well as other policies and actions of the federal government that impact the financial services industry and the debt markets.

AGRICULTURAL OUTLOOK

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

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

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

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

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

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

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

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

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

Two measures of the financial health of the agricultural sector used by the USDA are the farm sector's debt-to-asset and debt-to-equity ratios. These ratios are expected to continue to decline as they have over the past five years, falling to 10.54 percent and 11.78 percent in 2014, respectively, from 10.55 percent and 11.80 percent in 2013, respectively. These decreases would result in the lowest value for both measures since 1954. The historically low levels of debt relative to assets and equity reaffirm the farm sector's strong financial position despite the slowdown in asset growth. As noted by USDA, the farm sector is better insulated from the risks associated with commodity production, changing macroeconomic conditions, as well as fluctuations in farm asset values. As estimated by the USDA in February 2014, the System's market share of farm business debt (defined as debt incurred by those involved in on-farm agricultural production) grew to 40.7 percent at December 31, 2012 (the latest available data), as compared with 39.5 percent at December 31, 2011. As mentioned above, overall, farm sector debt is estimated to increase from $309.2 billion in 2013 to $316.2 billion in 2014.

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

SIGNIFICANT ACCOUNTING POLICIES

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

- *Allowance for loan losses* — The allowance for loan losses is management's best estimate of the amount of probable losses existing in and inherent in the District's loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals.

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

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

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

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

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

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

LOAN PORTFOLIO

The District's aggregate loan portfolio consists primarily of loans made by the Associations to eligible borrowers located within their chartered territories. Diversification of the loan volume by type for each of the past three years at December 31 is illustrated in the following table:

Loan Types *(dollars in thousands)*	2013		2012		2011	
Real Estate Mortgage	$ 10,268,260	44%	$ 9,921,750	43%	$ 9,756,036	43%
Production and Intermediate-Term	7,479,455	32	7,760,377	34	7,924,627	36
Rural Residential Real Estate	2,833,416	12	2,634,609	12	2,470,742	11
Processing and Marketing	1,091,648	5	1,053,247	5	1,115,490	5
Energy and Water/Waste Disposal	496,898	2	525,070	2	308,722	1
Communication	358,601	2	319,320	1	213,501	1
Farm-Related Business	352,315	2	354,039	2	348,797	2
Loans to Cooperatives	241,023	1	235,703	1	256,981	1
Loans to OFIs	83,116	–	60,479	–	5,250	–
Lease Receivables	4,922	–	2,880	–	2,986	–
Other (including Mission Related)	60,854	–	61,731	–	78,373	–
Total	$ 23,270,508	100%	$ 22,929,205	100%	$ 22,481,505	100%

Total loans outstanding were $23.271 billion at December 31, 2013, an increase of $341.3 million, or 1.49 percent, compared to total loans outstanding at December 31, 2012. Loans outstanding at the end of 2012 had increased $447.7 million, or 1.99 percent, compared to December 31, 2011.

District loan demand was weak during 2013 due to a number of reasons, including higher than the historical average capital and cash levels of borrowers. Low economic growth inhibited loan demand from borrowers in economically dependent sectors and borrowers dependent on non-farm income. An increasingly competitive environment for agricultural loans also challenged volume. Future 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.

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

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

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

Credit Quality	2013	2012	2011
Acceptable	92.81%	90.19%	88.50%
OAEM	3.36	4.07	5.66
Adverse*	3.83	5.74	5.84
Total	100.00%	100.00%	100.00%

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

Improvements in credit quality reflected in the table above were primarily due to stabilization of economic conditions. Most distressed property sales are now occurring at or near appraised values, indicating that real estate values have stabilized in most District markets. Grain prices returned to more normal levels in 2013 due to higher than expected inventory and harvest levels. This benefitted the poultry, cattle, and swine sectors. Improved housing starts in 2013 have positively impacted certain housing-related segments such as forestry and nursery/greenhouse. Credit quality is anticipated to continue to improve incrementally in 2014 assuming stable economic conditions.

Delinquencies (loans 90 days or more past due) were 0.85 percent of total loan assets at year-end 2013 compared to 1.46 percent and 1.85 percent at year-end 2012 and 2011, respectively.

Nonperforming assets for the District represented 2.59 percent of total loan assets or $608.4 million, compared to 3.44 percent or $797.9 million for 2012, and 4.08 percent or $931.8 million for 2011. Nonperforming assets consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due, and other property owned.

District net loan charge-offs of $40.8 million, $58.1 million and $207.1 million were recognized in 2013, 2012 and 2011, respectively. As a percentage of total average loans, net charge-offs for the District were 0.18 percent for 2013, compared to 0.26 percent and 0.91 percent in 2012 and 2011, respectively. The Bank and each Association maintains an allowance for loan losses, determined by its management based upon its unique situation.

The District employs a number of risk management techniques to limit credit exposures. The District has adopted underwriting standards, individual borrower exposure limits, commodity exposure limits, and other risk management techniques. AgFirst and the Associations actively purchase and sell loan participations to enhance the diversification of their portfolios. The District utilizes guarantees from U.S. government agencies/departments, including the Federal Agricultural Mortgage Corporation (Farmer Mac), the Farm Service Agency, and the Small Business Administration to further limit credit exposures. At December 31, 2013, the District collectively had $3.872 billion under such government or GSE guarantees, compared to $3.921 billion and $3.811 billion, at December 31, 2012 and 2011, respectively.

The Associations serve primarily all or a portion of fifteen states and Puerto Rico. Additionally, AgFirst and the Associations actively purchase and sell loans and loan participations with non-District institutions. The resulting geographic diversity is a natural credit risk-reducing factor. The following table illustrates the geographic distribution of the District's loan volume outstanding by state for the past three years at December 31:

District Loan Volume by State

State	2013	2012	2011
North Carolina	16%	16%	16%
Georgia	11	11	12
Virginia	10	10	10
Florida	9	9	11
Pennsylvania	9	9	9
Ohio	7	7	6
Maryland	6	6	6
South Carolina	5	5	5
Alabama	3	3	3
Kentucky	3	3	3
Mississippi	2	2	3
Delaware	2	2	2
West Virginia	2	2	2
Louisiana	2	2	2
Tennessee	1	1	1
Texas	1	1	1
Missouri	1	1	1
California	1	1	1
Puerto Rico	1	1	1
Minnesota	1	1	1
New York	1	1	1
Colorado	1	1	1
Illinois	1	1	1
Connecticut	1	1	–
Arkansas	–	1	–
Other	3	2	1
Total	100%	100%	100%

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

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

	Percent of Portfolio		
Commodity Group	2013	2012	2011
Forestry	14%	14%	14%
Rural Home	12	12	12
Poultry	10	10	11
Field Crops	8	8	9
Cattle	7	7	7
Grain	6	6	5
Other Real Estate	5	5	5
Corn	5	4	4
Dairy	4	4	4
Tree Fruits and Nuts	4	4	4
Utilities	4	4	3
Processing	3	3	4
Nursery/Greenhouse	3	3	4
Swine	3	3	3
Cotton	3	3	3
Other	9	10	8
Total	100%	100%	100%

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

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

The District's rural home loans consist primarily of first lien residential mortgages purchased by the Bank's Correspondent Lending Unit. At December 31, 2013, the majority of these loans were guaranteed by the Federal National Mortgage Association (Fannie Mae) and/or Farmer Mac, thereby limiting credit risk to AgFirst. The guarantees are in the form of Long-Term Standby Commitments to Purchase, which give AgFirst the right to deliver delinquent loans to the guarantor at par. The Fannie Mae guarantee program ended on July 31, 2013. Subsequent to this date, new loans in this portfolio purchased by the Bank are held without a Fannie Mae guarantee. The Bank has adjusted its methodology of establishing and maintaining the allowance for loan losses related to this portfolio to reflect the discontinuation of the Fannie Mae guarantee program.

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

MISSION RELATED INVESTMENTS

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

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

Rural Housing Mortgage-Backed Securities

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

Rural home loans, combined with Rural Home Mortgage-backed Securities, are limited to 15 percent of total loans outstanding as defined by FCA. The December 31, 2013 Bank levels resulted in a limit of $3.1 billion with a combined balance of $2.8 billion and an unused capacity of $0.3 billion. The Bank monitors this position and will consider options to reduce the Rural Home asset level with actions including, but not limited to, securitizing and selling rural home loans. On an individual and combined basis, the District Associations are also limited to 15 percent of total loans outstanding as defined by FCA. At December 31, 2013, the District Associations on an individual and combined basis were under this limit.

Rural America Bonds

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

As of December 31, 2013, the District had $268.4 million in the Rural America Bond program, compared to $292.4 million at December 31, 2012. Of the $268.4 million, the District had $224.6 million reflected in investment securities and $43.8 million reflected as loans on the Combined Balance Sheets at December 31, 2013.

Tobacco Buyout Program

On October 22, 2005, Congress enacted the "Fair and Equitable Tobacco Reform Act of 2005" (Tobacco Act) as part of the "American Jobs Creation Act of 2005." The Tobacco Act repealed the federal tobacco price support and quota programs, provided for payments to tobacco "quota owners" and producers for the elimination of the quota, and provided an assessment mechanism for tobacco manufacturers and importers to pay for the buyout. Tobacco quota holders and producers receive equal annual payments under a contract with the Secretary of Agriculture. The Tobacco Act also includes a provision that allows the quota holders and producers to assign to a "financial institution" the right to receive the contract payments so that they may obtain a lump sum or other payment. On April 4, 2006, the United States Department of Agriculture (USDA) issued a Final Rule implementing the "Tobacco Transition Payment Program" (Tobacco Buyout).

The FCA determined that System institutions are "financial institutions" within the meaning of the Tobacco Act and were therefore eligible to participate in the Tobacco Buyout. The FCA recognized that the Tobacco Buyout had significant implications for some System institutions and the tobacco quota holders and producers they serve. The FCA's goal was to provide System institution borrowers with the option to immediately receive Tobacco Buyout contract payments and reinvest them in future business opportunities.

As of December 31, 2013, District Associations held Tobacco Buyout loan assignments of $12.9 million, which are reflected as loans on the Combined Balance Sheets, compared to $27.8 million at December 31, 2012. The District Associations also hold Successor-in-Interest Contracts (SIIC) which totaled $83.8 million, and were reflected as other investments on the Combined Balance Sheets at December 31, 2013, compared to $163.2 million at December 31, 2012. The SIIC balance of $83.8 million at December 31, 2013 was paid in full in January, 2014. See Note 4, *Investments*, in the Notes to the Combined Financial Statements.

RISK MANAGEMENT

Overview

The District is in the business of making agricultural and other loans that requires accepting certain risks in exchange for compensation for the risks undertaken. Proper management of the risks inherent in the District's business is essential for current and long-term financial performance. The objectives of risk management are to identify and assess risks, and to properly and effectively mitigate, measure, price, monitor, and report risks in the District's business activities.

Types of risks to which the District has exposure include:

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

Structural Risk Management

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

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

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

Credit Risk Management

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

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

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

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

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

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

(dollars in thousands)	2013	2012	2011
High-risk Assets			
Nonaccrual loans	$ 414,177	$ 580,908	$ 666,709
Restructured loans	121,856	103,267	99,343
Accruing loans 90 days past due	3,537	3,725	7,556
Total high-risk loans	539,570	687,900	773,608
Other property owned	68,801	109,997	158,144
Total high-risk assets	$ 608,371	$ 797,897	$ 931,752
Ratios			
Nonaccrual loans to total loans	1.78%	2.53%	2.97%
High-risk assets to total assets	1.89%	2.49%	2.87%

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 December 31, 2013, were $414.2 million compared to $580.9 million at December 31, 2012. Nonaccrual loans decreased $166.7 million during the twelve month period ended December 31, 2013 primarily due to repayments of $203.2 million, transfers to other property owned of $77.8 million, $61.7 million of charge-offs of uncollectible balances, and reinstatements to accrual status of $30.3 million. Offsetting these decreases were $161.2 million of loan balances transferred to nonaccrual status, advances of $25.5 million, and recoveries of charge-offs of $21.0 million. The ten largest nonaccrual borrower relationships accounted for 21.44 percent of the total nonaccrual balance. At December 31, 2013, total nonaccrual loans were primarily in the forestry (20.89 percent of the total), nursery/greenhouse (16.35 percent), poultry (8.78 percent), tree fruits and nuts (7.52 percent), cattle (7.06 percent), and dairy (6.54 percent) segments. Some of these nonaccrual loans are secured by real estate. Although the valuation of the real estate securing these loans has recently stabilized, it continues to reflect the negative impact of the economic environment of the past several years. Nonaccrual loans were 1.78 percent of total loans outstanding at December 31, 2013.

Troubled Debt Restructurings

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank 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 totaled $279.5 million at December 31, 2013, compared to $277.3 million at December 31, 2012. At December 31, 2013, TDRs were comprised of $121.9 million of accruing restructured loans and $157.7 million of nonaccruing restructured loans. Restructured loans were primarily in the forestry (22.41 percent of the total), nursery/greenhouse (22.13 percent), poultry (9.51 percent), and field crops (6.70 percent) segments.

Other Property Owned

Other property owned (OPO) consists 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 may be comprised of real estate, equipment, and equity interests in companies or partnerships. OPO decreased $41.2 million during 2013 to $68.8 million at December 31, 2013, primarily due to disposals of $97.4 million and write-downs of OPO of $22.8 million. Offsetting this decrease, OPO increased $79.0 million for property received in settlement of loans. Disposals primarily included land holdings, but the largest property disposal was for an ethanol plant totaling $17.5 million. The largest property write-down was an ethanol plant totaling $8.1 million. At December 31, 2013, the largest OPO holding was an ethanol facility totaling $8.3 million (12.04 percent of the total). See discussion of OPO expense in the *Noninterest Income* section below.

Interest Rate Risk Management

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

The District adheres to a philosophy that loans should be priced competitively in the market and that loan rates and spreads should be contractually established at loan closing such that a borrower is not subject to rate changes at the discretion of management or boards of directors. Therefore, District Association variable rate and adjustable rate loans are generally indexed to market rates, and fixed rate loans are priced based on market rates. Loan products offered by the Associations include: prime-indexed variable rate loans, LIBOR-indexed variable rate loans, one-, three-, and five-year Treasury-indexed adjustable rate loans, and fixed rate loans. Variable rate and adjustable rate loans are offered with or without caps. Terms are available for up to 30 years. A variety of repayment options are offered, with the ability to pay on a monthly, quarterly, semi-annual or annual frequency. In addition, customized repayment schedules may be negotiated to fit a borrower's unique circumstances.

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

Net Interest Income
(dollars in thousands)

Scenarios	Net Interest Income	% Change
+4.0% Shock	$1,061,765	9.23 %
+2.0% Shock	$1,031,249	6.09 %
Base line	$972,050	– %
-50% of 3M Tbill **	$971,175	(0.09) %

Market Value of Equity
(dollars in thousands)

Scenarios	Assets	Liabilities*	Equity*	% Change
Book Value	$32,261,271	$27,211,847	$5,049,424	– %
+4.0% Shock	$29,468,121	$25,053,116	$4,415,005	(15.39) %
+2.0% Shock	$30,933,052	$26,076,502	$4,856,550	(6.92) %
Base line	$32,431,559	$27,213,677	$5,217,882	– %
-50% of 3M Tbill **	$32,457,389	$27,237,419	$5,219,970	0.04 %

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

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

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

	Repricing/Maturity Gap Analysis				
(dollars in thousands)	**0 to 6 months**	**6 months to 1 Year**	**1 to 5 Years**	**Over 5 Years**	**Total**
Floating Rate Loans					
Adjustable/Indexed Loans	$ 5,199,668	$ 19,928	$ 2,735	$ –	$ 5,222,331
Fixed Rate Loans					
Fixed Rate Loans	46,293	27,136	93,219	29,225	195,873
Fixed Rate Prepayable	5,646,844	3,211,787	6,243,358	2,750,315	17,852,304
Total Loans	10,892,805	3,258,851	6,339,312	2,779,540	23,270,508
Total Investments *	3,654,640	882,832	2,509,574	393,320	7,440,366
Other Earning Assets	83,808	–	–	–	83,808
TOTAL INTEREST EARNING ASSETS	**$ 14,631,253**	**$ 4,141,683**	**$ 8,848,886**	**$ 3,172,860**	**$ 30,794,682**
Interest-Bearing Liabilities					
Systemwide bonds and notes	$ 9,204,236	$ 4,920,000	$ 11,361,922	$ 738,720	$ 26,224,878
Other interest-bearing liabilities	214,264	–	–	–	214,264
Interest rate swaps	250,000	–	(250,000)	–	–
TOTAL INTEREST-BEARING LIABILITIES	**$ 9,668,500**	**$ 4,920,000**	**$ 11,111,922**	**$ 738,720**	**$ 26,439,142**
Interest Rate Sensitivity Gap	**$ 4,962,753**	**$ (778,317)**	**$ (2,263,036)**	**$ 2,434,140**	
Sensitivity Gap as a % of Total Earning Assets	16.12%	(2.53)%	(7.35)%	7.90%	
Cumulative Gap	$ 4,962,753	$ 4,184,436	$ 1,921,400	$ 4,355,540	
Cumulative Gap as a % of Total Earning Assets	16.12%	13.59%	6.24%	14.14%	
Rate Sensitive Assets/Rate Sensitive Liabilities	1.51	0.84	0.80	4.30	

** includes cash equivalents*

At December 31, 2013, the Cumulative Repricing/Maturity Gap position of the District was asset sensitive out to one year as repricing/maturing assets exceeded liabilities that mature or reprice during that time period. Asset sensitivity implies an increase in net interest income in rising interest rate scenarios and lower net interest income in falling interest rate scenarios. However, the Repricing/Maturity Gap Analysis is a “point in time” view and is representative of the interest rate environment at December 31, 2013. The Repricing/Maturity Gap Analysis must be used with other analysis methods as the maturity and repricing attributes of balance sheet accounts react differently in changing interest rate environments. During a period of rising interest rates, call options on fixed rate debt are not exercised and the debt terms extend to reflect the longer original maturity dates. Prepayment optionality on fixed rate assets also slows as the economic incentive for borrowers to refinance decreases and extends the asset’s term. To supplement the Repricing/Maturity Gap Analysis the District utilizes financial simulation modeling. The results of simulation analyses on the District balance sheet reflect asset sensitivity for net interest income in rising interest rate scenarios. The sensitivity position shows the District’s funding position to reduce risks in rising rates and to also be positioned to accommodate an equity funding change implemented in the District on January 1, 2014. Market value of equity sensitivity reflected the District’s position to use equity to fund longer-term assets, but to manage the debt position to maintain a balanced funding position. The District’s sensitivity to falling interest rates was not significantly impacted due to the current low level of interest rates.

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

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

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

Liquidity Risk Management

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.

Cash, Cash Equivalents and Investments

As of December 31, 2013, AgFirst exceeded all applicable regulatory liquidity requirements. FCA regulations require that the Bank have a liquidity policy that establishes a minimum total “coverage” level of 90 days and that short-term liquidity requirements must be met by certain high quality investments or cash. “Coverage” is defined as the number of days that maturing debt could be funded with eligible cash, cash equivalents, and available-for-sale investments maintained by the Bank.

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

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

Cash, cash equivalents and investment securities as of December 31, 2013 totaled $8.526 billion compared to $8.575 billion and $9.296 billion at December 31, 2012 and 2011, respectively.

