Quarterly REPORT

FIRST QUARTER 2014

AGFIRST
FARM CREDIT BANK

FIRST QUARTER 2014

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CERTIFICATION

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

Robert H. Spiers, Jr.
Chairman of the Board

Leon T. Amerson
Chief Executive Officer & President

Charl L. Butler
Chief Financial Officer

May 9, 2014

Report on Internal Control Over Financial Reporting

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

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

The Bank's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2014. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Bank concluded that as of March 31, 2014, the internal control over financial reporting was effective based upon the COSO (1992) criteria. Additionally, based on this assessment, the Bank determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2014.

Leon T. Amerson
Chief Executive Officer & President

Charl L. Butler
Chief Financial Officer

May 9, 2014

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

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

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

FORWARD-LOOKING INFORMATION

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

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

FINANCIAL CONDITION

Loan Portfolio

AgFirst's loan portfolio consists of direct loans to District Associations (Direct Notes), loan participations/ syndications purchased (Capital Markets), Correspondent Lending loans (primarily first lien rural residential mortgages), and loans to Other Financing Institutions (OFIs) as shown below:

Loan Portfolio *(dollars in thousands)*	**March 31, 2014**		**December 31, 2013**		**March 31, 2013**	
Direct Notes*	$ 13,317,555	67.62%	$ 13,990,178	69.25%	$ 13,176,373	67.41%
Capital Markets*	3,884,325	19.72	3,726,378	18.45	3,998,531	20.45
Correspondent Lending	2,410,762	12.24	2,401,563	11.89	2,305,034	11.79
Loans to OFIs	83,375	0.42	83,116	0.41	67,578	0.35
Total	$ 19,696,017	100.00%	$ 20,201,235	100.00%	$ 19,547,516	100.00%

**Net of participations sold.*

Total loans outstanding were $19.696 billion at March 31, 2014, a decrease of $505.2 million, or 2.50 percent, compared to total loans outstanding at December 31, 2013. The decline in loan volume since 2013 year end is primarily due to Bank patronage payments to Associations of approximately $337.7 million, which were applied to the Association Direct Notes at the beginning of 2014, and the seasonal nature of District lending activity as borrowers typically pay down loans during the first quarter using proceeds from crop sales. Also, bank loan demand remains weak due to a number of reasons, including higher than the historical average capital and cash levels at the District Associations, which has reduced Direct Note borrowings. Low economic growth has inhibited loan demand from borrowers in economically dependent sectors and borrowers dependent on non-farm income. An increasingly competitive environment for agricultural loans has also challenged volume. Future Bank loan demand is very difficult to predict; however, it is expected to remain weak through 2014 as those factors discussed above are anticipated to persist.

Credit Quality

Credit quality of AgFirst's loans is shown below:

	Total Loan Portfolio Credit Quality as of:		
Classification	**March 31, 2014**	**December 31, 2013**	**March 31, 2013**
Acceptable	89.07%	89.00%	89.59%
OAEM *	10.16%	6.89%	4.67%
Adverse **	0.77%	4.11%	5.74%

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

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

Under the terms of a financial assistance agreement, the Bank may be required to purchase certain high risk assets from a District Association. If such a purchase occurs, it likely would not have a material adverse effect on either the financial condition or future operating results of the Bank. See Note 8, *Commitments and Contingent Liabilities,* in the Notes to the Financial Statements for further information.

The credit conditions discussed above directly affect the credit quality of the Bank's participation/syndication loan portfolio. They also affect the credit quality of loan portfolios and earnings performance of the individual District

Associations, which impacts the quality of the Bank's Direct Notes. Credit quality is anticipated to improve incrementally in 2014 assuming stable economic conditions.

Direct Notes

AgFirst's primary business is to provide funding, operational support, and technology services to District Associations. Each Association, in addition to the Bank, is a federally chartered instrumentality of the United States and is regulated by the Farm Credit Administration (FCA). AgFirst has a revolving line of credit, referred to as a Direct Note, in place with each of the District Associations. Each of the Associations funds its lending and general corporate activities primarily by borrowing under its Direct Note. Lending terms are specified in a separate General Financing Agreement (GFA) between AgFirst and each Association. Each GFA contains minimum borrowing base margin, capital, and earnings requirements that must be maintained by the Association.

At March 31, 2014, the total Direct Note volume outstanding was $13.318 billion, a decrease of $672.6 million, or 4.81 percent, compared to December 31, 2013. See the *Loan Portfolio* section above for the primary reasons for the decline in Direct Note volume from December to March.

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

	Direct Note Credit Quality as of					
	March 31, 2014		December 31, 2013		March 31, 2013	
Classification	% Total	# Total	% Total	# Total	% Total	# Total
Acceptable	85.84%	14	85.96%	14	87.77%	14
OAEM	14.16%	5	9.23%	4	5.74%	3
Adverse	0.00%	0	4.81%	1	6.49%	2

As of March 31, 2014, fourteen of the nineteen District Associations' Direct Notes, representing 85.84 percent of the Direct Note portfolio, were classified acceptable. The five remaining Direct Notes, representing 14.16 percent of the portfolio, were classified as OAEM. From December 31, 2013 to March 31, 2014, the classification of the Direct Note for one Association improved from adverse to OAEM.

Presently, collection of the full Direct Note amount due is expected for all Associations in accordance with the contractual terms of the debt arrangements, and no allowance has been recorded for Direct Notes. All assets of the various Associations are pledged as collateral for their respective Direct Notes. In the opinion of management, all Association Direct Notes are adequately collateralized. The risk funds of an Association, including both capital and the allowance for loan losses, also protect the interest of the Bank should a Direct Note default.