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

(dollars in thousands)	Cash, Cash Equivalents and Investment Securities					
	2013		2012		2011	
Investment Securities						
Available for Sale						
U.S. Govt. Guaranteed	$ 4,603,072	63.09%	$ 5,000,613	65.37%	$ 5,002,501	62.88%
U.S. Govt. Agency Guaranteed	1,747,620	23.96	1,644,227	21.49	1,650,829	20.75
Non-Agency CMOs	173,486	2.38	204,699	2.68	242,231	3.05
Asset-Backed Securities	38,798	0.53	33,390	0.44	30,324	0.38
Mission Related Investments	41,286	0.57	53,491	0.70	54,220	0.68
Total Available for Sale	$ 6,604,262	90.53	$ 6,936,420	90.68	$ 6,980,105	87.74
Held to Maturity						
Rural Housing U.S. Govt. Agency Guaranteed	$ 445,380	6.10	$ 435,534	5.69	$ 683,070	8.59
Farmer Mac Guaranteed	4,558	0.06	6,497	0.08	8,261	0.10
Other Asset-Backed Securities	53,782	0.74	68,554	0.90	74,777	0.94
Other Mission Related Investments	187,499	2.57	202,412	2.65	209,340	2.63
Total Held to Maturity	691,219	9.47	712,997	9.32	975,448	12.26
Total Investment Securities	$ 7,295,481	100.00%	$ 7,649,417	100.00%	$ 7,955,553	100.00%
Cash and Cash Equivalents						
Cash	$ 1,085,489	88.22%	$ 775,859	83.84%	$ 1,256,345	93.75%
Repos	144,885	11.78	149,589	16.16	83,822	6.25
Total Cash and Cash Equivalents	$ 1,230,374	100.00%	$ 925,448	100.00%	$ 1,340,167	100.00%
Total Investment Securities and Cash and Cash Equivalents	$ 8,525,855		$ 8,574,865		$ 9,295,720	

Cash and cash equivalents, which increased $304.9 million from December 31, 2012 to a total of $1.230 billion at December 31, 2013, consist primarily of cash on deposit, but also include money market securities that are short-term in nature (from overnight maturities to maturities that range up to 90 days). Money market securities must carry one of the two highest short-term ratings from a rating agency. Incremental movements in cash balances are due primarily to changes in liquidity needs in relation to upcoming debt maturities between reporting periods.

FCA regulations provide that a System bank may hold certain eligible available-for-sale investments in an amount not to exceed 35.00 percent of its total loans outstanding. These investments serve to provide liquidity to the Bank's operations, to manage short-term funds, and to manage interest rate risk. AgFirst maintains an investment portfolio for these purposes comprised primarily of short-duration, high-quality investments. At year-end 2013, the Bank's eligible available-for-sale investments were 32.49 percent of the total loans outstanding.

Investment securities totaled $7.295 billion, or 22.61 percent of total assets at December 31, 2013, compared to $7.649 billion, or 23.83 percent, as of December 31, 2012. Investment securities decreased $353.9 million, or 4.63 percent, compared to December 31, 2012. Management maintains the available-for-sale liquidity investment portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines. In order to maintain the portfolio size within revised regulatory limits, during the quarter ended March 31, 2013, the Bank sold $114.6 million of agency mortgage-backed securities which resulted in a gain of $7.6 million.

Investment securities classified as being available-for-sale totaled $6.604 billion at December 31, 2013. Available-for-sale investments included $4.603 billion in U.S. Government guaranteed securities, $1.748 billion in U.S. Government agency guaranteed securities, $173.5 million in non-agency CMOs, $38.8 million in asset-backed securities, and $41.3 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.

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

The District also maintains a portfolio of investments that are not held for liquidity purposes and are accounted for as a held-to-maturity portfolio. These investments are authorized by FCA regulations that allow investments in Farmer Mac securities and also in specific investments approved by the FCA as Mission Related Investments. The vast majority of this portfolio is comprised of Mission Related Investments for a program to purchase RHMS, which when combined with eligible rural home loans, must not exceed 15.00 percent of total outstanding loans. Investment securities classified as being held-to-maturity totaled $691.2 million at December 31, 2013. As discussed previously, the FCA will conclude each Mission Related Investment pilot program effective December 31, 2014, but can consider future requests on a case-by-case basis. See *Mission Related Investments* section above.

Net unrealized gains related to investment securities were $99.9 million at December 31, 2013, compared to $180.4 million at December 31, 2012. These net unrealized gains are reflected in Accumulated Other Comprehensive Income (AOCI) in the Financial Statements. The net unrealized gains stem from normal market factors such as the current interest rate environment.

The 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 $6.7 million on asset-backed securities, non-agency CMOs, and other investments in its portfolio during the year ended December 31, 2013, which was included in Net Other-Than-Temporary Impairment Losses on Investments in the Combined Statements of Income. See Note 2, *Summary of Significant Accounting Policies*, and Note 4, *Investments*, in the Notes to the Combined Financial Statements for further information.

Systemwide Debt Securities

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

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

Currently, Standard & Poor's Ratings Services, Moody's Investor Service and Fitch Ratings have assigned long-term debt ratings for the System of AA+, Aaa, and AAA and short-term debt ratings of A-1+, P-1, and F-1, respectively. Standard & Poor's and Moody's outlook for the System is stable. In October 2013, Fitch changed its outlook for the System from stable to negative in connection with Fitch's placement of the U.S. Government on negative watch. Negative changes to the System's credit ratings could reduce earnings by increasing debt funding costs, and could also have a material adverse effect on liquidity, the ability to conduct normal business operations, and the Bank's overall financial condition and results of operations. However, AgFirst anticipates continued access to funding necessary to support the District's needs.

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

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

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

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

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

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events, including the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and the risk of fraud by employees or persons outside the System.

AgFirst's and the Associations' boards of directors are required, by regulation, to adopt internal control policies that provide adequate direction to their respective institutions in establishing effective controls over and accountability for operations, programs, and resources. The policies must include, at a minimum, the following items:

- direction to management that assigns responsibility for the internal control function to an officer of the institution,
- adoption of internal audit and control procedures,
- direction for the operation of a program to review and assess an institution's assets,

- adoption of loan, loan-related assets and appraisal review standards, including standards for scope of review selection and standards for work papers and supporting documentation,
- adoption of asset quality classification standards,
- adoption of standards for assessing credit administration, including the appraisal of collateral, and
- adoption of standards for the training required to initiate a program.

In general, System institutions address operational risk through the organizations' internal frameworks which are subject to the review of internal auditors. Exposure to operational risk is typically identified with the assistance of senior management, and internal audit plans are developed with higher risk areas receiving more attention.

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

Reputational Risk Management

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

Political Risk Management

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

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

ALLOWANCE FOR LOAN LOSSES

Each District institution maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within its respective loan and finance lease portfolios as of each reported balance sheet date. The District increases the allowance by recording a provision for loan losses in the income statement. Loan losses are recorded against and serve to decrease the allowance when management determines that any portion of a loan or lease is uncollectible. Any subsequent recoveries are added to the allowance. Managements' evaluations consider factors which include, among other things, loan loss experience, portfolio quality, loan portfolio composition, current agricultural production conditions, and general economic conditions.

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

Allowance for Loan Losses Activity *(dollars in thousands)*	**Year Ended December 31,** 2013	2012	2011
Balance at beginning of year	$ 213,500	$ 174,976	$ 182,329
Charge-offs:			
Real Estate Mortgage	(17,132)	(51,940)	(75,289)
Production and Intermediate-Term	(33,551)	(30,917)	(92,899)
Agribusiness	(8,960)	(4,645)	(31,564)
Communication	–	–	–
Energy and Water /Waste Disposal	–	–	(7,068)
Rural Residential Real Estate	(1,297)	(2,073)	(2,452)
Lease Receivables	(5)	–	(69)
Other (including Mission Related)	(798)	(397)	(10,082)
Total charge-offs	(61,743)	(89,972)	(219,423)
Recoveries:			
Real Estate Mortgage	12,582	8,464	6,967
Production and Intermediate-Term	5,502	16,795	4,022
Agribusiness	1,762	6,373	347
Communication	–	–	825
Energy and Water /Waste Disposal	–	–	1
Rural Residential Real estate	472	141	133
Lease Receivables	–	–	20
Other (including Mission Related)	675	57	–
Total recoveries	20,993	31,830	12,315
Net (charge-offs) recoveries	(40,750)	(58,142)	(207,108)
Adjustment due to merger	–	(1,409)	(16,097)
Provision for (reversal of allowance for) loan losses	14,687	98,075	215,852
Balance at end of year	$ 187,437	$ 213,500	$ 174,976

The allowance for loan losses was $187.4 million at December 31, 2013, as compared with $213.5 million and $175.0 million at December 31, 2012 and 2011, respectively. The decrease during 2013 of $26.1 million was primarily due to charge-offs of $61.7 million, offset by recoveries of $21.0 million and the provision expense of $14.7 million. Charge-offs were related primarily to the nursery/greenhouse (28.13 percent of the total), forestry (17.63 percent) and ethanol (14.41 percent) segments. The allowance at December 31, 2013 included specific reserves of $47.5 million (25.32 percent of the total) and $140.0 million (74.68 percent) of general reserves. The total allowance at December 31, 2013 is comprised primarily of reserves for the forestry (18.44 percent of the total), nursery/greenhouse (9.96 percent), poultry (9.07 percent), cattle (8.31 percent) and field crops (7.54 percent) segments. The decline in real estate values impacted charge-offs and reserves in several of these loan segments. See Note 3, *Loans and Allowance for Loan Losses,* in the Notes to the Combined Financial Statements for further information. See *Provision for Loan Losses* section below for details regarding increases to the allowance from provision expense. The allowance for loan losses does not include purchased discounts or premiums related to District Association mergers. See Note 14, *Business Combinations*, in the Notes to the Combined Financial Statements.

The allowance for loan losses by loan type for the most recent three years at December 31 is presented in the following table:

Allowance for Loan Losses by Loan Type (dollars in thousands)	December 31, 2013	2012	2011
Real Estate Mortgage	$ 74,933	$ 76,832	$ 65,951
Production and Intermediate-Term	92,180	110,409	89,155
Agribusiness	10,049	18,990	14,050
Communication	1,065	863	482
Energy and Water/Waste Disposal	1,427	1,364	672
Rural Residential Real Estate	6,487	3,968	4,015
Lease Receivables	91	40	20
Other (including Mission Related)	1,205	1,034	631
Total	$187,437	$213,500	$174,976

The allowance for loan losses as a percentage of loans outstanding and as a percentage of nonaccrual loans at December 31 is shown below:

	2013	2012	2011
Allowance for loan losses to loans	0.81%	0.93%	0.78%
Allowance for loan losses to nonaccrual loans	45.26%	36.75%	26.24%

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

RESULTS OF OPERATIONS

Net Income

District net income totaled $632.7 million for the year ended December 31, 2013, a decrease of $923 thousand from 2012. Net income of $633.7 million for the year ended December 31, 2012 was an increase of $147.7 million from 2011. Major components of the changes in net income for the referenced periods are outlined in the following table and discussion:

Change in Net Income (dollars in thousands)	Year Ended December 31, 2013	2012
Net income (for prior year)	$ 633,659	$ 485,929
Increase (decrease) due to:		
Total interest income	(78,881)	(71,078)
Total interest expense	11,621	83,014
Net interest income	(67,260)	11,936
Provision for loan losses	83,388	117,777
Noninterest income	8,433	25,588
Noninterest expense	(25,484)	(7,019)
Provision for income taxes	–	(552)
Total increase (decrease) in net income	(923)	147,730
Net income	$ 632,736	$ 633,659

Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	For the Year Ended December 31, 2013	2012	2011
Return on average assets	1.99%	1.99%	1.48%
Return on average shareholders' equity	12.96%	13.30%	10.93%
Net interest income as a percentage of average earning assets	3.47%	3.70%	3.57%
Net (charge-offs) recoveries to average loans	(0.18)%	(0.26)%	(0.91)%

Interest Income

Total interest income for the year ended December 31, 2013 was $1.263 billion, a decrease of $78.9 million, as compared to the same period of 2012. Total interest income for the year ended December 31, 2012 was $1.342 billion, a decrease of $71.1 million, as compared to the same period of 2011. The decrease in 2013 was the result of lower earning asset yields due to the decline in the market interest rate environment as well as lower average balances of cash and investments resulting from the factors discussed in the *Cash, Cash Equivalents and Investments* section above. The decline in interest income in 2012 resulted from a decline in earning asset yields as well as a decrease in the average balance of interest earning assets. The volume of interest earning assets increased in 2013 by $105.3 million and decreased in 2012 by $780.3 million. The average yield on interest earning assets decreased 27 basis points in 2013 and 12 basis points in 2012.

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

Net Change in Interest Income (dollars in thousands)	Year Ended December 31, 2013-2012	2012-2011
Current year increase (decrease) in average earning assets	$ 105,322	$ (780,301)
Prior year average yield	4.39%	4.51%
Interest income variance attributed to change in volume	4,625	(35,182)
Current year average earning assets	30,657,467	30,552,145
Current year increase (decrease) in average yield	(0.27)%	(0.12)%
Interest income variance attributed to change in yield	(83,506)	(35,896)
Net change in interest income	$ (78,881)	$ (71,078)

Interest Expense

Total interest expense for the year ended December 31, 2013 was $198.3 million, a decrease of $11.6 million, as compared to the same period of 2012. Total interest expense for the year ended December 31, 2012 was $210.0 million, a decrease of $83.0 million, as compared to the same period of 2011. The decrease in both years was primarily attributed to the decrease in average rates paid on System debt obligations.

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

Net Change in Interest Expense (dollars in thousands)	Year Ended December 31, 2013-2012	2012-2011
Current year increase (decrease) in average interest-bearing liabilities	$ (298,867)	$ (1,218,503)
Prior year average rate	0.79%	1.05%
Interest expense variance attributed to change in volume	(2,359)	(12,833)
Current year average interest-bearing liabilities	26,301,326	26,600,193
Current year increase (decrease) in average rate	(0.04)%	(0.26)%
Interest expense variance attributed to change in rate	(9,262)	(70,181)
Net change in interest expense	$ (11,621)	$ (83,014)

Net Interest Income

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

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

	2013			2012			2011		
	Avg. Balance	Interest	Avg. Yield	Avg. Balance	Interest	Avg. Yield	Avg. Balance	Interest	Avg. Yield
Loans	$ 22,928,442	$ 1,105,755	4.82%	$ 22,554,470	$ 1,143,327	5.07%	$ 22,840,383	$ 1,197,302	5.24%
Cash & investments	7,729,025	157,013	2.03%	7,997,675	198,322	2.48%	8,492,063	215,425	2.54%
Total earning assets	$ 30,657,467	$ 1,262,768	4.12%	$ 30,552,145	$ 1,341,649	4.39%	$ 31,332,446	$ 1,412,727	4.51%
Interest-bearing liabilities	$ 26,301,326	$ (198,346)	0.75%	$ 26,600,193	$ (209,967)	0.79%	$ 27,818,696	$ (292,981)	1.05%
Spread			3.37%			3.60%			3.46%
Impact of capital	$ 4,356,141		0.10%	$ 3,951,952		0.10%	$ 3,513,750		0.11%
Net Interest Income (NII) & NII to average earning assets		$ 1,064,422	3.47%		$ 1,131,682	3.70%		$ 1,119,746	3.57%

Net interest income for the year ended December 31, 2013 was $1.064 billion compared to $1.132 billion for the same period of 2012, a decrease of $67.3 million, or 5.94 percent. The net interest margin was 3.47 percent and 3.70 percent in the current year and previous year, respectively, a decrease of 23 basis points. The decrease was primarily the result of lower earning asset yields. During 2013, 2012, and 2011, the Bank called debt totaling $6.806 billion, $23.010 billion, and $21.490 billion, respectively, and was able to lower cost of funds. Over time, as interest rates change and as assets prepay or reprice, the positive impact on the net interest margin that the Bank has experienced over the last several years from calling debt will continue to diminish.

Provision for Loan Losses

AgFirst and the Associations measure risks inherent in their individual portfolios on an ongoing basis and as necessary, recognize provision for loan loss expense so that appropriate reserves for loan losses are maintained. The net provision for loan losses was $14.7 million and $98.1 million for the years ended December 31, 2013 and 2012, respectively. The net provision expense of $14.7 million was due primarily to loans classified in the poultry ($4.7 million), cattle ($3.5 million), forestry ($3.4 million), rural home loans ($3.3 million), corn ($3.2 million), field crops ($2.5 million), and grain ($2.5 million) segments, partially offset by reversals in the nursery/greenhouse ($5.4 million), processing ($4.0 million), and ethanol ($2.4 million) segments.

Provision expense decreased $83.4 million in 2013 compared to 2012 due primarily to a reduction in the overall level of problem assets. See the *Allowance for Loan Losses* section above and Note 3, *Loans and Allowance for Loan Losses*, in the Notes to the Combined Financial Statements for further information.

Noninterest Income

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

Noninterest Income *(dollars in thousands)*	For the Year Ended December 31, 2013	2012	2011	Increase (Decrease) 2013/2012	2012/2011
Loan fees	$ 33,557	$ 36,092	$ 39,494	$ (2,535)	$ (3,402)
Fees for financially related services	9,720	11,118	9,851	(1,398)	1,267
Building lease income	4,466	256	18	4,210	238
Net impairment losses on investments	(6,692)	(3,933)	(9,284)	(2,759)	5,351
Gains (losses) on investments, net	7,592	–	2,973	7,592	(2,973)
Gains (losses) on called debt	(5,360)	(39,445)	(27,450)	34,085	(11,995)
Gains (losses) on other transactions	6,422	4,187	1,263	2,235	2,924
Insurance premium refund	–	33,744	–	(33,744)	33,744
Other noninterest income	9,185	8,438	8,004	747	434
Total noninterest income	$ 58,890	$ 50,457	$ 24,869	$ 8,433	$ 25,588

Total noninterest income increased $8.4 million from 2012 to 2013 due primarily to lower called debt losses and higher gains on sale of investments, offset by a decrease related to an insurance premium refund received in 2012. The insurance premium refund was also the primary reason for the increase of $25.6 million in noninterest income in 2012. See below for further discussion of significant variances in total noninterest income.

The decrease in loan fees of $2.5 million in 2013 resulted primarily from decreases related to the correspondent lending portfolio, servicing, and commitment fees. The decrease in loan fees of $3.4 million in 2012 resulted primarily from decreases in letters of credit, commitment, servicing, and late fees.

The decrease in 2013 in fees for financially related services resulted primarily from $1.3 million decreases in multi-peril fees. The majority of the increase in fees for financially related services in 2012 resulted primarily from increases in multi-peril and leasing services fees.

Building lease income increased $4.2 million and $238 thousand for the twelve months ended December 31, 2013 and 2012, respectively. This income was received from tenants of the Bank office building which was purchased in the fourth quarter of 2012. The Bank is in the process of upfitting vacant space in the building and will relocate its operations there in 2014. Related expenses are recorded in occupancy and equipment expenses discussed below.

The net impairment losses on investments for all three years were due to the recognition of credit related other-than-temporary impairment on certain asset-backed and non-agency CMO securities in the Bank's investment portfolio. Net impairment losses on investments decreased $2.8 million and increased $5.4 million for the twelve months ended December 31, 2013 and 2012, respectively. The decrease in 2012 resulted primarily from improvement in both probability of default and projected credit loss for securities analyzed for impairment. See further discussion in the *Cash, Cash Equivalents and Investments* section above.

Gains on investments during 2013 and 2011 were the result of normal investment activities related to managing the composition and overall size of the Bank's portfolio. There were no gains or losses on investments for 2012. Gains on investments of $7.6 million during the twelve months ended December 31, 2013 were primarily the result of the sale of U.S. government agency mortgage-backed securities. See discussion of investments in the *Cash, Cash Equivalents and Investments* section above and Note 4, *Investments*, in the Notes to the 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 decreased $34.1 million and increased $12.0 million for the years ended December 31, 2013 and 2012, respectively. Call options were exercised on bonds totaling $6.806 billion in 2013, $23.010 billion in 2012, and $21.490 billion in 2011. Opportunities to call debt were more limited in the 2013 period. The called debt expense is more than offset by interest expense savings realized as called debt is replaced by new debt issued at a lower rate of interest. Over time, the favorable effect on net interest income is diminished as earning assets reprice downward.

For the twelve months ended December 31, 2013, gains on other transactions increased $2.2 million compared to the same period last year due primarily to a $3.4 million decrease in reserve expense for unfunded commitments as commitments were funded and the reserve was reclassified to the allowance for loan losses. For the twelve months ended December 31, 2012, gains on other transactions increased $2.9 million compared to the same period in 2011. This increase resulted primarily from $1.3 million in insurance recoveries and $1.0 million gains realized on benefit trusts in 2012.

The District recorded $33.7 million of insurance premium refunds during the second quarter of 2012 from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.