As of March 31, 2014, five District Associations, with combined assets of $3.665 billion, were operating under written supervisory agreements with the FCA. Those agreements require the District Associations to take corrective actions with respect to one or more of the following: asset quality, capital, portfolio management, and corporate governance. Also, as of April 11, 2014, one District Association was operating under a special credit agreement pursuant to its GFA as a result of events of default under the GFA. Neither these enforcement actions nor GFA events of default are expected to have a significant adverse impact on the Bank's or District's financial condition or results of operations.

Capital Markets

The Capital Markets portfolio consists primarily of loan participations and syndications. As of March 31, 2014, this portfolio totaled $3.884 billion, an increase of $157.9 million, or 4.24 percent, from December 31, 2013. Borrower demand in this portfolio is anticipated to reflect continued moderate improvement for the remainder of 2014.

AgFirst employs a number of management techniques to limit credit risk, including underwriting standards, limits on the amounts of loans purchased from a single originator, and maximum hold positions to a single borrower and commodity. Although the participations/syndications portfolio is comprised of a small number of relatively large loans, it is diversified both geographically and on a commodity basis. Management makes adjustments to credit policy and underwriting standards when appropriate as a part of the ongoing risk management process.

Credit quality statistics for the participations/syndications portfolio are shown in the following chart:

	Participations/Syndications Credit Quality as of:		
Classification	**March 31, 2014**	**December 31, 2013**	**March 31, 2013**
Acceptable	93.12%	93.14%	89.46%
OAEM	3.02%	2.64%	3.86%
Adverse	3.86%	4.22%	6.68%

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

Correspondent Lending

AgFirst also maintains a Correspondent Lending Unit, which consists primarily of first lien residential mortgages. As of March 31, 2014, the correspondent lending portfolio totaled $2.411 billion. From December 31, 2013 to March 31, 2014, this portfolio increased $9.2 million, or 0.38 percent.

Substantially all loans originated on or before July 31, 2013 in the correspondent lending portfolio have guarantees from the Federal National Mortgage Association (Fannie Mae) and/or the Federal Agricultural Mortgage Corporation (Farmer Mac), thereby limiting credit risk to AgFirst. The guarantees are in the form of Long-Term Standby Commitments to Purchase, which give AgFirst the right to deliver delinquent loans to the guarantor at par. The Fannie Mae guarantee program ended on July 31, 2013. Subsequent to this date, new loans in this portfolio purchased by the Bank are held without a Fannie Mae guarantee. At March 31, 2014, $2.201 billion of loans in the correspondent lending portfolio were guaranteed and $210.0 million were unguaranteed. The Bank's methodology of establishing and maintaining the allowance for loan losses related to this portfolio reflects the discontinuation of the Fannie Mae guarantee program.

At March 31, 2014, 99.95 percent of the correspondent lending portfolio was classified as acceptable and 0.05 percent was classified as substandard.

Rural home loans, combined with Rural Home Mortgage-backed Securities, are limited to 15 percent of total loans outstanding as defined by FCA. The March 31, 2014 levels resulted in a limit of $2.981 billion with a combined balance of $2.750 billion and an unused capacity of $231.7 million. 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. See Note 3, *Investment Securities*, for further discussion of Rural Home Mortgage-backed Securities.

Nonaccrual Loans

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the Bank at March 31, 2014 of $58.0 million decreased minimally compared to $59.6 million at December 31, 2013. The decrease of $1.6 million resulted primarily from repayments of $3.5 million. At March 31, 2014, total nonaccrual loans were primarily classified in the tree fruits/nuts (29.69 percent of the total), nursery/greenhouse (26.97 percent), and forestry (24.82 percent) segments. Nonaccrual loans were 0.29 percent and 0.30 percent of total loans outstanding at March 31, 2014 and December 31, 2013, respectively.

Troubled Debt Restructurings

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms, rates, or amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by the Bank. TDRs increased $426 thousand since December 31, 2013 and totaled $37.3 million at March 31, 2014. TDRs were comprised of $8.9 million of accruing restructured loans and $28.4 million of nonaccruing restructured loans. Restructured loans were primarily in the nursery/greenhouse (40.80 percent of the total), forestry (26.35 percent), and other real estate (12.09 percent) segments.

Other Property Owned

Other property owned (OPO) consists primarily of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank (or a lender group) in satisfaction of secured loans. OPO is generally comprised of real estate, equipment, and equity interests in companies or partnerships. OPO decreased $1.2 million since December 31, 2013 and totaled $8.4 million at March 31, 2014. The decrease was due to disposals of $1.2 million. The three largest OPO holdings at March 31, 2014 were an ethanol plant, $2.3 million (27.18 percent of the total), a building, $2.0 million (23.84 percent), and a land holding, $1.0 million (11.93 percent).

Allowance for Loan Losses

The Bank maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan portfolio as of each reported balance sheet date. The allowance for loan losses was $23.5 million at March 31, 2014, as compared with $22.9 million at December 31, 2013, which was an increase of $548 thousand. The primary activity within the allowance for the three months ended March 31, 2014 was provision for loan losses of $549 thousand. The allowance at March 31, 2014 included specific reserves of $8.4 million (36.00 percent of the total) and general reserves of $15.0 million (64.00 percent). The general reserves at March 31, 2014 included $1.6 million of allowance provided by the Bank for loans in the Correspondent Lending portfolio purchased after July 31, 2013 which are being held without a Fannie Mae guarantee. See further discussion in the *Correspondent Lending* section above. None of the allowance relates to the Direct Note portfolio. The total allowance at March 31, 2014 was comprised primarily of reserves for the tree fruits/nuts (22.12 percent of the total), nursery/greenhouse (19.26 percent), and forestry (18.43 percent) segments. See Note 2*, Loans and Allowance for Loan Losses,* in the Notes to the Financial Statements for further information. See *Provision for Loan Losses* section below for details regarding the effects on the allowance from provision for loan losses.

Liquidity and Funding Sources

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

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

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

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

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

At March 31, 2014, AgFirst had $25.255 billion in total debt outstanding compared to $26.225 billion at December 31, 2013. Total interest-bearing liabilities decreased primarily due to the decrease in liquidity investments and the decline in loan volume as discussed elsewhere in this report, which, when combined with an increase in retained earnings, reduced funding requirements.

Cash and cash equivalents, which decreased $468.3 million from December 31, 2013 to a total of $715.5 million at March 31, 2014, consist primarily of cash on deposit and money market securities that are short-term in nature (from overnight maturities to maturities that range up to 90 days). Incremental movements in cash balances are due primarily to changes in liquidity needs in relation to upcoming debt maturities between reporting periods.

Investment securities totaled $6.896 billion, or 24.98 percent of total assets at March 31, 2014, compared to $7.153 billion, or 24.80 percent, as of December 31, 2013. Investment securities decreased $257.2 million (3.60 percent), compared to December 31, 2013. Management maintains the available-for-sale liquidity investment portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines.

Investment securities classified as being available-for-sale totaled $6.329 billion at March 31, 2014. Available-for-sale investments at March 31, 2014 included $4.419 billion in U.S. Government guaranteed securities, $1.697 billion in U.S. Government agency guaranteed securities, $172.2 million in non-agency collateralized mortgage obligations (CMOs), and $40.4 million in asset-backed securities. Since the majority of the portfolio is invested in agency securities, the portfolio is highly liquid and potential credit loss exposure is limited.

As of March 31, 2014, 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 minimum liquidity coverage are met using only level 1 instruments, which include cash and cash equivalents. Days 16 through 30 of minimum liquidity coverage are met using level 1 and level 2 instruments. Level 2 consists primarily of U.S. Government guaranteed securities. Days 31 through 90 are met using level 1, level 2, and level 3 securities. Level 3 consists primarily of U.S. agency investments. Additionally, a supplemental liquidity buffer in excess of the 90-day minimum liquidity reserve is set to provide coverage to at least 120 days.

At March 31, 2014, AgFirst met all individual level criteria and had a total of 280 days of maturing debt coverage compared to 246 days at December 31, 2013. Cash provided by the Bank's operating activities, primarily generated from net interest income in excess of operating expenses and maturities in the loan portfolio, is an additional source of liquidity for the Bank that is not reflected in the coverage calculation.

Net unrealized gains related to investment securities were $105.8 million at March 31, 2014, compared to $100.7 million at December 31, 2013. These net unrealized gains are reflected in Accumulated Other Comprehensive Income (AOCI) in the Financial Statements. The net unrealized gains stem from normal market factors such as the current interest rate environment.

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

Capital Resources

Total shareholders' equity increased $93.4 million (4.35 percent) from December 31, 2013 to a total of $2.240 billion at March 31, 2014. This increase is primarily attributed to 2014 unallocated retained earnings from net income of $88.5 million and increases of $5.1 million in net unrealized gains on investment securities.

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 5, *Shareholders' Equity*, in the Notes to the Financial Statements for further information.

Regulatory Capital Ratios

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

	Regulatory Minimum	3/31/14	12/31/13	3/31/13
Permanent Capital Ratio	7.00%	21.34%	22.85%	22.21%
Total Surplus Ratio	7.00%	21.30%	22.81%	22.17%
Core Surplus Ratio	3.50%	18.70%	19.98%	19.42%
Net Collateral Ratio	103.00%	107.59%	106.83%	107.88%

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 March 31, 2014 as compared to December 31, 2013. These three ratios are calculated using a three month average daily balance for both capital and assets. Therefore, total Bank declared patronage of $353.8 million in 2013, which represented approximately 77.4% of 2013 net income and primarily accrued in the fourth quarter of 2013, was fully reflected in these three ratios at March 31, 2014.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2014 was $88.5 million, compared to $121.2 million for the three months ended March 31, 2013, a decrease of $32.7 million, or 26.99 percent.

Key Results of Operations Comparisons

	Annualized for the three months ended March 31, 2014	For the year ended December 31, 2013	Annualized for the three months ended March 31, 2013
Return on average assets	1.29%	1.61%	1.73%
Return on average shareholders' equity	16.30%	19.45%	20.81%
Net interest income as a percentage of average earning assets	1.76%	1.96%	2.09%
Net (charge-offs) recoveries to average loans	–%	(0.06)%	–%

Net Interest Income

Net interest income for the three months ended March 31, 2014 was $116.7 million compared to $140.3 million for the same period of 2013, a decrease of $23.6 million or 16.79 percent. The net interest margin was 1.76 percent for the first quarter of 2014 compared to 2.09 percent for the prior year, a decrease of 33 basis points. This decline was primarily the result of lower earning asset yields, but was also negatively impacted by higher rates paid on interest bearing liabilities. Over time, as interest rates change and as assets prepay or reprice, the positive impact on the net interest margin that the Bank has experienced over the last several years from calling debt will continue to diminish. Lower average balances of interest earning assets, driven primarily by a reduction in investment volume as previously discussed, also decreased net interest income.

The following table illustrates the changes in net interest income:

	For the three months ended March 31, 2014 vs. March 31, 2013		
	Increase (decrease) due to changes in:		
(dollars in thousands)	Volume	Rate	Total
Interest Income:			
Loans	$ 616	$ (10,928)	$ (10,312)
Investments & Cash Equivalents	(2,396)	(4,636)	(7,032)
Total Interest Income	$ (1,780)	$ (15,564)	$ (17,344)
Interest Expense:			
Interest-Bearing Liabilities	$ (571)	$ 6,783	$ 6,212
Changes in Net Interest Income	$ (1,209)	$ (22,347)	$ (23,556)

Provision for Loan Losses

AgFirst measures risks inherent in its loan portfolio on an ongoing basis and, as necessary, recognizes provision for loan loss expense so that appropriate allowances for loan losses are maintained. Provision for loan losses for the three months ended March 31, 2014 was $549 thousand, compared to $334 thousand for the corresponding period in 2013. For the first quarter 2014, provision for loan losses primarily related to borrowers in rural home loans ($600 thousand), processing ($256 thousand), and tree fruits and nuts ($158 thousand) segments, partially offset by provision reversals in the forestry ($362 thousand) segment. See Note 2, *Loans and Allowance for Loan Losses,* in the Notes to the Financial Statements for further information.