Noninterest Expenses

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

Noninterest Expenses *(dollars in thousands)*	**For the Year Ended December 31, 2013**	**2012**	**2011**	**Increase (Decrease) 2013/2012**	**2012/2011**
Salaries and employee benefits	$ 287,808	$ 264,678	$ 257,072	$ 23,130	$ 7,606
Occupancy and equipment	37,809	34,332	33,586	3,477	746
Insurance Fund premiums	19,306	11,149	13,908	8,157	(2,759)
Other operating expenses	111,639	105,419	97,271	6,220	8,148
Losses (gains) from other property owned	18,062	33,562	40,284	(15,500)	(6,722)
Total noninterest expenses	$ 474,624	$ 449,140	$ 442,121	$ 25,484	$ 7,019

Total noninterest expenses increased $25.5 million and $7.0 million for the years ended December 31, 2013 and 2012, respectively, compared to the prior year. For both years, the increase was primarily the result of an increase in salaries and employee benefits expenses. See below for further discussion of significant variances in total noninterest expenses.

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

Occupancy and equipment expense increased $3.5 million and $746 thousand for the years ended December 31, 2013 and 2012, compared to the same periods in 2012 and 2011, respectively. The $3.5 million increase for 2013 was due primarily to increases from the cost of space to maintain the building purchased for future Bank occupancy, as discussed in the *Noninterest Income* section above. The $746 thousand increase for 2012 was due primarily to increases in software expense for various maintenance agreements and database management.

The $8.1 million increase in 2013 and $2.8 million decrease in 2012 in Insurance Fund premiums resulted primarily from a change in the premium rate, as determined by the Insurance Fund Board. The annual premium rates were 10 basis points in 2013, 5 basis points in 2012, and 6 basis points in 2011. The premium rate for 2014 is 12 basis points. Also contributing to the decrease in 2012, was the reduction of Systemwide Debt, which is the basis for the FCSIC premium computation.

Other operating expenses increased $6.2 million and $8.1 million for the twelve months ended December 31, 2013 and 2012, respectively. The majority of the increases resulted from additional purchased services expense required for certain system enhancements. Increases in consulting, professional fees, and service provider fees were $2.7 million and $3.7 million, for the twelve months ended December 31, 2013 and 2012, respectively. Increases in public relations expense also contributed to the increase in other operating expenses for both years. The remainder of the increases in other operating expenses were comprised of numerous and varied expenses, none of which had a significant increase.

The net decrease in losses on other property owned of $15.5 million for the twelve months ended December 31, 2013 resulted primarily from higher gains on sales and lower write-downs recognized in 2013 compared with 2012. The largest gain recognized in 2013 was a $5.1 million gain on sale of an ethanol plant, including $2.3 million which was previously deferred pending settlement of litigation. The decrease in net losses from other property owned during 2012 primarily resulted from fewer losses on sales in 2012 compared with 2011 as real estate values began to stabilize. See discussion of 2013 expense in the *Other Property Owned* section above.

Provision for Income Taxes

Provision for income taxes remained constant at $1.3 million in 2013 and increased $552 thousand in 2012. See Note 12, *Income Taxes*, in the Notes to the Combined Financial Statements for further details.

CAPITAL

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

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

Total District shareholders' equity at December 31, 2013 was $5.175 billion, compared to $4.888 billion and $4.521 billion at December 31, 2012 and 2011, respectively. The $286.9 million increase in 2013 resulted primarily from an increase in retained earnings from net income of $632.7 million and $120.0 million increase for employee benefit adjustments. These increases in shareholders' equity were offset by decreases from the redemption of perpetual preferred stock of $150.0 million as discussed below, cash distributions declared of $145.9 million, retained earnings retired of $82.1 million, and decreases of $80.5 million in net unrealized gains on investments. The $366.6 million increase in 2012 resulted primarily from an increase in retained earnings from net income of $633.7 million, increases of $41.0 million in net unrealized gains during 2012 on investments, and a change in the fair value of firm commitments of $7.1 million. These increases were offset by decreases from cash distributions declared of $99.6 million, the redemption of perpetual preferred stock of $88.2 million as discussed below, retained earnings retired of $65.7 million, a $40.4 million reduction for employee benefit plan adjustments, and preferred stock dividends paid of $18.0 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 Board approved capital plan. The stock was redeemed at its par value together with accrued and unpaid dividends. See Note 7, *Shareholders' Equity*, in the Notes to the Combined Financial Statements for further information.

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

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

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

Regulatory Ratios

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

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

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

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

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

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

All Associations met all of the regulatory minimum capital requirements at December 31, 2013. AgFirst and each Association maintain an allowance for loan losses determined by its management and are capitalized to serve their unique markets.

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

ECONOMIC CAPITAL

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

COMMITMENTS AND CONTINGENCIES

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

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

FINANCIAL REGULATORY REFORM

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

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

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

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

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

Farm Bill

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

DISTRICT MERGER ACTIVITY

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

Additional Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

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

Unincorporated Business Entities

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

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

Description of Property

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

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

**Properties currently under a contract of sale*

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

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

Senior Officers

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

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

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

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

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

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

Pension Benefits Table
As of December 31, 2013

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

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

Executive Incentive Compensation Plan

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

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

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

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

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

Retirement and Deferred Compensation Plans

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

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

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

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

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

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

Chief Executive Officer

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

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

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

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

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

Senior Officers

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

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

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

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

Additional Compensation Information

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

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

AgFirst Farm Credit Bank Board of Directors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Bobby E. McCollum, Jr., is a poultry operator in Polkton, North Carolina. His operation includes eight broiler houses that produce 750,000 heavy broilers per year. Mr. McCollum also has a 100-head brood cow/calf commercial herd, and grows 100 acres of timber as well as hay, soybeans, wheat and corn. He is a member of Anson County Cattlemen's Association and serves on the Anson County Agriculture Advisory Board. He is a member of Carolina Farm Credit, ACA. Mr. McCollum is a licensed North Carolina property and casualty insurance agent specializing in farm insurance. Mr. McCollum served on the Board Risk Policy Committee in 2013. Mr. McCollum's term expired on December 31, 2013.

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

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

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

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

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

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

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

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

Committees

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

Compensation of Directors

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

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

* *Other official activities include Board committee meetings and Board training.*
** *Does not include 4.5 days served as Board-appointed member of the AgFirst and AgFirst/FCBT Plan Sponsor Committees.*

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

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

Transactions with Senior Officers and Directors

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

Involvement in Certain Legal Proceedings

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

Relationship with Independent Certified Public Accountants

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

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

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

Audit fees were for the annual audits of financial statements.

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

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

Financial Statements

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

Borrower Information Regulations

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

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

Shareholder Investment

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

Report of the Audit Committee

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

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

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

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

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

John S. Langford
Chairman of the Audit Committee

Members of Audit Committee

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

March 12, 2014

pwc

Report of Independent Certified Public Accountants

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

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

Management's Responsibility for the Combined Financial Statements

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

Certified Public Accountants' Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP

March 12, 2014

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Combined Balance Sheets

(dollars in thousands)	As of December 31, 2013	2012	2011
Assets			
Cash	**$ 1,085,489**	$ 775,859	$ 1,256,345
Cash equivalents	**144,885**	149,589	83,822
Investment securities:			
Available for sale (amortized cost of $6,504,339, $6,756,026, and $6,840,738, respectively)	**6,604,262**	6,936,420	6,980,105
Held to maturity (fair value of $700,862, $774,275, and $1,053,277, respectively)	**691,219**	712,997	975,448
Total investment securities	**7,295,481**	7,649,417	7,955,553
Loans held for sale	**6,834**	18,132	10,201
Loans	**23,270,508**	22,929,205	22,481,505
Allowance for loan losses	**(187,437)**	(213,500)	(174,976)
Net loans	**23,083,071**	22,715,705	22,306,529
Accrued interest receivable	**176,986**	182,472	197,782
Accounts receivable	**38,196**	63,565	57,775
Investments in other Farm Credit System institutions	**14,962**	13,871	12,680
Other investments	**84,247**	164,750	240,124
Premises and equipment, net	**170,154**	156,971	128,756
Other property owned	**68,801**	109,997	158,144
Other assets	**92,165**	98,817	103,157
Total assets	**$ 32,261,271**	$ 32,099,145	$ 32,510,868
Liabilities			
Systemwide bonds payable	**$ 24,315,776**	$ 24,293,168	$ 23,927,260
Systemwide notes payable	**2,110,328**	2,195,707	3,361,179
Accrued interest payable	**54,198**	40,815	42,578
Accounts payable	**203,491**	161,029	157,399
Advanced conditional payments	**12,911**	9,019	5,553
Other liabilities	**389,893**	511,588	495,720
Total liabilities	**27,086,597**	27,211,326	27,989,689
Commitments and contingencies (Note 11)			
Shareholders' Equity			
Perpetual preferred stock	**125,250**	275,250	400,000
Protected borrower equity	**901**	1,351	3,269
Capital stock and participation certificates	**156,382**	157,260	159,334
Additional paid-in-capital	**60,270**	60,270	7,873
Retained earnings			
Allocated	**1,693,689**	1,531,077	1,415,359
Unallocated	**3,313,471**	3,076,113	2,756,592
Accumulated other comprehensive income (loss)	**(175,289)**	(213,502)	(221,248)
Total shareholders' equity	**5,174,674**	4,887,819	4,521,179
Total liabilities and equity	**$ 32,261,271**	$ 32,099,145	$ 32,510,868

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

Combined Statements of Income

(dollars in thousands)	For the year ended December 31, 2013	2012	2011
Interest Income			
Investment securities	**$ 157,013**	$ 198,322	$ 215,425
Loans	**1,105,755**	1,143,327	1,197,302
Total interest income	**1,262,768**	1,341,649	1,412,727
Interest Expense	**198,346**	209,967	292,981
Net interest income	**1,064,422**	1,131,682	1,119,746
Provision for (reversal of) loan losses	**14,687**	98,075	215,852
Net interest income after provision for loan losses	**1,049,735**	1,033,607	903,894
Noninterest Income			
Loan fees	**33,557**	36,092	39,494
Fees for financially related services	**9,720**	11,118	9,851
Building lease income	**4,466**	256	18
Total other-than-temporary impairment losses	**(7,167)**	(22,585)	(7,368)
Portion of loss recognized in other comprehensive income	**475**	18,652	(1,916)
Net other-than-temporary impairment losses	**(6,692)**	(3,933)	(9,284)
Gains (losses) on investments, net	**7,592**	—	2,973
Gains (losses) on called debt	**(5,360)**	(39,445)	(27,450)
Gains (losses) on other transactions	**6,422**	4,187	1,263
Insurance premium refund	**—**	33,744	—
Other noninterest income	**9,185**	8,438	8,004
Total noninterest income	**58,890**	50,457	24,869
Noninterest Expenses			
Salaries and employee benefits	**287,808**	264,678	257,072
Occupancy and equipment	**37,809**	34,332	33,586
Insurance Fund premiums	**19,306**	11,149	13,908
Other operating expenses	**111,639**	105,419	97,271
Losses (gains) from other property owned	**18,062**	33,562	40,284
Total noninterest expenses	**474,624**	449,140	442,121
Income before income taxes	**634,001**	634,924	486,642
Provision for income taxes	**1,265**	1,265	713
Net income	**$ 632,736**	$ 633,659	$ 485,929

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

Combined Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2013	2012	2011
Net income	**$ 632,736**	$ 633,659	$ 485,929
Other comprehensive income net of tax:			
Unrealized gains (losses) on investments:			
Other-than-temporarily impaired	**18,057**	(1,127)	2,449
Not other-than-temporarily impaired	**(98,586)**	42,154	93,581
Change in value of firm commitments - when issued securities	**(1,225)**	7,080	3,185
Employee benefit plans adjustments	**119,967**	(40,361)	(28,883)
Other comprehensive income (Note 7)	**38,213**	7,746	70,332
Comprehensive income	**$ 670,949**	$ 641,405	$ 556,261

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

Combined Statements of Changes in Shareholders' Equity

(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, 2010	$ 400,000	$ 3,641	$ 150,031	$ —	$ 1,318,996	$ 2,575,592	$ (291,580)	$ 4,156,680
Comprehensive income						485,929	70,332	556,261
Protected borrower equity retired		(372)						(372)
Capital stock/participation certificates issued (retired), net			7,996					7,996
Dividends declared/paid			1,314			(1,363)		(49)
Dividends paid on perpetual preferred stock						(27,413)		(27,413)
Patronage distribution								
Cash						(91,015)		(91,015)
Qualified allocated retained earnings					10,136	(10,136)		—
Nonqualified allocated retained earnings					60,966	(60,966)		—
Nonqualified retained earnings					84,680	(84,680)		—
Retained earnings retired					(59,607)	701		(58,906)
Equity issued as result of merger (Note 14)		267	1,936	7,873				10,076
Equity retired as result of merger (Note 14)		(267)	(1,936)			(31,458)		(33,661)
Patronage distribution adjustment			(7)		188	1,401		1,582
Balance at December 31, 2011	$ 400,000	$ 3,269	$ 159,334	$ 7,873	$ 1,415,359	$ 2,756,592	$ (221,248)	$ 4,521,179
Comprehensive income						633,659	7,746	641,405
Protected borrower equity retired		(1,918)						(1,918)
Capital stock/participation certificates issued (retired), net			(3,175)					(3,175)
Dividends declared/paid			1,101			(1,299)		(198)
Dividends paid on perpetual preferred stock						(17,978)		(17,978)
Redemption of perpetual preferred stock (Note 7)	(124,750)			36,580				(88,170)
Patronage distribution								
Cash						(99,645)		(99,645)
Qualified allocated retained earnings					15,232	(15,232)		—
Nonqualified allocated retained earnings					63,802	(63,802)		—
Nonqualified retained earnings					100,756	(100,756)		—
Retained earnings retired					(66,052)	304		(65,748)
Equity issued as result of merger (Note 14)			3,163	15,817	10,463			29,443
Equity retired as result of merger (Note 14)			(3,163)		(10,463)	(14,509)		(28,135)
Patronage distribution adjustment					1,980	(1,221)		759
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						**632,736**	**38,213**	**670,949**
Protected borrower equity retired		**(450)**						**(450)**
Capital stock/participation certificates issued (retired), net			**(2,252)**					**(2,252)**
Dividends declared/paid			**1,374**			**(1,565)**		**(191)**
Dividends paid on perpetual preferred stock						**(6,347)**		**(6,347)**
Redemption of perpetual preferred stock (Note 7)	**(150,000)**							**(150,000)**
Patronage distribution								
Cash						**(145,873)**		**(145,873)**
Qualified allocated retained earnings					**20,103**	**(20,103)**		**—**
Nonqualified allocated retained earnings					**80,566**	**(80,566)**		**—**
Nonqualified retained earnings					**143,228**	**(143,228)**		**—**
Retained earnings retired					**(82,487)**	**388**		**(82,099)**
Patronage distribution adjustment					**1,202**	**1,916**		**3,118**
Balance at December 31, 2013	**$ 125,250**	**$ 901**	**$ 156,382**	**$ 60,270**	**$ 1,693,689**	**$ 3,313,471**	**$ (175,289)**	**$ 5,174,674**

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

Combined Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2013	2012	2011
Cash flows from operating activities:			
Net income	**$ 632,736**	$ 633,659	$ 485,929
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation on premises and equipment	**17,048**	16,723	16,676
Amortization of net deferred loan origination (fees) costs	**(8,229)**	(9,325)	(11,427)
Premium amortization (discount accretion) on investment securities	**9,172**	4,646	8,080
(Premium amortization) discount accretion on bonds and notes	**6,462**	5,350	144
Amortization (accretion) of yield mark resulting from merger	**(5,199)**	(7,808)	(13,740)
Provision for loan losses	**14,687**	98,075	215,852
(Gains) losses on other property owned	**14,857**	30,181	36,203
Net impairment losses on investments	**6,692**	3,933	9,284
(Gains) losses on investments, net	**(7,592)**	—	(2,973)
(Gains) losses on other transactions	**(6,422)**	(4,187)	(1,263)
Net change in loans held for sale	**37,730**	21,445	26,204
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	**5,486**	15,310	(1,816)
(Increase) decrease in accounts receivable	**25,369**	(5,789)	4,062
(Increase) decrease in other assets	**(7,218)**	(6,661)	2,164
Increase (decrease) in accrued interest payable	**13,383**	(1,763)	(15,373)
Increase (decrease) in accounts payable	**(10,356)**	(5,767)	27,193
Increase (decrease) in other liabilities	**1,956**	(23,542)	21,670
Total adjustments	**107,826**	130,821	320,940
Net cash provided by (used in) operating activities	**740,562**	764,480	806,869
Cash flows from investing activities:			
Investment securities purchased	**(1,852,360)**	(1,441,356)	(1,185,070)
Proceeds from investment securities sold or matured	**2,111,781**	1,779,141	1,561,797
Net (increase) decrease in loans	**(461,247)**	(578,376)	175,743
(Increase) decrease in investments in other Farm Credit System institutions	**(1,091)**	(1,191)	(1,201)
Purchases of other investments	**1,133**	(484)	(3,526)
Proceeds from payments received on other investments	**83,954**	83,683	82,542
Purchase of premises and equipment, net	**(31,026)**	(44,660)	(19,540)
Proceeds from sale of premises and equipment, net	**1,789**	2,196	2,313
Proceeds from sale of other property owned	**93,288**	78,855	85,682
Net cash provided by (used in) investing activities	**(53,779)**	(122,192)	698,740
Cash flows from financing activities:			
Bonds and notes issued	**21,360,584**	40,927,927	41,651,117
Bonds and notes retired	**(21,415,057)**	(41,721,724)	(42,880,764)
Net increase (decrease) in advanced conditional payments	**3,892**	3,466	(1,289)
Redemption of mandatorily redeemable preferred stock	—	—	(225,000)
Protected borrower equity retired	**(450)**	(1,918)	(372)
Capital stock and participation certificates issued/retired, net	**(2,252)**	(3,175)	7,996
Patronage refunds and dividends paid	**(90,128)**	(89,687)	(94,511)
Redemption of perpetual preferred stock (Note 7)	**(150,000)**	(88,170)	—
Dividends paid on perpetual preferred stock	**(6,347)**	(17,978)	(27,413)
Retained earnings retired	**(82,099)**	(65,748)	(58,906)
Net cash provided by (used in) financing activities	**(381,857)**	(1,057,007)	(1,629,142)
Net increase (decrease) in cash and cash equivalents	**304,926**	(414,719)	(123,533)
Cash and cash equivalents, beginning of period	**925,448**	1,340,167	1,463,700
Cash and cash equivalents, end of period	**$ 1,230,374**	$ 925,448	$ 1,340,167
Supplemental schedule of non-cash investing and financing activities:			
Financed sales of other property owned	**$ 12,016**	$ 19,794	$ 7,565
Receipt of property in settlement of loans	**78,965**	80,683	141,178
Change in unrealized gains (losses) on investments, net	**(80,529)**	41,027	96,030
Employee benefit plans adjustments (Note 7)	**(119,967)**	40,361	28,883
Equity issued as result of merger (Note 14)	—	29,443	10,076
Equity retired as result of merger (Note 14)	—	(28,135)	(33,661)
Adjustment of allowance for loan losses related to Association mergers (Note 14)	—	(1,409)	(16,097)
Change in fair value of forward contracts (Note 15)	—	—	(9,100)
Non-cash changes related to interest rate hedging activities:			
Increase (decrease) in bonds and notes	**$ (13,870)**	$ (10,943)	$ (9,917)
Decrease (increase) in other assets	**13,870**	10,943	9,917
Supplemental information:			
Interest paid	**$ 179,392**	$ 207,645	$ 309,770
Taxes paid, net	**951**	552	828

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

Notes to the Combined Financial Statements

Note 1 — Organization and Operations

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

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

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

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

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

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

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

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

- Federal Farm Credit Banks Funding Corporation (Funding Corporation) – provides for the issuance, marketing and processing of Systemwide Debt Securities using a network of investment dealers and dealer banks. The Funding Corporation also provides financial management and reporting services.
- FCS Building Association – leases premises and equipment to the FCA.
- Farm Credit System Association Captive Insurance Company – being a reciprocal insurer, provides insurance services to its member organizations.

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

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

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

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

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

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

Note 2 — Summary of Significant Accounting Policies

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

The accompanying Combined Financial Statements include the accounts of AgFirst and the District Associations, and reflect the investments in and allocated earnings of the service organizations in which AgFirst and Associations have partial ownership interests. All significant transactions and balances between AgFirst and District Associations have been eliminated in combination.