Noninterest Income

The following table illustrates the changes in noninterest income:

Change in Noninterest Income	**For the three months ended March 31,**		
(dollars in thousands)	**2014**	**2013**	**Increase/ (Decrease)**
Loan fees	$ 2,398	$ 2,723	$ (325)
Building lease income	1,012	1,060	(48)
Net other-than-temporary impairment losses	(1,351)	(1,118)	(233)
Gains (losses) on investments, net	53	7,592	(7,539)
Gains (losses) on called debt	(2,863)	(1,706)	(1,157)
Gains (losses) on other transactions	259	(420)	679
Other noninterest income	1,350	1,552	(202)
Total noninterest income	$ 858	$ 9,683	$ (8,825)

Noninterest income decreased $8.8 million for the three month period ended March 31, 2014, compared to the corresponding period in 2013. The variance was primarily due to a decrease in gains on investments and an increase in losses on called debt.

Gains on investments decreased $7.5 million for the three month period ended March 31, 2014, compared to the same period in 2013, primarily due to $7.6 million of gains recognized in 2013 on the sale of $114.6 million of U.S. Government agency mortgage-backed securities. These securities were sold in order to maintain the portfolio size within revised regulatory limits. See discussion of investments in Note 3, *Investment Securities*, in the Notes to the Financial Statements for further information.

Concession or debt issuance expense is amortized over the life of the underlying debt security. When debt securities are called prior to maturity, any unamortized concession is expensed. Losses on called debt increased $1.2 million for the three month period in 2014, compared to the same period in 2013. Call options were exercised on bonds totaling $2.855 billion for the three months ended March 31, 2014 compared to $2.771 billion for the same period of 2013. The called debt expense is more than offset by interest expense savings realized as called debt is replaced by new debt issued at a lower rate of interest. Over time, the favorable effect on net interest income is diminished as earning assets reprice downward.

For the three months ended March 31, 2014, gains on other transactions increased $679 thousand compared to the same period last year. The increase resulted primarily from a $699 thousand decrease in reserve expense for unfunded commitments as commitments were funded and the reserve was reclassified to the allowance for loan losses.

Noninterest Expense

The following table illustrates the changes in noninterest expense:

Change in Noninterest Expense	**For the three months ended March 31,**		
(dollars in thousands)	**2014**	**2013**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 13,392	$ 11,921	$ 1,471
Occupancy and equipment	5,083	4,252	831
Insurance Fund premiums	2,299	2,100	199
Other operating expenses	7,910	9,010	(1,100)
Losses (gains) from other property owned	(125)	1,162	(1,287)
Total noninterest expense	$ 28,559	$ 28,445	$ 114

Noninterest expense increased $114 thousand for the three months ended March 31, 2014 compared to the corresponding period in 2013. The increase for the three months ended March 31, 2014 was due primarily to increases in salaries and employee benefits, offset by decreases in other operating expenses and increases in gains from other property owned.

Salaries and employee benefits increased $1.5 million for the three months ended March 31, 2014, compared to the prior year period. Most ($866 thousand) of the increase was attributable to a change in the accrual methodology for cash incentives in 2014 to record the related expense throughout the year. These expenses were recorded primarily in the month of December in previous years. Normal salary administration and higher employee benefit costs also contributed to the increase in salaries and employee benefits.

Occupancy and equipment expense increased $831 thousand for the three month period ended March 31, 2014, compared to the prior year period, primarily as a result of increases in depreciation and amortization expense related to the Bank's new data center.

Other operating expenses decreased $1.1 million for the three months ended March 31, 2014, compared to the prior year. The decrease primarily resulted from $1.1 million less in Correspondent Lending servicing expenses related to guarantee fees.

Losses on other property owned decreased $1.3 million for the three months ended March 31, 2014, compared to the prior year. This decrease resulted primarily from $1.1 million in lower writedowns recorded during the first quarter of 2014 due to stabilized real estate values. See *Other Property Owned* section above.

DISTRICT MERGER ACTIVITY

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

REGULATORY MATTERS

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

On May 8, 2014, the FCA approved a proposed rule to modify the regulatory capital requirements for System banks and associations. See Note 12, *Subsequent Events*, in the Notes to the Financial Statements for further discussion on the proposed rule.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Balance Sheets

(dollars in thousands)	**March 31, 2014**	December 31, 2013
Assets		
Cash	**$ 494,495**	$ 1,038,870
Cash equivalents	**220,972**	144,885
Investment securities:		
Available for sale (amortized cost of $6,223,282 and $6,462,222, respectively)	**6,329,100**	6,562,976
Held to maturity (fair value of $581,918 and $599,601, respectively)	**566,479**	589,812
Total investment securities	**6,895,579**	7,152,788
Loans	**19,696,017**	20,201,235
Allowance for loan losses	**(23,456)**	(22,908)
Net loans	**19,672,561**	20,178,327
Accrued interest receivable	**62,699**	63,070
Accounts receivable	**40,056**	55,933
Investments in other Farm Credit System institutions	**67,382**	67,466
Premises and equipment, net	**55,470**	52,599
Other property owned	**8,448**	9,621
Other assets	**81,391**	80,783
Total assets	**$ 27,599,053**	$ 28,844,342
Liabilities		
Systemwide bonds payable	**$ 22,836,768**	$ 24,315,776
Systemwide notes payable	**2,418,727**	1,909,103
Accrued interest payable	**46,235**	54,059
Accounts payable	**10,595**	368,670
Other liabilities	**46,602**	49,987
Total liabilities	**25,358,927**	26,697,595
Commitments and contingencies (Note 8)		
Shareholders' Equity		
Perpetual preferred stock	**125,250**	125,250
Capital stock and participation certificates	**309,393**	308,972
Additional paid-in-capital	**36,580**	36,580
Retained earnings		
Allocated	**726**	726
Unallocated	**1,665,710**	1,577,676
Accumulated other comprehensive income (loss)	**102,467**	97,543
Total shareholders' equity	**2,240,126**	2,146,747
Total liabilities and equity	**$ 27,599,053**	$ 28,844,342