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

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

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

Long-term real estate mortgage loans generally have original maturities up to 30 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs, premiums, discounts, deferred loan fees or costs, and derivative instruments and hedging valuation adjustments, if any.

Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. The difference in the total investment in a loan and its principal amount is deferred as part of the carrying amount of the loan and the net difference is amortized over the life of the related loan as an adjustment to interest income using the effective interest method.

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

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

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

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

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

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the 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.

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

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

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

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

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

The credit risk rating methodology is a key component of the 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.

Acquired loans are recorded at estimated fair value on their purchase date with no carryover of any related allowance for loan losses. Acquired loans were segregated between those considered to be credit impaired and those deemed performing. To make this determination, management considered such factors as past due status, nonaccrual status and credit risk ratings. The fair value of acquired performing loans was determined by discounting expected cash flows, both principal and interest, for each loan at prevailing market interest rates. The difference between the fair value and principal balances due at acquisition date, the fair value discount, is accreted into income over the estimated life of each loan.

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, if pooled. 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 an amount that should not be 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.

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

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

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

E. **Premises and Equipment:** Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense and improvements that extend the useful life of the asset are capitalized.

   From time to time, assets classified as premises and equipment are transferred to held for sale for various reasons. These assets are carried in other assets at the lower of the recorded investment in the asset or fair value less estimated cost to sell based upon the property's appraised value at the date of transfer. Any write-downs of property held for sale are recorded as other non-interest expense.

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

   Investments in Other Farm Credit System Institutions
   Investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. These investments are accounted for using the cost method and are analyzed for impairment similar to investment securities as discussed in the section below.

   Other Investments
   Other Investments include Tobacco Buyout Successor-in-Interest Contracts (SIIC) which qualify as Mission Related Investments under FCA regulations. Tobacco quota holders and producers may sell their rights to receive SIIC contract payments to a third party. The successor purchases the entire contract and all related rights and obligations associated with the contract. These investments in SIIC are purchased at a discount. Contract payments are made by the United States Department of Agriculture (USDA) in equal annual payments. Interest income is recognized from the accretion of discounts using the effective interest method.

   Several Associations are investors in a USDA approved Rural Business Investment Company (RBIC). This investment was made under the USDA's Rural Business Investment Program, which is authorized by the Farm Security and Rural Investment Act (FSRIA). FSRIA authorizes FCS institutions to establish and invest in RBICs. These investments are accounted for under the cost method.

As discussed in Note 8, certain investments, consisting primarily of mutual funds, are held in trust accounts and are reported at fair value. Holding period gains and losses are included within other noninterest income on the consolidated statements of comprehensive income and the balance of these investments is included in other assets on the accompanying consolidated balance sheet.

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

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

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

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

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

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

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

Additional information for the above may be found in Note 9.

Multi-Employer Defined Benefit Plans
Substantially all employees may participate in one or more defined benefit plans. The Plans are noncontributory and include eligible Bank and District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. The actuarially-determined costs of the Plans are allocated to each participating entity by multiplying the Plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all Plan participants.

The District also provides certain health care and life insurance benefits for retired employees (Other Postretirement Benefits) through a retiree healthcare plan. Substantially all employees are eligible for those benefits when they reach early retirement age while working for the District. Authoritative accounting guidance requires the accrual of the expected cost of providing these benefits to an employee, their beneficiaries and covered dependents during the years the employee renders service necessary to become eligible for benefits. These Other Postretirement Benefits plans are unfunded with expenses paid as incurred. Certain costs related to this plan are an allocation of District charges based on the entity's proportional share of the plan liability.

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

Additional information for the above may be found in Note 9.

Single Employer Defined Benefit Plans
Certain District entities also sponsor defined benefit postretirement plans for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the Combined Balance Sheets in Other Liabilities.

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

See Note 9 for additional information.

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

Income taxes are accounted for under the asset and liability method, recognizing deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

A valuation allowance is recorded at the balance sheet dates against the portion of deferred tax assets that, based on management's best estimates of future events and circumstances, more likely than not (a likelihood of more than 50 percent) will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of any expected patronage program, which reduces taxable earnings.

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

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

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

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

K. **Valuation Methodologies:** FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. This guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It prescribes three levels of inputs that may be used to measure fair value which are discussed in Note 8.

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

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

Third party valuation services are generally used to obtain fair value prices for investments.

Quoted market prices are referred to when estimating fair values for certain assets for which an observable active market exists.

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

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

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

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

N. **Advance Conditional Payments:** The District Associations are authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, those advanced conditional payments (ACPs) are netted against the borrower's related loan balance. ACPs which are held by the District but cannot be used to reduce outstanding loan balances, except at the direction of the borrower, are classified as Other Liabilities in the Combined Balance Sheets. ACPs are not insured, and interest is generally paid by the associations on such balances. The outstanding gross balances of advance conditional payments netted against loans at December 31, 2013, 2012 and 2011 were $198.9 million, $148.9 million, and $162.1 million, respectively. The outstanding gross balances of advance conditional payments classified as other liabilities at December 31, 2013, 2012 and 2011 were $12.9 million, $9.0 million, and $5.6 million, respectively.

O. **Business Combinations:** Business Combinations are accounted for under the acquisition method. Purchased assets, including identifiable intangibles, and assumed liabilities are recorded at their respective acquisition date fair values. If the fair value of net assets purchased exceeds the consideration given, a "bargain purchase gain" is recognized. If the consideration given exceeds the fair value of the net assets received, goodwill is recognized. Fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values becomes available. Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan losses. See Loans and Allowance for Loan Losses section above for accounting policy regarding loans acquired in a business combination.

All identifiable intangible assets that are acquired in a business combination are recognized at fair value on the acquisition date. Identifiable intangible assets are recognized separately if they arise from contractual or other legal rights or if they are separable (i.e., capable of being sold, transferred, licensed, rented, or exchanged separately from the entity).

The acquisition method of accounting requires the financial statement presentation of combined balances as of the date of the merger, but of only the acquirer for previous periods.

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

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

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

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

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

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

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

In May 2011, the FASB issued ASU 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following: (1) Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets (does not apply to financial assets and liabilities); (2) Aligns the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities. As a result, an entity should measure the fair value of its own equity instruments from the perspective of a market participant that holds the instruments as assets; (3) Clarifies that a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy; (4) An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to those risks; (5) Clarifies that the application of premiums and discounts in a fair value measurement is related to the unit of account for the asset or liability being measured at fair value. Premiums or discounts related to size as a characteristic of the entity's holding (that is, a blockage factor) instead of as a characteristic of the asset or liability (for example, a control premium), are not permitted. A fair value measurement that is not a Level 1 measurement may include premiums or discounts other than blockage factors when market participants would incorporate the premium or discount into the measurement at the level of the unit of account specified in other guidance; (6) Expansion of the disclosures about fair value measurements. The most significant change requires entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed. The amendments are to be applied prospectively. The amendments were effective during interim and annual periods beginning after December 15, 2011. Early application was not permitted. The adoption of this guidance did not impact the District's financial condition or results of operations, but resulted in additional disclosures.

Note 3 — Loans and Allowance for Loan Losses

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

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

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

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

The District's loan portfolio has been segmented by the following loan types as defined by the FCA:

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

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

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

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

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

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

- Communication loans — primarily to finance rural communication companies.

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

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

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

- Lease receivables — the net investment for all finance leases (such as direct financing leases, leveraged leases, and sales-type leases) where the District is the lessor.
- Loans to other financing institutions (OFIs) — loans to other financial institutions with which the District has a lending relationship.

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

A summary of loans outstanding follows:

	December 31,		
(dollars in thousands)	**2013**	**2012**	**2011**
Real estate mortgage	$ 10,268,260	$ 9,921,750	$ 9,756,036
Production and intermediate-term	7,479,455	7,760,377	7,924,627
Loans to cooperatives	241,023	235,703	256,981
Processing and marketing	1,091,648	1,053,247	1,115,490
Farm-related business	352,315	354,039	348,797
Communication	358,601	319,320	213,501
Energy and water/waste disposal	496,898	525,070	308,722
Rural residential real estate	2,833,416	2,634,609	2,470,742
Lease receivables	4,922	2,880	2,986
Loans to OFIs	83,116	60,479	5,250
Other (including Mission Related)	60,854	61,731	78,373
Total Loans	$ 23,270,508	$ 22,929,205	$ 22,481,505

The District's concentration of credit risk is spread among various agricultural commodities. A substantial portion of the District's lending activities are collateralized, and, accordingly, the credit risk associated with lending activities is considerably less than the recorded loan principal and is considered in the allowance for loan losses.

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, including loans to OFIs, at periods ended:

	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	–
Loans to OFIs	–	–	83,116	–	83,116	–
Other (including Mission Related)	12,000	–	7,628	–	19,628	–
Total	$ 2,216,256	$ 471,410	$ 1,306,584	$ 49,165	$ 3,522,840	$ 520,575

	December 31, 2012					
	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	$ 143,204	$ 51,816	$ 94,815	$ 20,537	$ 238,019	$ 72,353
Production and intermediate-term	434,656	233,016	391,410	4,434	826,066	237,450
Loans to cooperatives	199,342	–	17,173	–	216,515	–
Processing and marketing	418,060	48,556	591,669	4,052	1,009,729	52,608
Farm-related business	128,279	630	37,373	817	165,652	1,447
Communication	354,180	–	–	–	354,180	–
Energy and water/waste disposal	530,641	–	7,204	–	537,845	–
Rural residential real estate	–	–	51	–	51	–
Lease receivables	861	–	–	–	861	–
Loans to OFIs	–	–	60,479	–	60,479	–
Other (including Mission Related)	–	19,776	5,673	2,910	5,673	22,686
Total	$ 2,209,223	$ 353,794	$ 1,205,847	$ 32,750	$ 3,415,070	$ 386,544

	December 31, 2011					
	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	$ 135,657	$ 65,477	$ 111,443	$ 3,792	$ 247,100	$ 69,269
Production and intermediate-term	304,593	333,209	507,782	29,982	812,375	363,191
Loans to cooperatives	183,406	–	36,853	–	220,259	–
Processing and marketing	310,301	17,411	660,500	4,135	970,801	21,546
Farm-related business	123,291	7,476	26,798	899	150,089	8,375
Communication	231,022	–	–	–	231,022	–
Energy and water/waste disposal	303,443	–	7,510	–	310,953	–
Rural residential real estate	–	–	53	–	53	–
Lease receivables	1,709	–	–	–	1,709	–
Loans to OFIs	–	–	5,250	–	5,250	–
Other (including Mission Related)	–	22,022	9,095	3,240	9,095	25,262
Total	$ 1,593,422	$ 445,595	$ 1,365,284	$ 42,048	$ 2,958,706	$ 487,643

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:

(dollars in thousands)	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 588,740	$ 2,409,822	$ 7,269,698	$ 10,268,260
Production and intermediate-term	2,064,554	3,150,287	2,264,614	7,479,455
Loans to cooperatives	76,449	100,321	64,253	241,023
Processing and marketing	161,417	553,623	376,608	1,091,648
Farm-related business	49,794	204,666	97,855	352,315
Communication	96,317	141,409	120,875	358,601
Energy and water/waste disposal	28,945	178,865	289,088	496,898
Rural residential real estate	29,313	72,378	2,731,725	2,833,416
Lease receivables	2,467	2,455	–	4,922
Loans to OFIs	36,698	45,218	1,200	83,116
Other (including Mission Related)	9,406	10,768	40,680	60,854
Total Loans	$ 3,144,100	$ 6,869,812	$ 13,256,596	$ 23,270,508
Percentage	13.51%	29.52%	56.97%	100.00%

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

	2013	2012	2011
Real estate mortgage:			
Acceptable	91.94%	89.50%	88.42%
OAEM	3.71	4.79	5.13
Substandard/doubtful/loss	4.35	5.71	6.45
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	89.77%	86.80%	84.82%
OAEM	4.90	5.09	8.29
Substandard/doubtful/loss	5.33	8.11	6.89
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	99.94%	96.45%	92.01%
OAEM	0.06	2.90	7.39
Substandard/doubtful/loss	–	0.65	0.60
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	97.00%	89.13%	85.52%
OAEM	1.48	3.05	6.40
Substandard/doubtful/loss	1.52	7.82	8.08
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	96.78%	94.45%	95.51%
OAEM	2.03	3.10	1.80
Substandard/doubtful/loss	1.19	2.45	2.69
	100.00%	100.00%	100.00%
Communication:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%

	2013	2012	2011
Energy and water/waste disposal:			
Acceptable	99.95%	99.99%	98.63%
OAEM	–	0.01	1.37
Substandard/doubtful/loss	0.05	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	99.08%	98.81%	98.69%
OAEM	0.29	0.45	0.47
Substandard/doubtful/loss	0.63	0.74	0.84
	100.00%	100.00%	100.00%
Lease receivables:			
Acceptable	96.42%	91.42%	89.33%
OAEM	3.10	7.47	3.76
Substandard/doubtful/loss	0.48	1.11	6.91
	100.00%	100.00%	100.00%
Loans to OFIs:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Other (including Mission Related):			
Acceptable	85.05%	86.61%	79.66%
OAEM	5.25	–	1.53
Substandard/doubtful/loss	9.70	13.39	18.81
	100.00%	100.00%	100.00%
Total Loans:			
Acceptable	92.81%	90.19%	88.50%
OAEM	3.36	4.07	5.66
Substandard/doubtful/loss	3.83	5.74	5.84
	100.00%	100.00%	100.00%

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

December 31, 2013						
(dollars in thousands)	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
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

December 31, 2012						
(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	$ 81,839	$ 153,406	$ 235,245	$ 9,766,477	$ 10,001,722	$ 786
Production and intermediate-term	40,946	141,898	182,844	7,644,134	7,826,978	148
Loans to cooperatives	–	1,548	1,548	234,922	236,470	–
Processing and marketing	618	25,234	25,852	1,030,716	1,056,568	–
Farm-related business	186	417	603	355,252	355,855	–
Communication	–	–	–	319,726	319,726	–
Energy and water/waste disposal	–	–	–	526,263	526,263	–
Rural residential real estate	51,050	7,853	58,903	2,587,098	2,646,001	2,313
Lease receivables	40	32	72	2,810	2,882	–
Loans to OFIs	–	–	–	60,544	60,544	–
Other (including Mission Related)	117	7,446	7,563	54,804	62,367	478
Total	$ 174,796	$ 337,834	$ 512,630	$ 22,582,746	$ 23,095,376	$ 3,725

(dollars in thousands)	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
	December 31, 2011					
Real estate mortgage	$ 141,900	$ 214,314	$ 356,214	$ 9,486,256	$ 9,842,470	$ 1,154
Production and intermediate-term	77,546	180,018	257,564	7,740,979	7,998,543	581
Loans to cooperatives	–	1,553	1,553	256,486	258,039	–
Processing and marketing	308	1,621	1,929	1,118,245	1,120,174	–
Farm-related business	804	7,847	8,651	341,940	350,591	–
Communication	–	–	–	213,810	213,810	–
Energy and water/waste disposal	–	–	–	310,357	310,357	–
Rural residential real estate	52,146	14,358	66,504	2,412,196	2,478,700	4,583
Lease receivables	–	37	37	2,958	2,995	–
Loans to OFIs	–	–	–	5,259	5,259	–
Other (including Mission Related)	957	2,383	3,340	75,985	79,325	1,238
Total	$ 273,661	$ 422,131	$ 695,792	$ 21,964,471	$ 22,660,263	$ 7,556

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

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

(dollars in thousands)	December 31, 2013	2012	2011
Nonaccrual loans:			
Real estate mortgage	$ 218,030	$ 266,827	$ 317,772
Production and intermediate-term	172,394	249,086	288,029
Loans to cooperatives	–	1,545	1,551
Processing and marketing	6,423	40,526	21,628
Farm-related business	3,747	4,575	8,066
Communication	–	–	–
Energy and water/waste disposal	234	–	–
Rural residential real estate	9,531	11,364	17,555
Lease receivables	24	32	207
Other (including Mission Related)	3,794	6,953	11,901
Total nonaccrual loans	$ 414,177	$ 580,908	$ 666,709
Accruing restructured loans:			
Real estate mortgage	$ 60,376	$ 50,338	$ 41,793
Production and intermediate-term	48,951	50,269	31,523
Processing and marketing	–	–	24,606
Farm-related business	815	867	48
Rural residential real estate	1,835	1,793	1,373
Other (including Mission Related)	9,879	–	–
Total accruing restructured loans	$ 121,856	$ 103,267	$ 99,343
Accruing loans 90 days or more past due:			
Real estate mortgage	$ 1,498	$ 786	$ 1,154
Production and intermediate-term	388	148	581
Rural residential real estate	1,651	2,313	4,583
Other (including Mission Related)	–	478	1,238
Total accruing loans 90 days or more past due	$ 3,537	$ 3,725	$ 7,556
Total nonperforming loans	$ 539,570	$ 687,900	$ 773,608
Other property owned	68,801	109,997	158,144
Total nonperforming assets	$ 608,371	$ 797,897	$ 931,752
Nonaccrual loans as a percentage of total loans	1.78%	2.53%	2.97%
Nonperforming assets as a percentage of total loans and other property owned	2.61%	3.46%	4.12%
Nonperforming assets as a percentage of capital	11.76%	16.32%	20.61%

The following table presents information relating to impaired loans (including accrued interest) as defined in Note 2. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

(dollars in thousands)	December 31, 2013	2012	2011
Impaired nonaccrual loans:			
Current as to principal and interest	$ 179,231	$ 200,430	$ 197,916
Past due	234,946	380,478	468,793
Total impaired nonaccrual loans	414,177	580,908	666,709
Impaired accrual loans:			
Restructured	121,856	103,267	99,343
90 days or more past due	3,537	3,725	7,556
Total impaired accrual loans	125,393	106,992	106,899
Total impaired loans	$ 539,570	$ 687,900	$ 773,608

Additional impaired loan information is as follows:

	December 31, 2013			Year Ended December 31, 2013	
(dollars in thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 78,718	$ 97,096	$ 19,946	$ 103,696	$ 2,238
Production and intermediate-term	84,603	112,526	23,806	124,148	3,162
Loans to cooperatives	–	–	–	–	–
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

	December 31, 2012			Year Ended December 31, 2012	
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 110,633	$ 140,657	$ 29,578	$ 121,051	$ 2,703
Production and intermediate-term	149,996	190,301	50,839	150,439	3,476
Loans to cooperatives	–	–	–	–	–
Processing and marketing	25,846	26,797	8,755	16,164	487
Farm-related business	4,407	5,260	770	5,321	131
Rural residential real estate	5,309	7,764	1,433	5,508	157
Lease receivables	–	–	–	–	–
Other (including Mission Related)	6,409	6,360	627	2,603	211
Total	$ 302,600	$ 377,139	$ 92,002	$ 301,086	$ 7,165
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 207,318	$ 269,787	$ –	$ 207,079	$ 6,551
Production and intermediate-term	149,507	201,879	–	165,107	5,423
Loans to cooperatives	1,545	1,564	–	1,553	50
Processing and marketing	14,680	21,134	–	21,367	1,314
Farm-related business	1,035	1,922	–	2,132	30
Rural residential real estate	10,161	11,877	–	11,794	347
Lease receivables	32	83	–	76	1
Other (including Mission Related)	1,022	995	–	6,424	70
Total	$ 385,300	$ 509,241	$ –	$ 415,532	$ 13,786
Total impaired loans:					
Real estate mortgage	$ 317,951	$ 410,444	$ 29,578	$ 328,130	$ 9,254
Production and intermediate-term	299,503	392,180	50,839	315,546	8,899
Loans to cooperatives	1,545	1,564	–	1,553	50
Processing and marketing	40,526	47,931	8,755	37,531	1,801
Farm-related business	5,442	7,182	770	7,453	161
Rural residential real estate	15,470	19,641	1,433	17,302	504
Lease receivables	32	83	–	76	1
Other (including Mission Related)	7,431	7,355	627	9,027	281
Total	$ 687,900	$ 886,380	$ 92,002	$ 716,618	$ 20,951

(dollars in thousands)	December 31, 2011 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2011 Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 121,212	$ 143,092	$ 22,652	$ 141,775	$ 2,295
Production and intermediate-term	139,753	186,637	37,916	171,089	2,920
Loans to cooperatives	–	–	–	190	–
Processing and marketing	7,723	8,192	1,386	19,970	81
Farm-related business	5,838	7,042	153	6,401	140
Energy and water/waste disposal	–	–	–	3,345	–
Rural residential real estate	7,216	9,211	2,073	6,121	162
Lease receivables	37	87	7	103	1
Other (including Mission Related)	542	1,879	110	932	–
Total	$ 282,321	$ 356,140	$ 64,297	$ 349,926	$ 5,599
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 239,507	$ 316,615	$ –	$ 262,915	$ 5,317
Production and intermediate-term	180,380	269,949	–	197,867	4,001
Loans to cooperatives	1,551	1,580	–	3,115	38
Processing and marketing	38,511	52,708	–	44,022	2,117
Farm-related business	2,276	4,538	–	1,891	55
Energy and water/waste disposal	–	–	–	3,344	22
Rural residential real estate	16,295	18,644	–	13,139	301
Lease receivables	170	190	–	226	4
Other (including Mission Related)	12,597	22,219	–	6,120	348
Total	$ 491,287	$ 686,443	$ –	$ 532,639	$ 12,203
Total impaired loans:					
Real estate mortgage	$ 360,719	$ 459,707	$ 22,652	$ 404,690	$ 7,612
Production and intermediate-term	320,133	456,586	37,916	368,956	6,921
Loans to cooperatives	1,551	1,580	–	3,305	38
Processing and marketing	46,234	60,900	1,386	63,992	2,198
Farm-related business	8,114	11,580	153	8,292	195
Energy and water/waste disposal	–	–	–	6,689	22
Rural residential real estate	23,511	27,855	2,073	19,260	463
Lease receivables	207	277	7	329	5
Other (including Mission Related)	13,139	24,098	110	7,052	348
Total	$ 773,608	$ 1,042,583	$ 64,297	$ 882,565	$ 17,802

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

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

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

(dollars in thousands)	Year Ended December 31, 2013	2012	2011
Interest income which would have been recognized under the original loan terms	$ 31,830	$ 38,559	$ 51,786
Less: interest income recognized	20,279	20,811	17,533
Foregone interest income	$ 11,551	$ 17,748	$ 34,253

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Lease Receivables	Other Loans **	Total
Allowance for credit losses:									
Balance at December 31, 2012	$ 76,832	$ 110,409	$ 18,990	$ 863	$ 1,364	$ 3,968	$ 40	$ 1,034	$ 213,500
Charge-offs	(17,132)	(33,551)	(8,960)	–	–	(1,297)	(5)	(798)	(61,743)
Recoveries	12,582	5,502	1,762	–	–	472	–	675	20,993
Provision for loan losses	(27)	12,938	(2,182)	202	129	3,344	56	227	14,687
Adjustment due to merger	–	–	–	–	–	–	–	–	–
Loan type reclassification	2,678	(3,118)	439	–	(66)	–	–	67	–
Balance at December 31, 2013	$ 74,933	$ 92,180	$ 10,049	$ 1,065	$ 1,427	$ 6,487	$ 91	$ 1,205	$ 187,437
Balance at December 31, 2011	$ 65,951	$ 89,155	$ 14,050	$ 482	$ 672	$ 4,015	$ 20	$ 631	$ 174,976
Charge-offs	(51,940)	(30,917)	(4,645)	–	–	(2,073)	–	(397)	(89,972)
Recoveries	8,464	16,795	6,373	–	–	141	–	57	31,830
Provision for loan losses	57,018	34,201	3,485	381	692	1,973	20	305	98,075
Adjustment due to merger	(440)	(702)	(235)	–	–	(32)	–	–	(1,409)
Loan type reclassification	(2,221)	1,877	(38)	–	–	(56)	–	438	–
Balance at December 31, 2012	$ 76,832	$ 110,409	$ 18,990	$ 863	$ 1,364	$ 3,968	$ 40	$ 1,034	$ 213,500
Balance at December 31, 2010	$ 73,636	$ 83,759	$ 19,735	$ 415	$ 599	$ 3,117	$ 67	$ 1,001	$ 182,329
Charge-offs	(75,289)	(92,899)	(31,564)	–	(7,068)	(2,452)	(69)	(10,082)	(219,423)
Recoveries	6,967	4,022	347	825	1	133	20	–	12,315
Provision for loan losses	69,793	99,910	26,633	(748)	7,140	3,410	2	9,712	215,852
Adjustment due to merger	(8,845)	(5,948)	(1,101)	(10)	–	(193)	–	–	(16,097)
Loan type reclassification	(311)	311	–	–	–	–	–	–	–
Balance at December 31, 2011	$ 65,951	$ 89,155	$ 14,050	$ 482	$ 672	$ 4,015	$ 20	$ 631	$ 174,976
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
Loans individually evaluated for impairment	$ 29,124	$ 50,786	$ 9,499	$ –	$ –	$ 1,365	$ –	$ 627	$ 91,401
Loans collectively evaluated for impairment	47,254	59,570	9,465	863	1,364	2,535	40	407	121,498
Loans acquired with deteriorated credit quality	454	53	26	–	–	68	–	–	601
Balance at December 31, 2012	$ 76,832	$ 110,409	$ 18,990	$ 863	$ 1,364	$ 3,968	$ 40	$ 1,034	$ 213.500
Loans individually evaluated for impairment	$ 21,896	$ 37,767	$ 1,458	$ –	$ –	$ 2,012	$ 7	$ 110	$ 63,250
Loans collectively evaluated for impairment	43,300	51,238	12,511	482	672	1,942	13	521	110,679
Loans acquired with deteriorated credit quality	755	150	81	–	–	61	–	–	1,047
Balance at December 31, 2011	$ 65,951	$ 89,155	$ 14,050	$ 482	$ 672	$ 4,015	$ 20	$ 631	$ 174,976
Recorded investment in loans outstanding:									
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
Loans individually evaluated for impairment	$ 373,848	$ 258,994	$ 51,473	$ –	$ –	$ 2,182,310	$ –	$ –	$ 2,866,625
Loans collectively evaluated for impairment	9,611,337	7,561,221	1,597,150	319,726	526,263	462,283	2,882	122,911	20,203,773
Loans acquired with deteriorated credit quality	16,537	6,763	270	–	–	1,408	–	–	24,978
Ending balance at December 31, 2012	$ 10,001,722	$ 7,826,978	$ 1,648,893	$ 319,726	$ 526,263	$ 2,646,001	$ 2,882	$ 122,911	$ 23,095,376
Loans individually evaluated for impairment	$ 417,257	$ 278,187	$ 39,156	$ –	$ –	$ 2,058,195	$ 207	$ 2,778	$ 2,795,780
Loans collectively evaluated for impairment	9,400,695	7,713,687	1,687,985	213,810	310,357	418,774	2,788	81,806	19,829,902
Loans acquired with deteriorated credit quality	24,518	6,669	1,663	–	–	1,731	–	–	34,581
Ending balance at December 31, 2011	$ 9,842,470	$ 7,998,543	$ 1,728,804	$ 213,810	$ 310,357	$ 2,478,700	$ 2,995	$ 84,584	$ 22,660,263

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

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about activity that occurred during the periods presented, related to TDRs. The tables do not include purchased credit impaired loans.

	December 31, 2013			
	Pre-modification Outstanding Recorded Investment			
(dollars in thousands)	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 31,473	$ 31,380	$ 11,356	$ 74,209
Production and intermediate-term	24,383	31,775	1,868	58,026
Rural residential real estate	1,318	111	–	1,429
Other (including Mission Related)	–	4,535	–	4,535
Lease receivables	–	–	347	347
Total	$ 57,174	$ 67,801	$ 13,571	$ 138,546

	December 31, 2013				
	Post-modification Outstanding Recorded Investment				Effects of Modification
(dollars in thousands)	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Troubled debt restructurings:					
Real estate mortgage	$ 21,629	$ 31,409	$ 11,409	$ 64,447	$ (8,494)
Production and intermediate-term	18,714	31,846	1,653	52,213	(8,669)
Rural residential real estate	1,142	111	–	1,253	(37)
Other (including Mission Related)	–	4,535	–	4,535	–
Lease receivables	–	–	347	347	–
Total	$ 41,485	$ 67,901	$ 13,409	$ 122,795	$ (17,200)

	December 31, 2012			
	Pre-modification Outstanding Recorded Investment			
(dollars in thousands)	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 10,019	$ 55,937	$ 3,164	$ 69,120
Production and intermediate-term	3,340	68,284	3,294	74,918
Processing and marketing	–	22,886	1,191	24,077
Farm-related business	694	7,256	321	8,271
Rural residential real estate	87	847	78	1,012
Total	$ 14,140	$ 155,210	$ 8,048	$ 177,398

	December 31, 2012				
	Post-modification Outstanding Recorded Investment				Effects of Modification
(dollars in thousands)	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Troubled debt restructurings:					
Real estate mortgage	$ 10,018	$ 53,406	$ 2,694	$ 66,118	$ (1,361)
Production and intermediate-term	2,550	67,674	2,718	72,942	(3,180)
Processing and marketing	–	22,886	1,191	24,077	(519)
Farm-related business	692	7,256	321	8,269	–
Rural residential real estate	87	851	78	1,016	(129)
Total	$ 13,347	$ 152,073	$ 7,002	$ 172,422	$ (5,189)

	December 31, 2011			
	Pre-modification Outstanding Recorded Investment			
(dollars in thousands)	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 10,875	$ 77,888	$ 12,269	$ 101,032
Production and intermediate-term	27,204	127,872	38,984	194,060
Processing and marketing	–	10,700	–	10,700
Farm-related business	–	74	–	74
Rural residential real estate	295	2,171	–	2,466
Other (including Mission Related)	–	–	1,554	1,554
Total	$ 38,374	$ 218,705	$ 52,807	$ 309,886

	December 31, 2011							
	Post-modification Outstanding Recorded Investment							Effects of Modification
(dollars in thousands)	Interest Concessions		Principal Concessions		Other Concessions		Total	Charge-offs
Troubled debt restructurings:								
Real estate mortgage	$	10,869	$	79,346	$	12,077	$ 102,292	$ (5,128)
Production and intermediate-term		27,191		121,070		35,393	183,654	(26,923)
Processing and marketing		–		10,706		–	10,706	(1,735)
Farm-related business		–		74		–	74	–
Rural residential real estate		295		2,137		–	2,432	(15)
Other (including Mission Related)		–		–		1,554	1,554	(679)
Total	$	38,355	$	213,333	$	49,024	$ 300,712	$ (34,480)

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

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

	Year Ended December 31,		
(dollars in thousands)	2013	2012	2011
Defaulted troubled debt restructurings:			
Real estate mortgage	$ 8,287	$ 7,224	$ 33,409
Production and intermediate-term	2,912	5,232	21,494
Processing and marketing	–	560	–
Rural residential real estate	–	3	99
Total	$ 11,199	$ 13,019	$ 55,002

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

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
(dollars in thousands)	2013	2012	2011	2013	2012	2011
Real estate mortgage	$ 146,018	$ 128,399	$ 116,565	$ 85,642	$ 78,061	$ 74,772
Production and intermediate-term	115,909	115,933	115,497	66,958	65,664	83,974
Processing and marketing	24	24,930	32,052	24	24,930	7,446
Farm-related business	4,107	4,449	1,402	3,292	3,582	1,354
Rural residential real estate	3,605	3,583	2,285	1,770	1,790	912
Other (including Mission Related)	9,879	–	–	–	–	–
Total Loans	$ 279,542	$ 277,294	$ 267,801	$ 157,686	$ 174,027	$ 168,458
Additional commitments to lend	$ 5,770	$ 17,444	$ 40,611			

Purchased Credit Impaired Loans

District entities acquire loans individually and in groups or portfolios.

As discussed in Note 14:

i. Effective January 1, 2011, Farm Credit of North Florida, ACA (NFL), and Farm Credit of Southwest Florida, ACA (SWFL), merged with and into Farm Credit of South Florida, ACA (SFL), which then changed its name to Farm Credit of Florida, ACA (FCFL).
ii. Effective July 1, 2012, Chattanooga, ACA, merged with and into Jackson Purchase, ACA, which then changed its name to River Valley AgCredit, ACA (River Valley).

The business combinations were accounted for under the acquisition method.

In connection with the mergers, the acquirers 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 December 31, 2013, were as follows.

(dollars in thousands)	River Valley	FCFL
Real estate mortgage	$ 1,493	$ 7,171
Production and intermediate-term	2,295	2,908
Loans to cooperatives	–	–
Processing and marketing	–	–
Farm-related business	–	–
Communication	–	–
Energy	–	–
Rural residential real estate	87	96
Total Loans	$ 3,875	$ 10,175

At December 31, 2013, the allowance for loan losses related to these loans was $561 thousand compared with $601 thousand at December 31, 2012. During the periods ended December 31, 2013 and 2012, provision expense on these loans was a net expense reversal of $110 thousand and expense of $1.1 million, respectively. There were reversals of allowance for loan losses of $559 thousand and $33 thousand during the periods ended December 31, 2013 and 2012, respectively, and no reversals for the period ended December 31, 2011 for these acquired loans. See above for a summary of changes in the total allowance for loan losses for the periods ended December 31, 2013, 2012, and 2011.

There were no loans acquired during 2013 for which it was probable at acquisition that all contractually required payments would not be collected. The total of loans acquired during 2012 and 2011 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
Loans to cooperatives	–	–
Processing and marketing	–	2,196
Farm-related business	–	1,734
Communication	–	–
Energy	–	–
Rural residential real estate	236	1,769
Total Loans	$ 7,829	$ 82,296

Certain of the loans acquired by both FCFL and River Valley in the business combinations that were within the scope of purchased impaired loan guidance are accounted for using a cash basis method of income recognition because FCFL and River Valley cannot reasonably estimate cash flows expected to be collected. Substantially all of the loans acquired were real estate collateral dependent loans.

At the time of merger, the real estate market in Florida was extremely unstable. The market in the former Chattanooga's footprint was similarly unpredictable. These settings made estimation of the amount and timing of a sale of loan collateral in essentially the same condition as received upon foreclosure indeterminate.

As such, FCFL and River Valley 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 4 — Investments

Other Farm Credit System Institutions

Investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA.

These investments are accounted for using the cost method.

Other Investments

On October 22, 2004, Congress enacted the "Fair and Equitable Tobacco Reform Act of 2004" (Tobacco Act) as part of the "American Jobs Creation Act of 2004". The Tobacco Act repealed the federal tobacco price support and quota programs, provides for payments to tobacco "quota owners" and producers for the elimination of the quota, and provides an assessment mechanism for tobacco manufacturers and importers to pay for the buyout. Tobacco quota holders and producers will receive equal annual payments under a contract with the Secretary of Agriculture. The Tobacco Act also includes a provision that allows the quota holders and producers to assign to a "financial institution" the right to receive the contract payments so that they may obtain a lump sum or other payment. On April 4, 2005, the USDA issued a Final Rule implementing the "Tobacco Transition Payment Program" (Tobacco Buyout).

The FCA determined that System institutions are "financial institutions" within the meaning of the Tobacco Act and are, therefore, eligible to participate in the Tobacco Buyout. The FCA recognized that the Tobacco Buyout has significant implications for some System institutions and the tobacco quota holders and producers they serve. The FCA's goal is to provide System institution borrowers with the option to immediately receive Tobacco Buyout contract payments and reinvest them in future business opportunities.

As of December 31, 2013, ten District Associations held investments in Tobacco Buyout Successor-in-Interest Contracts (SIICs) of $83.8 million.

In 2006, certain Associations agreed to become one of several investors in a USDA approved Rural Business Investment Company (RBIC). This investment was made under the USDA's Rural Business Investment Program, which is authorized by the Farm Security and Rural Investment Act (FSRIA). It permits USDA to license RBICs and provide guarantees and grants to promote rural economic development and job opportunities and meet equity capital investment needs of small rural enterprises. FSRIA authorizes FCS institutions to establish and invest in RBICs, provided that such investments are not greater than 5 percent of the capital and surplus of the FCS institution.

Over the years, the Associations purchased total equity investments in the RBIC of $1.6 million. There are no outstanding commitments to make additional equity purchases beyond this amount.

During 2013, a careful analysis indicated that a decrease in value of the investment had occurred that was other than temporary, due to a series of losses and other factors. As a result, the Associations recognized other-than-temporary impairment of $1.1 million, which is included in Impairment Losses on Investments in the Statements of Income.

Investment Securities

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

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

The FCA considers a non-agency security ineligible if it falls below the AAA/Aaa credit rating criteria and requires System institutions to provide notification to the FCA. Non-agency CMO and ABS securities not rated in the top category by at least one of the NRSROs at December 31, 2013 had a fair value of $166.4 million and $33.1 million, respectively. For each of these investment securities in the 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 Mission Related Investments consist primarily of Rural America Bonds, which are private placement securities purchased under the Mission Related Investment Program approved by the FCA. In its Conditions of Approval for the program, the FCA considers a Rural America Bond ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9. FCA approval has been obtained to allow the 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 program. Each institution participating in such programs may continue to hold its investment through the maturity dates for the investments, provided the institution continues to meet all approval conditions. The FCA can consider participation in these programs on a case-by-case basis.

Available-for-sale

At December 31, 2013, the amortized cost and fair value of debt securities held by the Bank as available-for-sale investments were $6.462 billion (99.35 percent) and $6.563 billion (99.37 percent), respectively, of the District total amounts.

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

	December 31, 2013				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Guaranteed	$ 4,499,265	$ 109,799	$ (5,992)	$ 4,603,072	1.97%
U.S. Govt. Agency Guaranteed	1,741,732	20,351	(14,463)	1,747,620	1.04
Non-Agency CMOs (a)	200,246	18	(26,778)	173,486	0.63
Asset-Backed Securities (a)	20,979	18,502	(683)	38,798	6.38
Mission Related Investments (a)	42,117	1,190	(2,021)	41,286	6.04
Total	$ 6,504,339	$ 149,860	$ (49,937)	$ 6,604,262	1.72%

	December 31, 2012				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Guaranteed	$ 4,814,556	$ 198,488	$ (12,431)	$ 5,000,613	2.18%
U.S. Govt. Agency Guaranteed	1,621,428	30,002	(7,203)	1,644,227	1.17
Non-Agency CMOs (b)	246,179	27	(41,507)	204,699	0.67
Asset-Backed Securities (b)	26,219	8,236	(1,065)	33,390	5.67
Mission Related Investments	47,644	6,103	(256)	53,491	5.96
Total	$ 6,756,026	$ 242,856	$ (62,462)	$ 6,936,420	1.92%

	December 31, 2011				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Guaranteed	$ 4,831,529	$ 174,101	$ (3,129)	$ 5,002,501	2.46%
U.S. Govt. Agency Guaranteed	1,634,942	26,459	(10,572)	1,650,829	1.50
Non-Agency CMOs (c)	292,075	248	(50,092)	242,231	0.80
Asset-Backed Securities (c)	34,736	2,239	(6,651)	30,324	2.61
Mission Related Investments	47,456	6,909	(145)	54,220	6.14
Total	$ 6,840,738	$ 209,956	$ (70,589)	$ 6,980,105	2.19%

(a) Gross unrealized losses include non-credit related other-than-temporary impairment included in AOCI of $19.7 million for Non-Agency CMOs and $0 for Asset-Backed Securities and $347 thousand for Mission Related Investments.
(b) Gross unrealized losses include non-credit related other-than temporary impairment included in AOCI of $27.9 million for Non-Agency CMOs and $0 for Asset-Backed Securities.
(c) Gross unrealized losses include non-credit related other-than temporary impairment included in AOCI of $16.0 million for Non-Agency CMOs and $5.0 million for Asset-Backed Securities.

Held-to-maturity

At December 31, 2013, the amortized cost and fair value of debt securities held by the Bank as held-to-maturity investments were $590 thousand (85.33 percent) and $600 thousand (85.55 percent), respectively, of the District total amounts.