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

Statements of Income

(dollars in thousands)	For the three months ended March 31, 2014	2013
Interest Income		
Investment securities and other	**$ 33,451**	$ 40,483
Loans	**136,587**	146,899
Total interest income	**170,038**	187,382
Interest Expense	**53,310**	47,098
Net interest income	**116,728**	140,284
Provision for loan losses	**549**	334
Net interest income after provision for loan losses	**116,179**	139,950
Noninterest Income		
Loan fees	**2,398**	2,723
Building lease income	**1,012**	1,060
Total other-than-temporary impairment losses	**(74)**	(613)
Portion of loss recognized in other comprehensive income	**(1,277)**	(505)
Net other-than-temporary impairment losses	**(1,351)**	(1,118)
Gains (losses) on investments, net	**53**	7,592
Gains (losses) on called debt	**(2,863)**	(1,706)
Gains (losses) on other transactions	**259**	(420)
Other noninterest income	**1,350**	1,552
Total noninterest income	**858**	9,683
Noninterest Expenses		
Salaries and employee benefits	**13,392**	11,921
Occupancy and equipment	**5,083**	4,252
Insurance Fund premiums	**2,299**	2,100
Other operating expenses	**7,910**	9,010
Losses (gains) from other property owned	**(125)**	1,162
Total noninterest expenses	**28,559**	28,445
Net income	**$ 88,478**	$ 121,188

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

Statements of Comprehensive Income

(dollars in thousands)	For the three months ended March 31, 2014	2013
Net income	**$ 88,478**	$ 121,188
Other comprehensive income net of tax:		
Unrealized gains (losses) on investments:		
Other-than-temporarily impaired	**6,842**	5,778
Not other-than-temporarily impaired	**(1,722)**	(3,843)
Change in value of firm commitments - when issued securities	**(263)**	(382)
Employee benefit plans adjustments	**67**	92
Other comprehensive income (Note 5)	**4,924**	1,645
Comprehensive income	**$ 93,402**	$ 122,833

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

Statements of Changes in Shareholders' Equity

(dollars in thousands)	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Additional Paid-In-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2012	$275,250	$ 332,705	$ 36,580	$ 795	$ 1,481,432	$ 171,468	$ 2,298,230
Comprehensive income					121,188	1,645	122,833
Capital stock/participation certificates issued/(retired), net		(5,662)					(5,662)
Dividends paid on perpetual preferred stock					(440)		(440)
Patronage distribution adjustment					(10)		(10)
Balance at March 31, 2013	$275,250	$ 327,043	$ 36,580	$ 795	$ 1,602,170	$ 173,113	$ 2,414,951
Balance at December 31, 2013	$125,250	$ 308,972	$ 36,580	$ 726	$ 1,577,676	$ 97,543	$ 2,146,747
Comprehensive income					**88,478**	**4,924**	**93,402**
Capital stock/participation certificates issued/(retired), net		**421**					**421**
Dividends paid on perpetual preferred stock					**(435)**		**(435)**
Patronage distribution adjustment					**(9)**		**(9)**
Balance at March 31, 2014	**$125,250**	**$ 309,393**	**$ 36,580**	**$ 726**	**$ 1,665,710**	**$ 102,467**	**$ 2,240,126**

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2014	2013
Cash flows from operating activities:		
Net income	**$ 88,478**	$ 121,188
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	**1,894**	1,674
Premium amortization (discount accretion) on investment securities	**2,323**	3,076
(Premium amortization) discount accretion on bonds and notes	**1,805**	2,012
Provision for loan losses	**549**	334
(Gains) losses on other property owned, net	**(198)**	1,099
Net impairment losses on investments	**1,351**	1,118
(Gains) losses on investments, net	**(53)**	(7,592)
(Gains) losses on other transactions	**(259)**	420
Net change in loans held for sale	**2,330**	4,250
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	**371**	527
(Increase) decrease in accounts receivable	**15,877**	18,216
(Increase) decrease in other assets	**(3,307)**	(861)
Increase (decrease) in accrued interest payable	**(7,824)**	(100)
Increase (decrease) in accounts payable	**(14,528)**	(13,444)
Increase (decrease) in other liabilities	**(3,058)**	(9,389)
Total adjustments	**(2,727)**	1,340
Net cash provided by (used in) operating activities	**85,751**	122,528
Cash flows from investing activities:		
Investment securities purchased	**(59,524)**	(535,650)
Investment securities sold or matured	**317,969**	609,711
Net (increase) decrease in loans	**502,887**	655,527
(Increase) decrease in investments in other Farm Credit System institutions	**84**	47
Purchase of premises and equipment, net	**(4,765)**	(1,809)
Proceeds from sale of other property owned	**1,371**	4,985
Net cash provided by (used in) investing activities	**758,022**	732,811
Cash flows from financing activities:		
Bonds and notes issued	**6,037,210**	5,905,565
Bonds and notes retired	**(7,005,701)**	(6,970,137)
Capital stock and participation certificates issued/retired, net	**421**	(5,662)
Cash distribution to shareholders	**(343,556)**	(175,993)
Dividends paid on perpetual preferred stock	**(435)**	(440)
Net cash provided by (used in) financing activities	**(1,312,061)**	(1,246,667)
Net increase (decrease) in cash and cash equivalents	**(468,288)**	(391,328)
Cash and cash equivalents, beginning of period	**1,183,755**	873,165
Cash and cash equivalents, end of period	**$ 715,467**	$ 481,837
Supplemental schedule of non-cash investing and financing activities:		
Receipt of property in settlement of loans	**$ —**	$ 1,944
Change in unrealized gains (losses) on investments, net	**5,120**	1,935
Employee benefit plans adjustments	**(67)**	(92)
Non-cash changes related to interest rate hedging activities:		
Increase (decrease) in bonds and notes	**$ (2,699)**	$ (3,560)
Decrease (increase) in other assets	**2,699**	3,560
Supplemental information:		
Interest paid	**$ 59,329**	$ 45,186