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

	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
Mission Related Investments (a)	187,499	9,038	(5,659)	190,878	5.93
Total	$ 691,219	$ 32,293	$(22,650)	$ 700,862	4.48%

	December 31, 2012				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	$ 442,031	$ 38,420	$ (148)	$ 480,303	5.51%
Asset-Backed Securities	68,554	1,454	(340)	69,668	1.58
Mission Related Investments	202,412	22,055	(163)	224,304	6.04
Total	$ 712,997	$ 61,929	$ (651)	$ 774,275	5.28%

(dollars in thousands)	December 31, 2011 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	$ 691,331	$ 59,389	$ (188)	$ 750,532	5.35%
Asset-Backed Securities	74,777	943	(406)	75,314	1.61
Mission Related Investments	209,340	18,472	(381)	227,431	6.01
Total	$ 975,448	$ 78,804	$ (975)	$ 1,053,277	5.21%

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

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

(dollars in thousands)	Year Ended December 31, 2013	2012	2011
Proceeds from sales	$ 122,165	$ 486	$ 57,321
Realized gains	7,592	–	2,973
Realized losses	–	–	–

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

Available-for-sale

	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	$ –	– %	$ 53	0.37 %	$ 7,893	1.30 %	$ 4,595,126	1.97 %	$ 4,603,072	1.97 %
U.S. Govt. Agency Guaranteed	8	1.20	6,852	2.59	68,142	1.51	1,672,618	1.01	1,747,620	1.04
Non-Agency CMOs	–	–	–	–	1,356	0.87	172,130	0.63	173,486	0.63
Asset-Backed Securities	–	–	–	–	–	–	38,798	6.38	38,798	6.38
Mission Related Investments	–	–	922	6.04	–	–	40,364	6.04	41,286	6.04
Total fair value	$ 8	1.20 %	$ 7,827	2.99 %	$ 77,391	1.47 %	$ 6,519,036	1.72 %	$ 6,604,262	1.72 %
Total amortized cost	$ 7		$ 7,672		$ 76,843		$ 6,419,817		$ 6,504,339	

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	$ –	– %	$ –	– %	$ 584	4.73 %	$ 449,354	4.23 %	$ 449,938	4.23 %
Asset-Backed Securities	492	1.27	29,867	1.70	14,564	1.46	8,859	1.41	53,782	1.58
Mission Related Investments	–	–	37,651	6.31	15,421	5.94	134,427	5.82	187,499	5.93
Total amortized cost	$ 492	1.27 %	$ 67,518	4.27 %	$ 30,569	3.78 %	$ 592,640	4.55 %	$ 691,219	4.48 %
Total fair value	$ 483		$ 70,455		$ 32,354		$ 597,570		$ 700,862	

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

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

	December 31, 2013 Less than 12 Months		Greater than 12 Months		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Guaranteed	$ 880,174	$ (4,540)	$ 146,638	$ (1,452)	$ 1,026,812	$ (5,992)
U.S. Govt. Agency Guaranteed	935,615	(23,928)	380,282	(7,354)	1,315,897	(31,282)
Non-Agency CMOs	–	–	173,289	(26,778)	173,289	(26,778)
Asset-Backed Securities	1,968	(17)	14,366	(838)	16,334	(855)
Mission Related Investments	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)

	December 31, 2012					
	Less than 12 Months		Greater than 12 Months		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Guaranteed	$ 318,804	$ (10,537)	$ 183,098	$ (1,894)	$ 501,902	$ (12,431)
U.S. Govt. Agency Guaranteed	98,792	(410)	446,896	(6,941)	545,688	(7,351)
Non-Agency CMOs	–	–	204,459	(41,507)	204,459	(41,507)
Asset-Backed Securities	665	(10)	9,526	(1,065)	10,191	(1,075)
Mortgage-Backed Securities	–	–	13,557	(330)	13,557	(330)
Mission Related Investments	10,190	(249)	2,517	(170)	12,707	(419)
Total	$ 428,451	$ (11,206)	$ 860,053	$ (51,907)	$ 1,288,504	$ (63,113)

	December 31, 2011					
	Less than 12 Months		Greater than 12 Months		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Guaranteed	$ 50,349	$ (29)	$ 260,966	$ (3,100)	$ 311,315	$ (3,129)
U.S. Govt. Agency MBS	227,888	(1,646)	442,141	(9,114)	670,029	(10,760)
Non-Agency CMOs	–	–	241,092	(49,869)	241,092	(49,869)
Asset-Backed Securities	423	(1)	44,651	(7,056)	45,074	(7,057)
Mortgage-Backed Securities	–	–	475	(223)	475	(223)
Mission Related Investments	38,038	(526)	–	–	38,038	(526)
Total	$ 316,698	$ (2,202)	$ 989,325	$ (69,362)	$ 1,306,023	$ (71,564)

FASB guidance contemplates numerous factors in determining whether an impairment is other-than-temporary. These factors include: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the 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 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 non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The 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 credit worthiness 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 credit-related other-than-temporary impairment of $6.7 million for 2013, which is included in Impairment Losses on Investments in the Statements of Income. Since the Bank does not intend to sell these other-than-temporarily impaired debt securities and is not more likely than not to be required to sell before recovery, the total other-than-temporary impairment is reflected in the Statements of Income with: (1) a net other-than-temporary impairment amount related to estimated credit loss, and (2) an amount relating to all other factors, recognized as a reclassification to or from Other Comprehensive Income.

Following are the assumptions used at:

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

For all other impaired investments, the District has not recognized any credit losses as the impairments are deemed temporary and result from non-credit 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 year ended December 31, 2013, net unrealized losses of $98.6 million were recognized in other comprehensive income on available-for-sale investments that are not other-than-temporarily impaired.

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

	For the Year Ended December 31,		
(dollars in thousands)	**2013**	**2012**	**2011**
Amount related to credit loss-beginning balance	$ 55,654	$ 53,298	$ 45,077
Additions for initial credit impairments	3,348	1,768	1,943
Additions for subsequent credit impairments	2,211	2,165	7,342
Reductions for increases in expected cash flows	(1,042)	(1,088)	(1,064)
Reductions for securities sold/settled/matured	(100)	(489)	–
Amount related to credit loss-ending balance	60,071	55,654	53,298
Life to date incurred credit losses	(19,404)	(17,437)	(16,784)
Remaining unrealized credit losses	$ 40,667	$ 38,217	$ 36,514

Note 5 — Real Estate and Other Property

Premises and Equipment

Premises and equipment consisted of the following:

	December 31,		
(dollars in thousands)	**2013**	**2012**	**2011**
Land	$ 38,900	$ 38,544	$ 27,545
Buildings and improvements	145,666	143,838	122,399
Furniture and equipment	115,902	121,078	119,781
Work in progress	20,353	2,444	1,364
	320,821	305,904	271,089
Less: accumulated depreciation	150,667	148,933	142,333
Total	$ 170,154	$ 156,971	$ 128,756

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

Other Property Owned

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

	December 31,		
(dollars in thousands)	**2013**	**2012**	**2011**
Losses (gains) on sale, net	$ (6,150)	$ 7	$ 4,154
Carrying value adjustments	21,007	30,174	32,049
Operating (income) expense, net	3,205	3,381	4,081
Total	$ 18,062	$ 33,562	$ 40,284

Deferred gains on sales of other property owned totaled $3.3 million, $5.4 million, and $9.3 million at December 31, 2013, 2012, and 2011, respectively. Gains were deferred as the sales involved financing from the Bank and/or District Associations and did not meet the criteria for immediate recognition. At December 31, 2013, deferred gains of $3.1 million are included in Loans and deferred gains of $199 thousand are included in Other Liabilities in the Combined Balance Sheets.

Note 6 — Debt

Bonds and Notes

The System, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide Debt Securities issued by the banks through the Funding Corporation. Certain conditions must be met before AgFirst can participate in the issuance of Systemwide Debt Securities. As one condition of participation, AgFirst is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets, at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable. This requirement does not provide holders of Systemwide Debt Securities with a security interest in any assets of the banks. The System banks and the Funding Corporation have entered into the Second Amended and Restated Market Access Agreement (MAA), which establishes criteria and procedures for the banks to provide certain information and, under certain circumstances, for restricting or prohibiting an individual bank’s participation in Systemwide debt issuances, thereby reducing other System banks’ exposure to statutory joint and several liabilities. At December 31, 2013, AgFirst was in compliance with the conditions of participation for the issuances of Systemwide Debt Securities.

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

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

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

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

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

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

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

Systemwide debt includes callable bonds consisting of the following:

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

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

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

In 2008, the Bank sold a total of $200.0 million of participations in its direct note receivable from a District Association to another System Bank. The transaction is accounted for as a secured borrowing. The note payable is included in Bonds and Notes in the Combined Balance Sheets and bears interest at an annual variable rate of one month LIBOR plus 47 basis points with maturity on December 31, 2016.

Mandatorily Redeemable Preferred Stock

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

Note 7 — Shareholders' Equity

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

A. **Protected Stock:** Protection of certain borrower equity is provided under the Farm Credit Act which requires AgFirst and District Associations to retire such capital at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates, and allocated equities which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If a Bank or an Association is unable to retire protected borrower stock at par value or stated value, amounts required to retire this stock would be obtained from the Insurance Fund.

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

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

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

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

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

C. **Capital Stock, Participation Certificates and Retained Earnings:** In accordance with the Farm Credit Act, borrowers are generally required to invest in their respective associations as a condition of borrowing. The District Associations' capital stock requirements are generally the lesser of 2.00 percent of the amount of the loan or $1 thousand. Some District Associations have dollar maximums, which range from $1 thousand to $5 thousand. Loans designated for sale or sold into the Secondary Market have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation. Association capitalization plans presently establish stock requirements in accordance with the Farm Credit Act and their respective bylaws.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment; the aggregate par value is added to the principal amount of the related loan obligation. AgFirst and the Association have a first lien on the stock or participation certificates owned by their respective borrowers. Retirement of such equities will generally be at the lower of par or book value and repayment of a loan cannot automatically result in retirement of the corresponding stock or participation certificates.

District Associations:

The District Associations are generally authorized to issue or have outstanding Preferred stock, Common stock, Participation Certificates, and such other classes of equity as may be provided for in the bylaws. All classes of stock and participation certificates have a par or face value of five dollars ($5.00) per share.

The District Associations had the following shares outstanding at December 31, 2013:

Class	Protected Status	Shares Outstanding (dollars in thousands) Number	Aggregate Par Value
Common Nonvoting	Yes	178,609	$ 893
Common Voting	No	16,732,476	83,663
Common Nonvoting	No	998,071	4,990
Participation Certificates	Yes	1,653	8
Participation Certificates	No	1,507,782	7,539
Preferred	No	9,395,028	46,975
Total Association Capital Stock, Participation Certificates and Protected Borrower Equity		28,813,619	$ 144,068

Protected common stock and participation certificates are retired at par or face value in the normal course of business. At-risk common stock and participation certificates are retired at the sole discretion of the respective boards of directors (Boards) at book value not to exceed par or face amounts, provided the minimum capital adequacy standards established by the Boards are met.

Participation Certificates are nonvoting and may be issued as a condition for obtaining a loan to rural home borrowers, to persons or organizations furnishing farm-related services, to persons or organizations who are eligible to borrow or participate in loans, but who are not eligible to hold voting stock, and to persons or organizations eligible to borrow for the purpose of qualifying them for technical assistance, financially related services, and/or leasing services offered by the Association.

Preferred Stock may be issued to such persons or investors as may be permitted under a plan adopted by each Board. Retirement will be at the sole discretion of each Board provided that the minimum capital adequacy standards established by the Board are met. If retired, Preferred Stock will be retired at its book value, not to exceed its par value. Preferred Stock is nonvoting and generally has preference over common stock and participation certificates as to dividends, and priority in the event of liquidation of an Association.

Retained Earnings

The Associations maintain unallocated retained earnings accounts and allocated retained earnings accounts. The minimum aggregate amounts of these two accounts are determined by each Board. At the end of any fiscal year, if the retained earnings accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of an Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board.

The Associations maintain allocated retained earnings accounts consisting of earnings held and allocated to borrowers on a patronage basis. In the event of a net loss by an Association for any fiscal year, such allocated retained earnings account will be subject to full impairment in the order specified in the bylaws beginning with the most recent allocation.

The Associations have a first lien and security interest on all retained earnings account allocations owned by any borrowers, and all distributions thereof, as additional collateral for their indebtedness to the Association. When the debt of a borrower is in default or is in the process of final liquidation by payment or otherwise, an Association, upon approval of its Board, may order any and all retained earnings account allocations owned by such borrower to be applied on the indebtedness.

Allocated equities shall be retired solely at the discretion of the Board; provided, however, that minimum capital standards established by FCA and the Board are met. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2013, combined allocated retained earnings consisted of $176.0 million of qualified surplus, $554.4 million of nonqualified allocated surplus and $963.3 million of nonqualified retained surplus.

Dividends

An Association may declare dividends on its capital stock and participation certificates. Such dividends generally may be paid solely on Preferred Stock, or on all classes of stock and participation certificates.

Patronage Distributions

Prior to the beginning of any fiscal year, each Board, by adoption of a resolution, may obligate its Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patronage distributions, if made by that Association, are based on the proportion of the borrower's interest to the amount of interest earned by that Association on its total loans unless another proportionate patronage basis is approved by the Board.

If an Association will meet its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated retained earnings account, or combinations of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board.

Amounts not distributed are retained as unallocated retained earnings.

Transfer

Equities may generally be transferred to persons or entities eligible to purchase or hold such equities under an Association's bylaws.

Impairment

Any net losses recorded by an Association shall first be applied against unallocated retained earnings. To the extent that such losses would exceed unallocated retained earnings, resulting in impairment of the Association's allocated retained earnings or capital stock, such losses would be applied pro rata to each share and/or unit outstanding, provided applications shall be made to allocated retained earnings by annual series, with the most recent allocations applied first.

Liquidation

In the event of the liquidation or dissolution of an Association, any assets of the Association remaining after payment or retirement of all liabilities may be distributed either to the holders of the outstanding stock and participation certificates or on a patronage basis, dependent upon the bylaws of the Association.

AgFirst:

Capital Stock and Allocated Retained Earnings — District Associations are required to invest in the capital stock of AgFirst. These intercompany balances and transactions are eliminated in combination. Additionally, AgFirst has issued and has outstanding $12.1 million in Class D Common stock, which is a nonvoting class of stock with a $5.00 par value.

Other Equity — Other Financing Institutions (OFIs) are required to capitalize their loans at the same level as the District Associations. At December 31, 2013, AgFirst had $1.1 million of participation certificates outstanding to OFIs at a face value of $5.00 per share.

Regulatory Capitalization Requirements and Restrictions

FCA's capital adequacy regulations require AgFirst and District Associations to achieve permanent capital of seven percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the seven percent permanent capital requirement can lead to the initiation of certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on AgFirst's or District Associations' operations and financial statements. AgFirst and District Associations are prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless the prescribed capital standard is met. FCA regulations also require all System institutions to achieve and maintain additional capital adequacy ratios as defined by FCA regulations. These required ratios are total surplus as a percentage of risk-adjusted assets of seven percent and core surplus as a percentage of risk-adjusted assets of three and one-half percent.

AgFirst's permanent capital, total surplus and core surplus ratios at December 31, 2013 were 22.85 percent, 22.81 percent and 19.98 percent, respectively. The FCA notified AgFirst that the June 2007 issuance of $250.0 million of Perpetual Non-Cumulative Subordinated Preferred Stock could be included in core surplus only up to an amount not to exceed 25.00 percent of total core surplus, inclusive of the preferred stock component. At December 31, 2013 and 2012, the remaining amount of this preferred stock issuance could be included in core surplus. Subsequent to the redemption of the $225.0 million of Mandatorily Redeemable Cumulative Preferred Stock on December 15, 2011, the FCA further notified AgFirst that the October 2003 issuance of $150.0 million of Perpetual Non-Cumulative Preferred Stock could also be included in core surplus up to an amount not to exceed 25.00 percent of total core surplus, inclusive of the preferred stock component. Prior to December 15, 2011, the $150.0 million Perpetual Non-Cumulative Preferred Stock was not included in core surplus.

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

All nineteen District Associations are organized as ACAs with FLCA and PCA subsidiaries. These subsidiaries and the ACA operate under a common board of directors and joint management. As a result, these District Associations are jointly obligated on each other's liabilities and are evaluated on a consolidated basis for capital adequacy and other regulatory purposes.

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

D. **Accumulated Other Comprehensive Income**

The following presents activity related to AOCI for the periods ended December 31:

	Changes in Accumulated Other Comprehensive Income by Component *(a)*		
(dollars in thousands)	**2013**	**2012**	**2011**
Unrealized Gains (Losses) on Investments:			
Balance at beginning of period	$ 180,394	$ 139,367	$ 43,337
Other comprehensive income before reclassifications	(78,496)	37,094	89,719
Amounts reclassified from AOCI	(2,033)	3,933	6,311
Net current period other comprehensive income	(80,529)	41,027	96,030
Balance at end of period	$ 99,865	$ 180,394	$ 139,367
Firm Commitments:			
Balance at beginning of period	$ 1,514	$ (5,566)	$ (8,751)
Other comprehensive income before reclassifications	–	7,970	3,035
Amounts reclassified from AOCI	(1,225)	(890)	150
Net current period other comprehensive income	(1,225)	7,080	3,185
Balance at end of period	$ 289	$ 1,514	$ (5,566)
Employee Benefit Plans:			
Balance at beginning of period	$ (395,410)	$ (355,049)	$ (326,166)
Other comprehensive income before reclassifications	87,275	(69,447)	(57,694)
Amounts reclassified from AOCI	32,692	29,086	28,811
Net current period other comprehensive income	119,967	(40,361)	(28,883)
Balance at end of period	$ (275,443)	$ (395,410)	$ (355,049)
Total Accumulated Other Comprehensive Income:			
Balance at beginning of period	$ (213,502)	$ (221,248)	$ (291,580)
Other comprehensive income before reclassifications	8,779	(24,383)	35,060
Amounts reclassified from AOCI	29,434	32,129	35,272
Net current period other comprehensive income	38,213	7,746	70,332
Balance at end of period	$ (175,289)	$ (213,502)	$ (221,248)

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*			
(dollars in thousands)	**2013**	**2012**	**2011**	**Income Statement Line Item**
Investment Securities:				
Sales gains & losses	$ 7,592	$ –	$ 2,973	Gains (losses) on investments, net
Holding gains & losses	(5,559)	(3,933)	(9,284)	Net other-than-temporary impairment
Net amounts reclassified	2,033	(3,933)	(6,311)	
Cash Flow Hedges:				
Interest income	1,225	890	(150)	See Note 15.
Net amounts reclassified	1,225	890	(150)	
Defined Benefit Pension Plans:				
Periodic pension costs	(32,692)	(29,086)	(28,811)	See Note 9.
Net amounts reclassified	(32,692)	(29,086)	(28,811)	
Total reclassifications for period	$ (29,434)	$ (32,129)	$ (35,272)	

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

Note 8 — Fair Value Measurement

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

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

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

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

Level 2

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

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

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

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

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

Level 3

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

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

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

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

For other investments, fair value is estimated by discounting expected future cash flows using prevailing rates for similar instruments at the measurement date. There are no observable market values for the District's RBIC investments. Management must estimate the fair value based on an assessment of the operating performance of the company and available capital to operate the venture. This analysis requires significant judgment and actual sales values could differ materially from those estimated.

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

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

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the periods presented. In tandem with the latest guidance on fair value measurement and disclosure, and movement to available for sale classification, $51.9 million of Mission Related Investments were transferred from Level 2 to Level 3 status effective March 31, 2012. The District had no transfers of assets or liabilities into or out of Level 1 during the reporting period.