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

Notes to the Financial Statements

(unaudited)

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

Organization

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

Basis of Presentation

In the opinion of management, the accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry.

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

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

Significant Accounting Policies

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

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

A general allowance may also be established under FASB guidance on accounting for contingencies to reflect estimated probable credit losses incurred in the remainder of the loan portfolio at the financial statement date. The general allowance excludes loans included under the specific allowance discussed above, unless specific characteristics of the loan indicate that it is probable that there would be an incurred loss in a group of loans with those characteristics. The level of the general allowance may be based on management's best estimate of the likelihood of default adjusted for other relevant factors reflecting the current environment.

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

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

Recently Issued Accounting Pronouncements

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

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

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

Note 2 — Loans and Allowance for Loan Losses

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

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

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

The credit risk rating process for loans uses a two-dimensional structure, incorporating a 14-point probability of default scale (as discussed in Note 1 above) and a separate scale addressing estimated percentage loss in the event of default. The loan rating structure incorporates borrower risk and transaction risk. Borrower risk is the risk of loss driven by factors intrinsic to the borrower. The transaction risk is related to the structure of a credit (tenor, terms, and collateral).

A summary of loans outstanding at period end follows:

(dollars in thousands)	March 31, 2014	December 31, 2013
Direct notes	$ 13,317,555	$ 13,990,178
Real estate mortgage	978,786	971,017
Production and intermediate-term	1,157,706	1,215,480
Loans to cooperatives	276,921	202,142
Processing and marketing	707,106	610,065
Farm-related business	150,008	141,530
Communication	223,907	198,546
Energy and water/waste disposal	456,365	453,361
Rural residential real estate	2,333,542	2,324,956
Loans to other financing institutions (OFIs)	83,375	83,116
Other (including Mission Related)	10,746	10,844
Total Loans	$ 19,696,017	$ 20,201,235

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

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

	March 31, 2014							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Direct notes	$ –	$ –	$ –	$ 204,645	$ –	$ –	$ –	$ 204,645
Real estate mortgage	785,021	32,080	161,402	26,228	14,867	–	961,290	58,308
Production and intermediate-term	1,044,679	215,884	329,142	215,256	232,366	8,667	1,606,187	439,807
Loans to cooperatives	1,827	33,030	291,223	–	14,425	–	307,475	33,030
Processing and marketing	61,175	326,584	442,996	52,555	586,148	–	1,090,319	379,139
Farm-related business	26,939	26,951	105,151	–	45,566	–	177,656	26,951
Communication	–	72,563	287,239	–	9,925	–	297,164	72,563
Energy and water/waste disposal	–	22,835	474,250	–	6,870	–	481,120	22,835
Rural residential real estate	199	–	–	–	–	–	199	–
Other (including Mission Related)	10,956	–	–	–	–	–	10,956	–
Total	$ 1,930,796	$ 729,927	$ 2,091,403	$ 498,684	$ 910,167	$ 8,667	$ 4,932,366	$ 1,237,278

	December 31, 2013							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Direct notes	$ –	$ –	$ –	$ 200,000	$ –	$ –	$ –	$ 200,000
Real estate mortgage	780,538	33,918	163,856	30,554	15,607	–	960,001	64,472
Production and intermediate-term	1,137,162	210,211	346,781	220,747	185,446	18,333	1,669,389	449,291
Loans to cooperatives	4,409	4,425	188,961	–	13,942	–	207,312	4,425
Processing and marketing	45,388	282,395	371,087	17,685	497,901	–	914,376	300,080
Farm-related business	31,081	21,075	89,209	–	43,089	–	163,379	21,075
Communication	–	63,728	253,034	–	9,950	–	262,984	63,728
Energy and water/waste disposal	–	22,357	470,753	–	6,870	–	477,623	22,357
Rural residential real estate	202	–	–	–	–	–	202	–
Other (including Mission Related)	10,911	–	–	–	–	–	10,911	–
Total	$ 2,009,691	$ 638,109	$ 1,883,681	$ 468,986	$ 772,805	$ 18,333	$ 4,666,177	$ 1,125,428

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

(dollars in thousands)	March 31, 2014 Due less than 1 year	Due 1 through 5 years	Due after 5 years	Total
Direct notes	$ 582,028	$ 2,797,468	$ 9,938,059	$ 13,317,555
Real estate mortgage	58,034	268,594	652,158	978,786
Production and intermediate-term	212,065	635,072	310,569	1,157,706
Loans to cooperatives	71,329	146,002	59,590	276,921
Processing and marketing	43,773	407,778	255,555	707,106
Farm-related business	4,007	105,273	40,728	150,008
Communication	–	134,124	89,783	223,907
Energy and water/waste disposal	32,662	156,304	267,399	456,365
Rural residential real estate	58	1,791	2,331,693	2,333,542
Loans to OFIs	40,255	40,670	2,450	83,375
Other (including Mission Related)	–	282	10,464	10,746
Total Loans	$ 1,044,211	$ 4,693,358	$ 13,958,448	$ 19,696,017
Percentage	5.30%	23.83%	70.87%	100.00%

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

	March 31, 2014	December 31, 2013
Direct notes:		
Acceptable	85.84%	85.96%
OAEM	14.16	9.23
Substandard/doubtful/loss	–	4.81
	100.00%	100.00%
Real estate mortgage:		
Acceptable	89.18%	88.50%
OAEM	3.50	3.77
Substandard/doubtful/loss	7.32	7.73
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	87.83%	88.34%
OAEM	5.43	4.95
Substandard/doubtful/loss	6.74	6.71
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	98.99%	100.00%
OAEM	1.01	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	98.02%	99.99%
OAEM	1.98	–
Substandard/doubtful/loss	–	0.01
	100.00%	100.00%
Farm-related business:		
Acceptable	97.91%	97.78%
OAEM	2.09	2.22
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	March 31, 2014	December 31, 2013
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Energy and water/waste disposal:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	99.95%	99.97%
OAEM	–	–
Substandard/doubtful/loss	0.05	0.03
	100.00%	100.00%
Loans to OFIs:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Other (including Mission Related):		
Acceptable	96.93%	96.98%
OAEM	–	–
Substandard/doubtful/loss	3.07	3.02
	100.00%	100.00%
Total Loans:		
Acceptable	89.07%	89.00%
OAEM	10.16	6.89
Substandard/doubtful/loss	0.77	4.11
	100.00%	100.00%

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

	March 31, 2014					
(dollars in thousands)	**30 Through 89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**	**Recorded Investment 90 Days or More Past Due and Accruing Interest**
Direct notes	$ –	$ –	$ –	$ 13,342,530	$ 13,342,530	$ –
Real estate mortgage	3,607	22,581	26,188	959,526	985,714	–
Production and intermediate-term	1,777	2,432	4,209	1,158,764	1,162,973	–
Loans to cooperatives	–	–	–	278,024	278,024	–
Processing and marketing	–	1,229	1,229	707,947	709,176	–
Farm-related business	–	–	–	150,444	150,444	–
Communication	–	–	–	224,116	224,116	–
Energy and water/waste disposal	–	–	–	458,261	458,261	–
Rural residential real estate	30,452	8,525	38,977	2,302,859	2,341,836	6,658
Loans to OFIs	–	–	–	83,488	83,488	–
Other (including Mission Related)	–	–	–	10,909	10,909	–
Total	$ 35,836	$ 34,767	$ 70,603	$ 19,676,868	$ 19,747,471	$ 6,658

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

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

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

(dollars in thousands)	March 31, 2014	December 31, 2013
Nonaccrual loans:		
Real estate mortgage	$ 46,180	$ 47,017
Production and intermediate-term	9,095	10,188
Rural residential real estate	2,684	2,389
Total nonaccrual loans	$ 57,959	$ 59,594
Accruing restructured loans:		
Real estate mortgage	$ 4,203	$ 4,218
Other (including Mission Related)	4,653	4,582
Total accruing restructured loans	$ 8,856	$ 8,800
Accruing loans 90 days or more past due:		
Real estate mortgage	$ –	$ 564
Rural residential real estate	6,657	1,651
Total accruing loans 90 days or more past due	$ 6,657	$ 2,215
Total nonperforming loans	$ 73,472	$ 70,609
Other property owned	8,448	9,621
Total nonperforming assets	$ 81,920	$ 80,230
Nonaccrual loans as a percentage of total loans	0.29%	0.30%
Nonperforming assets as a percentage of total loans and other property owned	0.42%	0.40%
Nonperforming assets as a percentage of capital	3.66%	3.74%

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

(dollars in thousands)	March 31, 2014	December 31, 2013
Impaired nonaccrual loans:		
Current as to principal and interest	$ 27,196	$ 23,234
Past due	30,763	36,360
Total impaired nonaccrual loans	57,959	59,594
Impaired accrual loans:		
Restructured	8,856	8,800
90 days or more past due	6,657	2,215
Total impaired accrual loans	15,513	11,015
Total impaired loans	$ 73,472	$ 70,609

The following tables present additional impaired information at period end. Unpaid principal balance represents the contractual principal balance of the loan.

(dollars in thousands)	March 31, 2014 Recorded Investment	March 31, 2014 Unpaid Principal Balance	March 31, 2014 Related Allowance	Quarter Ended March 31, 2014 Average Impaired Loans	Quarter Ended March 31, 2014 Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 25,313	$ 33,732	$ 6,168	$ 19,303	$ –
Production and intermediate-term	7,691	11,837	2,123	5,865	–
Processing and marketing	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Other (including Mission Related)	4,653	4,535	154	3,548	–
Total	$ 37,657	$ 50,104	$ 8,445	$ 28,716	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 25,070	$ 42,091	$ –	$ 30,447	$ 53
Production and intermediate-term	1,404	2,994	–	4,408	–
Processing and marketing	–	1,228	–	19	–
Rural residential real estate	9,341	9,342	–	7,679	69
Other (including Mission Related)	–	–	–	1,144	71
Total	$ 35,815	$ 55,655	$ –	$ 43,697	$ 193
Total impaired loans:					
Real estate mortgage	$ 50,383	$ 75,823	$ 6,168	$ 49,750	$ 53
Production and intermediate-term	9,095	14,831	2,123	10,273	–
Processing and marketing	–	1,228	–	19	–
Rural residential real estate	9,341	9,342	–	7,679	69
Other (including Mission Related)	4,653	4,535	154	4,692	71
Total	$ 73,472	$ 105,759	$ 8,445	$ 72,413	$ 193