(dollars in thousands)	Asset-Backed Securities	Non-Agency CMOs	Standby Letters of Credit	Mission Related Investments
Balance at January 1, 2013	$ 33,390	$ 204,699	$ 2,046	$ 53,491
Total gains or (losses) realized/unrealized:				
Included in earnings	(106)	(2,174)	–	(3,049)
Included in other comprehensive income	10,648	14,720	–	(6,679)
Purchases	–	–	–	313
Sales	–	–	–	–
Issuances	–	–	–	–
Settlements	(5,134)	(43,759)	(570)	(2,790)
Transfers in and/or out of level 3	–	–	–	–
Balance at December 31, 2013	$ 38,798	$ 173,486	$ 1,476	$ 41,286

(dollars in thousands)	Asset-Backed Securities	Non-Agency CMOs	Standby Letters of Credit	Mission Related Investments
Balance at January 1, 2012	$ 30,324	$ 241,756	$ 3,073	$ –
Total gains or (losses) realized/unrealized:				
Included in earnings	–	(3,762)	–	–
Included in other comprehensive income	11,583	8,140	–	1,566
Purchases	–	–	–	593
Sales	–	–	–	–
Issuances	–	–	–	–
Settlements	(8,517)	(41,435)	(1,027)	(553)
Transfers in and/or out of level 3	–	–	–	51,885
Balance at December 31, 2012	$ 33,390	$ 204,699	$ 2,046	$ 53,491

(dollars in thousands)	Asset-Backed Securities	Non-Agency CMOs	Standby Letters of Credit
Balance at January 1, 2011	$ 34,437	$ 295,526	$ 3,336
Total gains or (losses) realized/unrealized			
Included in earnings	(3,583)	(5,670)	–
Included in other comprehensive income	4,355	12,502	–
Purchases	–	–	–
Sales	–	–	–
Issuances	–	–	524
Settlements	(4,885)	(60,602)	(787)
Transfers in and/or out of level 3	–	–	–
Balance at December 31, 2011	$ 30,324	$ 241,756	$ 3,073

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
Forward contracts-when issued securities	$	–	Broker/Consensus pricing	Offered quotes	None outstanding
Mission Related Investments	$	41,286	Discounted cash flow	Risk adjusted spread	0.01% - 91.61%
Non-agency securities	$	212,284	Vendor priced	**	
Impaired loans and other property owned	$	568,052	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
Mission Related Investments	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 Year Ended December 31, 2013					
(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	$ 4,603,072	$ –	$ 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	
Mission Related Investments	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	

(dollars in thousands)	At or for the Year Ended December 31, 2012 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	$ 5,000,613	$ –	$ 5,000,613	$ –	$ 5,000,613	
U.S. Govt. Agency Guaranteed	1,644,227	–	1,644,227	–	1,644,227	
Non-Agency CMOs	204,699	–	–	204,699	204,699	
Asset-backed securities	33,390	–	–	33,390	33,390	
Mission related securities	53,491	–	–	53,491	53,491	
Total investments available-for-sale	6,936,420	–	6,644,840	291,580	6,936,420	
Federal funds sold, securities purchased under resale agreements, and other	149,589	–	149,589	–	149,589	
Interest rate swaps and other derivative instruments	41,384	–	41,384	–	41,384	
Assets held in trust funds	14,562	14,562	–	–	14,562	
Recurring Assets	$ 7,141,955	$ 14,562	$ 6,835,813	$ 291,580	$ 7,141,955	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	–	–	–	–	–	
Standby letters of credit	2,046	–	–	2,046	2,046	
Recurring Liabilities	$ 2,046	$ –	$ –	$ 2,046	$ 2,046	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 595,898	$ –	$ –	$ 595,898	$ 595,898	$ (86,423)
Other property owned	109,997	–	–	119,851	119,851	(30,181)
Nonrecurring Assets	$ 705,895	$ –	$ –	$ 715,749	$ 715,749	$ (116,604)
Other Financial Instruments						
Assets:						
Cash	$ 775,859	$ 775,859	$ –	$ –	$ 775,859	
Investments held to maturity	712,997	–	549,971	224,304	774,275	
Loans	22,137,939	–	–	22,409,374	22,409,374	
Other investments	163,178	–	–	166,557	166,557	
Other Financial Assets	$ 23,789,973	$ 775,859	$ 549,971	$ 22,800,235	$ 24,126,065	
Liabilities:						
Systemwide debt securities	$ 26,488,875	$ –	$ –	$ 26,578,330	$ 26,578,330	
Other Financial Liabilities	$ 26,488,875	$ –	$ –	$ 26,578,330	$ 26,578,330	

(dollars in thousands)	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
	At or for the Year Ended December 31, 2011					
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. Guaranteed	$ 5,002,501	$ –	$ 5,002,501	$ –	$ 5,002,501	
U.S. Govt. Agency Guaranteed	1,650,829	–	1,650,829	–	1,650,829	
Non-Agency CMOs	242,231	–	475	241,756	242,231	
Asset-backed securities	30,324	–	–	30,324	30,324	
Mission Related Investments	54,220	–	54,220	–	54,220	
Total investments available-for-sale	6,980,105	–	6,708,025	272,080	6,980,105	
Federal funds sold, securities purchased under resale agreements, and other	83,822	–	83,822	–	83,822	
Interest rate swaps and other derivative instruments	52,647	–	52,328	319	52,647	
Assets held in trust funds	11,999	11,999	–	–	11,999	
Recurring Assets	$ 7,128,573	$ 11,999	$ 6,844,175	$ 272,399	$ 7,128,573	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	22,139	–	22,139	–	22,139	
Standby letters of credit	3,073	–	–	3,073	3,073	
Recurring Liabilities	$ 25,212	$ –	$ 22,139	$ 3,073	$ 25,212	
Nonrecurring Measurements						
Assets:						
Impaired loans *	$ 709,311	$ –	$ –	$ 709,311	$ 709,311	$ (206,517)
Other property owned *	158,144	–	–	171,914	171,914	(36,203)
Nonrecurring Assets	$ 867,455	$ –	$ –	$ 881,225	$ 881,225	$ (242,720)
Other Financial Instruments **						
Assets:						
Cash	$ 1,256,345				$ 1,256,345	
Investments held to maturity	975,448				1,053,277	
Loans	21,607,419				21,908,154	
Other investments	238,552				246,822	
Other Financial Assets	$ 24,077,764				$ 24,464,598	
Liabilities:						
Systemwide debt securities	$ 27,288,439				$ 27,421,575	
Other Financial Liabilities	$ 27,288,439				$ 27,421,575	

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

Note 9 — Employee Benefit Plans

The Bank and certain District Associations participate in three District sponsored multiemployer defined benefit plans. These multiemployer plans include the AgFirst Farm Credit Retirement Plan which is a final average pay plan (FAP), the AgFirst Farm Credit Cash Balance Retirement Plan which is a cash balance plan (CB) and the Independent Association's Retirement Plan (IAR), which is a final average pay plan. In addition, the Bank and District Associations participate in a multiemployer defined benefit other postretirement benefits plan (OPEB), the Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plan and a multiemployer defined contribution 401(k) plan. In addition to the multiemployer defined benefit plans above, the District also sponsors a single employer defined benefit plan, the First South Farm Credit, ACA Retirement Plan (FS Plan). The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

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

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

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

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

Pension Plan	Percentage Funded to Projected Benefit Obligation			Contributions		
	2013	2012	2011	2013	2012	2011
AgFirst Farm Credit Retirement Plan	89.47%	77.35%	74.82%	$50,308	$45,528	$39,677
AgFirst Farm Credit Cash Balance Retirement Plan	95.06%	86.01%	81.77%	$1,768	$1,367	$825
Independent Associations Retirement Plan	82.47%	74.04%	74.24%	$4,112	$3,417	$2,870

Other Postretirement Benefit Plan	Percentage Funded to Accumulated Postretirement Benefit Obligation			Contributions		
	2013	2012	2011	2013	2012	2011
Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plans	0.00%	0.00%	0.00%	$6,950	$6,209	$5,963

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

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

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

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

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

Substantially all employees of the District are eligible to participate in one of the four defined benefit plans. The FAP plan covers eligible employees of fifteen Associations and AgFirst hired prior to January 1, 2003. The IAR Plan covers eligible employees of three ACAs whose employment date is prior to January 1, 2009. The FS Plan covers eligible employees of a single ACA whose employment date is prior to January 1, 2009. The CB Plan covers eligible employees who were either hired on or after January 1, 2003 (for institutions in the FAP Plan) or hired on or after January 1, 2009 for institutions in the IAR Plan or FS Plan. Each plan is noncontributory and collectively the plans cover substantially all employees of the participating entities. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. Pension benefits are primarily based on eligible compensation and years of service. The District entities funded $59.2 million, $53.2 million, and $45.7 million into these retirement plans for each of the three years ended December 31, 2013, 2012, and 2011, respectively. The expenses of these retirement plans included in salaries and employee benefits were $47.4 million for 2013, $44.9 million for 2012, and $45.6 million for 2011. The plans' respective liabilities are reflected in Pension and Other Postretirement Benefits Liability in the District's Combined Balance Sheets.

In addition to providing pension benefits, the District provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the District employees may become eligible for the benefits if they reach early retirement age while working for the Bank or District Associations. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Additionally, employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. This plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs were $10.1 million for 2013, $8.3 million for 2012, and $10.4 million for 2011. The plans' respective liabilities are reflected in Pension and Other Postretirement Benefits Liability in the District's Combined Balance Sheets.

The District also participates in the defined contribution 401(k) Plan, as described in Note 2, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. The District contributes $0.50 or $1.00 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 or 6.00 percent of total compensation, dependent upon each District entity's policy. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $7.4 million, $6.9 million, and 6.6 million for the years ended December 31, 2013, 2012, and 2011, respectively.

In addition to the multi-employer plans above, AgFirst and certain District Associations individually sponsor defined benefit and defined supplemental retirement plans and offer a FCBA supplemental 401(k) plan for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the District's Combined Balance Sheets in Other Liabilities. The District entities funded $932 thousand for the year ended December 31, 2013, and $790 thousand and $596 thousand for the years ended December 31, 2012 and 2011 into these supplemental retirement plans.

The supplemental retirement plans are unfunded and had a projected benefit obligation of $19.2 million and a net under-funded status of $19.2 million at December 31, 2013. Net periodic pension cost was $2.2 million for 2013, $2.3 million for 2012, and $1.8 million for 2011. Assumptions used to determine the projected benefit obligation as of December 31, 2013 included a discount rate of 5.00 percent and a rate of compensation increase of 3.90 percent.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2013, 2012, and 2011, $120.0 million, $(40.4) million and $(28.9) million, respectively, has been recognized as a net credit and net debits to AOCI to reflect these elements.

The expenses of these nonqualified plans included in the District's employee benefit costs were $7 thousand, $168 thousand, and $134 thousand for the years ended December 31, 2013, 2012, and 2011, respectively.

The funding status and the amounts recognized in the District's Combined Balance Sheets for all defined benefit retirement plans follows:

	Pension Benefits		
(dollars in thousands)	**2013**	**2012**	**2011**
Change in projected benefit obligation			
Projected benefit obligation at beginning of year	$ 945,087	$ 823,137	$ 740,378
Service cost	23,018	20,435	19,138
Interest cost	38,967	40,321	39,841
Plan amendments	419	–	–
Actuarial loss (gain)	(92,817)	97,589	58,286
Benefits paid	(36,075)	(36,267)	(34,370)
Other	(128)	(128)	(136)
Projected benefit obligation at end of year	$ 878,471	$ 945,087	$ 823,137
Change in plan assets			
Fair value of plan assets at beginning of year	$ 703,872	$ 596,223	$ 550,775
Actual return on plan assets	32,367	90,229	33,762
Employer contributions	60,120	53,958	46,321
Transfers	–	(271)	(265)
Benefits and premiums paid	(36,075)	(36,267)	(34,370)
Expenses paid	(803)	–	–
Fair value of plan assets at end of year	759,481	703,872	596,223
Funded status	$(118,990)	$(241,215)	$(226,914)
Amounts recognized in the balance sheet consist of:			
Pension assets	$ –	$ –	$ –
Pension liabilities	(118,990)	(241,215)	(226,914)
Net amount recognized	$(118,990)	$(241,215)	$(226,914)

The following represents the amounts included in accumulated other comprehensive income (pre-tax) at December 31:

	Pension Benefits		
(dollars in thousands)	**2013**	**2012**	**2011**
Net actuarial loss (gain)	$ 241,381	$ 351,864	$ 326,078
Prior service costs (credit)	5,174	6,356	11,074
Net transition obligation (asset)	–	–	–
Total amount recognized in AOCI	$ 246,555	$ 358,220	$ 337,152

The accumulated benefit obligation for all defined benefit pension plans was $786,351 at December 31, 2013 and $823,653 and $715,827 at December 31, 2012 and 2011, respectively.

Information for pension plans with benefit obligation in excess of plan assets follows:

	Pension Benefits		
(dollars in thousands)	**2013**	**2012**	**2011**
Aggregate PBO > FV plan assets			
Projected benefit obligation	$ 878,471	$ 945,087	$ 823,137
Fair value of plan assets	759,481	703,872	596,223
Aggregate ABO > FV plan assets			
Accumulated benefit obligation	$ 738,759	$ 817,059	$ 715,827
Fair value of plan assets	710,054	697,116	596,223

Components of net periodic benefit cost and other amounts for all defined benefit pension plans recognized in the District's other comprehensive income as of December 31 are as follows:

	Pension Benefits		
(dollars in thousands)	**2013**	**2012**	**2011**
Net periodic benefit cost			
Service cost	$ 23,018	$ 20,435	$ 19,138
Interest cost	38,967	40,321	39,841
Expected return on plan assets	(45,004)	(43,747)	(40,335)
Amortization of net (gain) loss	–	–	–
Amortization of prior service cost	1,600	1,621	1,663
Recognized net actuarial (gain) loss	30,617	28,689	27,208
Other	362	(128)	(136)
Net periodic benefit cost	$ 49,560	$ 47,191	$ 47,379
Other changes in plan assets and projected benefit obligation recognized in OCI			
Net actuarial loss (gain)	$ (79,867)	$ 51,378	$ 65,003
Amortization of net actuarial loss (gain)	(30,617)	(28,689)	(27,208)
Prior service cost (credit)	419	–	–
Amortization of prior service cost	(1,600)	(1,621)	(1,663)
Amortization of transition obligation (asset)	–	–	–
Total recognized in OCI	$ (111,665)	$ 21,068	$ 36,132
Total recognized in net periodic pension cost and OCI	$ (62,105)	$ 68,259	$ 83,511

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2014 are $18.9 million and $1.5 million, respectively.

Weighted average assumptions used to determine benefit obligations at December 31:

	Pension Benefits		
	2013	**2012**	**2011**
Discount rate	5.01%	4.21%	5.01%
Rate of compensation increase	4.09%	4.62%	4.55%

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:

	Pension Benefits		
	2013	**2012**	**2011**
Discount rate	4.21%	5.01%	5.51%
Expected long-term return on plan assets	6.57%	7.55%	7.55%
Rate of compensation increase	4.00%	4.54%	4.54%

The overall expected long-term rate of return on assets assumption is based on the target asset allocation for plan assets, capital markets forecasts for asset classes employed, and active management excess return expectations. The total return for bonds is based on an equilibrium yield assumed to be 6.00 percent for government bonds plus an additional 0.50 percent due to the exposure of corporate debt in an aggregate benchmark, for a total return of 6.50 percent. A 3.00 percent equity premium is added to arrive at the forecast for equity returns, both foreign and domestic. Equilibrium forecasts are used to reflect long-term expectations for the asset classes employed. To the extent asset classes are actively managed, an excess return premium is added.

Plan Assets

Plan assets are invested in a number of different asset classes, with each asset class further diversified though the engagement of a number of independent investment managers. This approach lowers the likelihood of a significant credit concentration. To further ensure that excessive risk concentrations are avoided, holdings of fund managers are monitored. There were no significant concentrations of credit risk in plan assets as of December 31, 2013. The target asset allocation is 45.00 percent U.S. equities, 20.00 percent non-U.S. equities, 5.00 percent real estate and 30.00 percent fixed income. The plans' strategic asset allocation was determined by the Plan Fiduciary Committee after review and evaluation of an asset/liability study. Performance is monitored quarterly by both the Plan Fiduciary Committee and an outside pension consulting firm.

The weighted-average allowable asset allocations by category as of December 31 are as follows:

PLAN ASSETS	2013	2012	2011
Allowable Asset Category			
Equity securities	78.83%	78.54%	56.94%
Debt securities	20.66	18.33	39.26
Real Estate	0.00	2.85	3.05
Other	0.51	0.28	0.75
Total	100.00%	100.00%	100.00%

Target allocation for allowable asset categories for 2014 are as follows:

Allowable Asset Category	
Equity securities	80.28%-82.94%
Debt securities	17.80%-20.46%
Real Estate	0.00%-0.00%

The following tables present the fair values of the District's pension plan assets for the periods presented by asset category. See Note 8 regarding a description of the three levels of inputs and the classification within the fair value hierarchy.

Fair Value Measurements at December 31, 2013

Asset Category	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents	$ 4,484	$ –	$ –	$ 4,484
Mutual funds:				
Domestic funds	–	–	–	–
International funds	–	–	–	–
Bond funds	–	2,584	–	2,584
Real estate equity funds	–	–	–	–
Fixed income funds	–	423,963	–	423,963
Equity securities funds	23,521	304,929	–	328,450
Fixed income securities:				
U.S. Treasuries	–	–	–	–
Corporate bonds	–	–	–	–
Mortgage-backed securities	–	–	–	–
Collateralized mortgage obligations	–	–	–	–
Foreign bonds	–	–	–	–
Total	$ 28,005	$ 731,476	$ –	$ 759,481

Fair Value Measurements at December 31, 2012

Asset Category	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents	$ 2,545	$ –	$ –	$ 2,545
Mutual funds:				
Domestic funds	–	114,732	–	114,732
International funds	–	182,052	–	182,052
Bond funds	–	2,031	–	2,031
Real estate equity funds	–	20,003	–	20,003
Fixed income funds	–	344,049	–	344,049
Equity securities funds	18,623	19,837	–	38,460
Fixed income securities:				
U.S. Treasuries	–	–	–	–
Corporate bonds	–	–	–	–
Mortgage-backed securities	–	–	–	–
Collateralized mortgage obligations	–	–	–	–
Foreign bonds	–	–	–	–
Total	$ 21,168	$ 682,704	$ –	$ 703,872

Fair Value Measurements at December 31, 2011

Asset Category	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents	$ 4,890	$ –	$ –	$ 4,890
Mutual funds:				
Domestic funds	–	139,918	–	139,918
International funds	–	167,372	–	167,372
Bond funds	–	1,492	–	1,492
Real estate equity funds	–	18,173	–	18,173
Fixed income funds	–	232,448	–	232,448
Equity securities funds	16,993	14,937	–	31,930
Fixed income securities:				
U.S. Treasuries	–	–	–	–
Corporate bonds	–	–	–	–
Mortgage-backed securities	–	–	–	–
Collateralized mortgage obligations	–	–	–	–
Foreign bonds	–	–	–	–
Total	$ 21,883	$ 574,340	$ –	$ 596,223

Plan assets also include a receivable for investments of $3.9 million, $2.2 million and $3.4 million for 2013, 2012 and 2011, respectively.

Contributions

The District expects to contribute $47.4 million to the various pension plans in 2014.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits
2014	$ 42,789
2015	45,787
2016	48,215
2017	50,981
2018	54,134
Years 2019 — 2023	304,170

The funding status and the amounts recognized in the District's Combined Balance Sheets for all other postretirement benefit plans follows:

(dollars in thousands)	Other Postretirement Benefits 2013	2012	2011
Change in benefit obligation			
Benefit obligation at beginning of year	$ 165,038	$ 143,654	$ 146,515
Service cost	2,759	2,415	2,405
Interest cost	6,859	7,109	8,006
Plan participants' contributions	1,288	1,288	1,114
Actuarial loss (gain)	(7,826)	17,173	(7,309)
Benefits paid	(8,238)	(7,497)	(7,077)
Plan amendments/other	–	896	–
Benefit obligation at end of year	$ 159,880	$ 165,038	$ 143,654
Change in plan assets			
Fair value of plan assets at beginning of year	$ –	$ –	$ –
Actual return on plan assets	–	–	–
Employer contributions	6,950	6,209	5,963
Plan participants' contributions	1,288	1,288	1,114
Benefits and premiums paid	(8,238)	(7,497)	(7,077)
Fair value of plan assets at end of year	–	–	–
Funded status	$ (159,880)	$ (165,038)	$ (143,654)
Amounts recognized in the balance sheet consist of:			
Pension assets	$ –	$ –	$ –
Pension liabilities	(159,880)	(165,038)	(143,654)
Net amount recognized	$ (159,880)	$ (165,038)	$ (143,654)

The following represent the amounts included in accumulated other comprehensive income (pre-tax) at December 31:

	Other Postretirement Benefits		
(dollars in thousands)	2013	2012	2011
Net actuarial loss (gain)	$ 30,673	$ 41,345	$ 25,392
Prior service costs (credit)	(1,783)	(4,176)	(7,551)
Net transition obligation (asset)	–	23	57
Total amount recognized in AOCI	$ 28,890	$ 37,192	$ 17,898

Components of net periodic benefit cost and other amounts for all other postretirement benefits plans recognized in the District's other comprehensive income as of December 31 are as follows:

	Other Postretirement Benefits		
(dollars in thousands)	2013	2012	2011
Service cost	$ 2,758	$ 2,415	$ 2,405
Interest cost	6,859	7,109	8,006
Amortization of prior service cost	(2,393)	(2,480)	(2,544)
Amortization of transition obligation (asset)	23	34	34
Amortization of net (gain)loss	2,846	1,221	2,449
Net periodic benefit (income) cost	$ 10,093	$ 8,299	$ 10,350
Other changes in plan assets and projected benefit obligation recognized in OCI			
Net actuarial loss (gain)	$ (7,826)	$ 17,173	$ (7,309)
Amortization of net actuarial loss (gain)	(2,846)	(1,221)	(2,449)
Prior service cost (credit)	–	896	–
Amortization of prior service cost	2,393	2,480	2,544
Amortization of transition obligation (asset)	(23)	(34)	(34)
Total recognized in OCI	$ (8,302)	$ 19,294	$ (7,248)
Total recognized in expenses and OCI	$ 1,791	$ 27,593	$ 3,102

The estimated net loss and prior service credit for the other postretirement benefit plans that will be amortized from accumulated other comprehensive income into periodic benefit cost during 2014 are $1.8 million and $1.8 million, respectively.

Weighted average assumptions used to determine benefit obligations at December 31:

	Other Postretirement Benefits		
	2013	2012	2011
Discount rate	5.05%	4.25%	5.05%

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:

	Other Postretirement Benefits		
	2013	2012	2011
Discount rate	4.25%	5.05%	5.60%

For measurement purposes, annual rates of increase of 6.50 percent through 7.50 percent in the per capita cost of covered health benefits were assumed for 2013. The rates were assumed to step down to 5.00 percent in 2020, and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

(dollars in thousands)	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on total of service and interest cost	$ 1,677	$ (1,344)
Effect on postretirement benefit obligation	24,720	(20,155)

Contributions

The District expects to contribute $7.4 million to other post retirement benefit plans in 2014.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Other Postretirement Benefits
2014	$ 7,430
2015	8,070
2016	8,596
2017	9,034
2018	9,397
Years 2019 — 2023	51,072

Note 10 — Related Party Transactions

In the ordinary course of business, the District enters into loan transactions with related parties, which include officers and directors of AgFirst or Associations, their immediate families and other organizations with which such persons may be affiliated. Such loans are subject to special approval requirements contained in the FCA regulations and were made on the same terms, including interest rate, amortization schedule, and collateral, as those prevailing at the time for comparable transactions with unaffiliated persons.

Total loans to such persons at December 31, 2013, amounted to $235.4 million, as compared with $267.5 million and $346.6 million for the years ended December 31, 2012 and 2011, respectively. During 2013, 2012, and 2011, $176.2 million, $237.0 million, and $200.8 million of new loans were made and repayments totaled $208.8 million, $254.9 million, and $221.9 million, respectively. In the opinion of management, none of these loans outstanding at December 31, 2013 involved more than a normal risk of collectability.

Loans totaling $537 thousand at December 31, 2013, were considered to involve more than the normal risk of collectability as determined by the Association. Real estate mortgage and production and intermediate term loans to one director of an Association and to a corporate entity in which the director has an ownership interest were classified as substandard as a result of negative working capital and declining repayment capacity. By March 31, 2014, the borrowers expect to liquidate three loans totaling $287 thousand and reduce outstandings under the production line of credit to less than $1 thousand. Additionally, the total available commitment at this time will be $150 thousand. Upon execution of this liquidation plan, it is probable that the remaining loan will return to a normal risk of collectability.

Note 11 — Commitments and Contingencies

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

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

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

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

At December 31, 2013, $4.516 billion of commitments to extend credit were outstanding with a related contingent loss of $3.0 million included in Other Liabilities in the Balance Sheets.

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

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

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

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

AgFirst did not anticipate making any payments on behalf of its co-obligors under the Joint and Several Liability Allocation Agreement for any of the periods presented.

The total amount outstanding and the carrying amount of the Bank's liability under the agreement are as follows:

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

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

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

Note 12 — Income Taxes

The Associations are generally subject to Federal and certain other income taxes. As previously described, the ACA holding company has two wholly-owned subsidiaries, a PCA and a FLCA. The FLCA subsidiary is exempt from federal and state income taxes as provided in the Farm Credit Act. The ACA holding company and the PCA subsidiary are subject to federal, state and certain other income taxes.

The Associations are eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of either book income or taxable income.

The Bank is exempt from federal and other income taxes as provided in the Farm Credit Act. No deferred taxes have been provided on AgFirst's unallocated earnings. AgFirst currently has no plans to distribute unallocated earnings and does not contemplate circumstances in which it would.

The provision (benefit) for income taxes follows for the year ended December 31:

	Year Ended December 31,		
(dollars in thousands)	**2013**	**2012**	**2011**
Current:			
Federal	$ 1,082	$ 1,033	$ 426
State	210	248	287
	1,292	1,281	713
Deferred:			
Federal	(27)	(16)	–
State	–	–	–
	(27)	(16)	–
Total provision (benefit) for income taxes	$ 1,265	$ 1,265	$ 713

The provision for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

	Year Ended December 31,		
(dollars in thousands)	2013	2012	2011
Federal tax at statutory rate	$ 221,900	$215,874	$165,458
State tax, net	150	171	202
Tax-exempt FLCA earnings	(121,240)	(75,536)	(61,846)
Association patronage distributions	(61,596)	(48,557)	(35,046)
Nontaxable Bank income	(37,416)	(94,652)	(65,973)
Change in valuation allowance	2,490	10,854	1,077
Change in FASB guidance	776	(911)	(2,370)
Other	(3,799)	(5,978)	(789)
Provision for income taxes	$ 1,265	$ 1,265	$ 713

The District recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense.

Deferred tax assets and liabilities are comprised of the following at:

	December 31,		
(dollars in thousands)	2013	2012	2011
Allowance for loan losses	$ 33,164	$ 29,783	$ 27,080
Nonaccrual loan interest	12,641	12,261	11,967
Postretirement benefits other than pensions	22,058	22,996	21,905
Loss carryforwards	25,406	21,452	15,324
Other	4,856	5,185	4,191
Gross deferred tax asset	98,125	91,677	80,467
Less: valuation allowance	(75,449)	(72,973)	(62,194)
Gross deferred tax assets, net of valuation allowance	22,676	18,704	18,273
Bank patronage	(10,606)	(5,666)	(5,145)
Pensions	(11,176)	(10,719)	(11,112)
Depreciation	(241)	(347)	(316)
Other	(610)	(1,956)	(1,700)
Gross deferred tax liability	(22,633)	(18,688)	(18,273)
Net deferred tax asset (liability)	$ 43	$ 16	$ –

In evaluating the ability to recover its deferred income tax asset, an Association considers all available positive and negative evidence, including operating results, ongoing tax planning and forecasts of future taxable income on a jurisdiction-by-jurisdiction basis. The valuation allowance has been provided due to the uncertainty regarding the realizability of certain deferred assets in excess of deferred liabilities.

At December 31, 2013, deferred income taxes have not been provided by District Associations on approximately $125.1 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The tax years that remain open for federal and major state income tax jurisdictions are 2010 and forward. There were no uncertain tax positions identified related to the current year, and the District has no unrecognized tax benefits at December 31, 2013 for which liabilities have been established.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

Quarterly results of operations follow:

	2013				
(dollars in thousands)	First	Second	Third	Fourth	Total
Net interest income	$ 267,477	$ 267,399	$ 265,060	$ 264,486	$1,064,422
Provision for (reversal of allowance for) loan losses	4,900	3,511	(3,980)	10,256	14,687
Noninterest income (expense), net	(91,334)	(108,070)	(91,323)	(125,007)	(415,734)
Provision (benefit) for income taxes	171	221	349	524	1,265
Net income	$ 171,072	$ 155,597	$ 177,368	$ 128,699	$ 632,736

	2012				
	First	Second	Third	Fourth	Total
Net interest income	$ 283,660	$ 283,696	$ 283,387	$ 280,939	$ 1,131,682
Provision for (reversal of allowance for) loan losses	14,590	10,384	38,163	34,938	98,075
Noninterest income (expense), net	(107,598)	(77,614)	(101,364)	(112,107)	(398,683)
Provision (benefit) for income taxes	137	279	584	265	1,265
Net income	$ 161,335	$ 195,419	$ 143,276	$ 133,629	$ 633,659

	2011				
	First	Second	Third	Fourth	Total
Net interest income	$ 270,811	$279,332	$ 282,701	$ 286,902	$ 1,119,746
Provision for (reversal of allowance for) loan losses	33,671	55,221	64,542	62,418	215,852
Noninterest income (expense), net	(101,407)	(95,285)	(103,028)	(117,532)	(417,252)
Provision (benefit) for income taxes	198	261	506	(252)	713
Net income	$ 135,535	$128,565	$ 114,625	$ 107,204	$ 485,929

Other Assets and Other Liabilities

A summary of other assets and other liabilities follows:

	December 31,		
(dollars in thousands)	**2013**	**2012**	**2011**
Other assets:			
Derivative assets	$ 27,514	$ 41,384	$ 52,647
Unamortized debt issue costs	23,602	23,174	20,759
Farm Credit Captive Insurance Fund	12,088	11,246	10,571
Prepaid expenses	7,898	5,625	4,407
Other	21,063	17,388	14,773
Total	$ 92,165	$ 98,817	$ 103,157
Other liabilities:			
Pension and other postretirement benefits liability	$ 278,869	$ 406,253	$ 370,568
Bank drafts payable	60,656	54,808	54,404
Payroll	23,355	22,039	21,687
Cash collateral pledged from derivative counterparties	–	–	22,139
Other	27,013	28,488	26,922
Total	$ 389,893	$ 511,588	$ 495,720

Offsetting of Financial and Derivative Assets

December 31, 2013

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

December 31, 2012

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

December 31, 2011

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

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

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

The reverse repurchase agreements are accounted for as collateralized lending.

Additional Derivative Financial Instruments and Other Financial Instruments

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

December 31, 2013 *(dollars in millions)*	Maturities of Interest Rate Derivative Products and Other Financial Instruments **2014**	**2015**	**2016**	**2017**	**2018**	**2019 and after**	**Total**	**Fair Value**
Systemwide Debt Securities:								
Fixed rate	$ 5,831	$ 3,716	$ 2,693	$ 2,427	$ 1,725	$ 4,552	$ 20,944	$ 20,737
Weighted average interest rate	0.33%	0.54%	0.91%	1.06%	1.43%	2.23%	1.03%	
Variable rate	3,240	1,319	837	56	–	28	5,480	5,458
Weighted average interest rate	0.13%	0.16%	0.34%	0.19%	–%	0.21%	0.17%	
Derivative Instruments:								
Receive fixed swaps								
Notional value	$ –	$ 100	$ 100	$ 50	$ –	$ –	$ 250	$ 28
Weighted average receive rate	–%	5.01%	5.18%	4.95%	–%	–%	5.07%	
Weighted average pay rate	–%	0.94%	2.10%	3.08%	–%	–%	1.83%	
Total notional value	$ –	$ 100	$ 100	$ 50	$ –	$ –	$ 250	$ 28
Total weighted average rates on swaps:								
Receive rate	–%	5.01%	5.18%	4.95%	–%	–%	5.07%	
Pay rate	–%	0.94%	2.10%	3.08%	–%	–%	1.83%	

Bank Only Financial Data

Condensed financial information of the Bank follows:

Balance Sheet *(dollars in thousands)*	As of December 31, **2013**	**2012**	**2011**
Cash, cash equivalents and investment securities	$ 8,336,543	$ 8,357,576	$ 9,081,841
Loans			
To District Associations	13,990,178	13,833,602	14,094,384
To others	6,211,057	6,375,649	6,057,682
Total loans	20,201,235	20,209,251	20,152,066
Allowance for loan losses	(22,908)	(44,539)	(27,714)
Net loans	20,178,327	20,164,712	20,124,352
Other assets	329,472	368,259	371,313
Total assets	$ 28,844,342	$ 28,890,547	$ 29,577,506
Bonds and notes	$ 26,224,879	$ 26,286,758	$ 27,086,148
Other liabilities	472,716	305,559	342,088
Total liabilities	26,697,595	26,592,317	27,428,236
Perpetual preferred stock	125,250	275,250	400,000
Capital stock and participation certificates	308,972	332,705	405,767
Additional paid-in-capital	36,580	36,580	–
Retained earnings	1,578,402	1,482,227	1,219,506
Accumulated other comprehensive income (loss)	97,543	171,468	123,997
Total shareholders' equity	2,146,747	2,298,230	2,149,270
Total liabilities and shareholders' equity	$ 28,844,342	$ 28,890,547	$ 29,577,506

Statement of Income *(dollars in thousands)*	Year Ended December 31, **2013**	**2012**	**2011**
Interest income	$ 735,231	$ 814,972	$ 889,768
Interest expense	197,173	209,470	293,334
Net interest income	538,058	605,502	596,434
Provision for (reversal of allowance for) loan losses	(10,589)	14,946	80,222
Net interest income after provision for loan losses	548,647	590,556	516,212
Noninterest income	23,058	(12,550)	(18,088)
Noninterest expenses			
Salaries and employee benefits	50,857	49,127	46,881
Occupancy and equipment	17,919	15,034	14,360
Insurance Fund premium	6,457	4,320	5,360
Other operating expenses	39,430	37,456	33,873
Losses (gains) from other property owned	(294)	3,459	12,192
Total noninterest expenses	114,369	109,396	112,666
Net income	$ 457,336	$ 468,610	$ 385,458

Note 14 — Business Combinations

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

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

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

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

Disclosures related to purchased impaired loans are contained in Note 3, *Loans and Allowance for Loan Losses*.

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.

The following table reflects the fair values of the identifiable assets acquired and liabilities assumed from Chattanooga, the acquisition adjustment and the merged entity balances at July 1, 2012:

Consolidation of Assets Acquired and Liabilities Assumed at July 1, 2012

(dollars in thousands)	Chattanooga	Acquisition Adjustment	Acquisition Values	Jackson Purchase	River Valley
Assets					
Cash	$ 197	$ –	$ 197	$ 958	$ 1,155
Investment securities:					
Held to maturity	–	–	–	1,793	1,793
Loans	156,489	(469)	156,020	270,479	426,499
Allowance for loan losses	(1,409)	1,409	–	(2,714)	(2,714)
Net loans	155,080	940	156,020	267,765	423,785
Loans held for sale	–	–	–	139	139
Other investments	38	2	40	1,180	1,220
Accrued interest receivable	1,147	–	1,147	2,876	4,023
Investments in other Farm Credit institutions	5,985	–	5,985	5,280	11,265
Premises and equipment, net	709	1,515	2,224	2,708	4,932
Other property owned	4,382	–	4,382	165	4,547
Due from AgFirst Farm Credit Bank	647	(57)	590	1,175	1,765
Other assets	145	–	145	719	864
Total assets	$ 168,330	$ 2,400	$ 170,730	$ 284,758	$ 455,488
Liabilities					
Notes payable to AgFirst Farm Credit Bank	$ 135,322	$ 952	$ 136,274	$ 226,887	$ 363,161
Subordinated debt payable to other Farm Credit Institutions	2,500	140	2,640	–	2,640
Accrued interest payable	330	–	330	471	801
Patronage refund payable	62	–	62	20	82
Advanced conditional payments	–	–	–	5,894	5,894
Other liabilities	1,981	–	1,981	3,397	5,378
Total liabilities	140,195	1,092	141,287	236,669	377,956
Commitments and contingencies					
Members' Equity					
Capital stock and participation certificates	3,163	–	3,163	2,061	5,224
Additional paid-in-capital	–	15,817	15,817	–	15,817
Retained earnings					
Allocated	10,463	–	10,463	20,218	30,681
Unallocated	14,509	(14,509)	–	25,810	25,810
Total members' equity	28,135	1,308	29,443	48,089	77,532
Total liabilities and members' equity	$ 168,330	$ 2,400	$ 170,730	$ 284,758	$ 455,488

The following table reflects the identifiable assets acquired and liabilities assumed from North Florida and Southwest Florida, the acquisition adjustment and the merged entity balances at January 1, 2011:

Consolidation of Assets Acquired and Liabilities Assumed at January 1, 2011

(dollars in thousands)	SW Florida	North Florida	Acquisition Adjustment	Acquisition Values	South Florida	Florida
Assets						
Cash	$ –	$ 13	$ –	$ 13	$ 2,790	$ 2,803
Investment securities:						
Held to maturity	40,097	–	(544)	39,553	1,987	41,540
Loans	231,555	404,425	(34,755)	601,225	559,912	1,161,137
Allowance for loan losses	(4,483)	(11,614)	16,097	–	(10,679)	(10,679)
Net loans	227,072	392,811	(18,658)	601,225	549,233	1,150,458
Other investments	–	10,211	428	10,639	–	10,639
Accrued interest receivable	1,405	1,871	–	3,276	2,086	5,362
Investments in other Farm Credit institutions	6,495	9,486	–	15,981	8,716	24,697
Premises and equipment, net	867	2,575	–	3,442	5,348	8,790
Other property owned	2,173	6,310	–	8,483	4,516	12,999
Due from AgFirst Farm Credit Bank	2,337	4,038	–	6,375	4,484	10,859
Other assets	4,924	3,887	–	8,811	4,658	13,469
Total assets	$ 285,370	$ 431,202	$ (18,774)	$ 697,798	$ 583,818	$ 1,281,616
Liabilities						
Notes payable to AgFirst Farm Credit Bank	$ 240,578	$ 366,559	$ 4,691	$ 611,828	$ 454,284	$ 1,066,112
Accrued interest payable	482	823	–	1,305	1,006	2,311
Patronage refund payable	15	40	–	55	671	726
Advanced conditional payments	–	407	–	407	3,710	4,117
Other liabilities	3,312	4,345	–	7,657	5,119	12,776
Total liabilities	244,387	372,174	4,691	621,252	464,790	1,086,042
Commitments and contingencies						
Members' Equity						
Protected borrower stock	228	40	(1)	267	2,463	2,730
Capital stock and participation certificates	525	1,411	–	1,936	635	2,571
Additional paid-in-capital	–	–	7,994	7,994	(121)	7,873
Retained earnings						
Allocated	25,592	40,872	–	66,464	30,879	97,343
Unallocated	14,753	16,705	(31,458)	–	85,057	85,057
Accumulated other comprehensive income (loss)	(115)	–	–	(115)	115	–
Total members' equity	40,983	59,028	(23,465)	76,546	119,028	195,574
Total liabilities and members' equity	$ 285,370	$ 431,202	$ (18,774)	$ 697,798	$ 583,818	$ 1,281,616

Note 15 — Derivative Financial Instruments and Hedging Activities

One of the goals in using derivatives 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 type of derivative instrument used and the amount of activity for each year ended is summarized in the following table:

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

By using derivative instruments, the 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. A number of swaps are supported by collateral arrangements with counterparties.

At December 31, 2013, the District had not posted collateral with respect to any of these arrangements.

Counterparty exposure related to derivatives at:

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

The 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 year ended December 31, 2013 was $13.9 million, while the amount of the gain on the Systemwide Debt Securities was $13.9 million. Gains and losses on each derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Cash Flow Hedges

From time to time, the 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 difference in market value of the contracted securities, between the purchase and reporting or settlement date, represent the value of the forward contracts. These amounts are included in Other Comprehensive Income (OCI), and Other Liabilities or Other Assets as appropriate, as firm commitments in the District's Balance Sheet for each period end. At December 31, 2013, the District had not committed to purchase any when-issued bonds. At December 31, 2012, the District had committed to purchase $66.4 million in when-issued Agency bonds that had a market value of $66.7 million, a $319 thousand increase in value.

For derivative instruments that are designated and qualify as a cash flow hedge, such as the 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.

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

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

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

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

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

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

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

Note 16 — Regulatory Enforcement Matters

As of December 31, 2013, five District Associations, with combined assets of approximately $3.771 billion, were operating under written supervisory agreements with the FCA. Those agreements require the District Associations to take corrective actions with respect to specific areas of their operations. These enforcement actions are not expected to have a significant impact on the District's financial condition or results of operations.

Glossary of Certain Acronyms

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