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

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

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

(dollars in thousands)	**Direct Notes**	**Real Estate Mortgage**	**Production and Intermediate-term**	**Agribusiness***	**Communication**	**Energy and Water/waste disposal**	**Rural Residential Real Estate**	**Other (including Mission Related)**	**Total**
Allowance for credit losses:									
Balance at December 31, 2013	$ –	$ 9,681	$ 8,763	$ 1,933	$ 497	$ 823	$ 1,052	$ 159	$ 22,908
Charge-offs	–	–	–	–	–	–	(21)	–	(21)
Recoveries	–	20	–	–	–	–	–	–	20
Provision for loan losses	–	(481)	(61)	430	25	19	600	17	549
Balance at March 31, 2014	$ –	$ 9,220	$ 8,702	$ 2,363	$ 522	$ 842	$ 1,631	$ 176	$ 23,456
Balance at December 31, 2012	$ –	$ 9,548	$ 26,933	$ 6,510	$ 405	$ 764	$ 1	$ 378	$ 44,539
Charge-offs	–	(1)	(60)	–	–	–	–	–	(61)
Recoveries	–	–	–	–	–	–	–	47	47
Provision for loan losses	–	(57)	859	(597)	54	79	–	(4)	334
Balance at March 31, 2013	$ –	$ 9,490	$ 27,732	$ 5,913	$ 459	$ 843	$ 1	$ 421	$ 44,859
Loans individually evaluated for impairment	$ –	$ 6,168	$ 2,123	$ –	$ –	$ –	$ –	$ 154	$ 8,445
Loans collectively evaluated for impairment	–	3,052	6,579	2,363	522	842	1,631	22	15,011
Balance at March 31, 2014	$ –	$ 9,220	$ 8,702	$ 2,363	$ 522	$ 842	$ 1,631	$ 176	$ 23,456
Loans individually evaluated for impairment	$ –	$ 6,276	$ 2,099	$ –	$ –	$ –	$ –	$ 153	$ 8,528
Loans collectively evaluated for impairment	–	3,405	6,664	1,933	497	823	1,052	6	14,380
Balance at December 31, 2013	$ –	$ 9,681	$ 8,763	$ 1,933	$ 497	$ 823	$ 1,052	$ 159	$ 22,908
Recorded investment in loans outstanding:									
Loans individually evaluated for impairment	$ 13,342,530	$ 128,064	$ 9,095	$ –	$ –	$ –	$ 2,341,636	$ 4,590	$ 15,825,915
Loans collectively evaluated for impairment	–	857,650	1,153,878	1,137,644	224,116	458,261	200	89,807	3,921,556
Ending balance at March 31, 2014	$ 13,342,530	$ 985,714	$ 1,162,973	$ 1,137,644	$ 224,116	$ 458,261	$ 2,341,836	$ 94,397	$ 19,747,471
Loans individually evaluated for impairment	$ 14,018,100	$ 152,567	$ 81,899	$ 86	$ –	$ –	$ 2,332,989	$ 4,557	$ 16,590,198
Loans collectively evaluated for impairment	–	824,119	1,139,245	956,009	198,721	454,410	203	89,636	3,662,343
Ending balance at December 31, 2013	$ 14,018,100	$ 976,686	$ 1,221,144	$ 956,095	$ 198,721	$ 454,410	$ 2,333,192	$ 94,193	$ 20,252,541

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

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

	Three months ended March 31, 2014			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	**Principal Concessions**	**Other Concessions**	**Total**
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 293	$ –	$ 293
Total	$ –	$ 293	$ –	$ 293

Three months ended March 31, 2014					
	Post modification Outstanding Recorded Investment				Effects of Modification
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Troubled debt restructurings:					
Real estate mortgage	$ –	$ 293	$ –	$ 293	$ –
Total	$ –	$ 293	$ –	$ 293	$ –

Three months ended March 31, 2013				
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 2,488	$ –	$ 2,488
Total	$ –	$ 2,488	$ –	$ 2,488

Three months ended March 31, 2013					
	Post modification Outstanding Recorded Investment				Effects of Modification
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Troubled debt restructurings:					
Real estate mortgage	$ –	$ 2,488	$ –	$ 2,488	$ –
Total	$ –	$ 2,488	$ –	$ 2,488	$ –

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

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

	Three months ended March 31,	
	2014	2013
Defaulted troubled debt restructurings:		
Production and intermediate-term	$ –	$ 967
Processing and marketing	–	10,258
Total	$ –	$ 11,225

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

	Total TDRs		Nonaccrual TDRs	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Real estate mortgage	$ 25,223	$ 24,861	$ 21,020	$ 20,643
Production and intermediate-term	7,387	7,393	7,387	7,393
Processing and marketing	–	–	–	–
Other (including Mission Related)	4,653	4,582	–	–
Total Loans	$ 37,263	$ 36,836	$ 28,407	$ 28,036
Additional commitments to lend	$ 948	$ 2,325		

Note 3 — Investment Securities

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

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

The FCA considers a non-agency security ineligible if it falls below AAA/Aaa credit rating criteria and requires System institutions to provide notification to the FCA when a security is downgraded below that rating. Non-agency CMO and ABS securities not rated in the top category by at least one of the NRSROs at March 31, 2014 had a fair value of $170.9 million and $35.1 million, respectively. For each of these investment securities in the Bank's portfolio rated below AAA/Aaa, the FCA has approved, with conditions, for the Bank to continue to hold these investments.

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

In its Conditions of Approval for the program, the FCA considers a Rural America Bond ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9. FCA approval has been obtained to allow the Bank to continue to hold five Rural America Bonds whose credit quality has deteriorated beyond the program limits.

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

During the first three months of 2014, proceeds from sales of investments were $2.7 million and realized gains were $53 thousand. During the first three months of 2013, proceeds from sales of investments were $122.2 million and realized gains were $7.6 million.

Available-for-sale

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

	March 31, 2014				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Guaranteed	$ 4,321,470	$ 106,975	$ (9,129)	$ 4,419,316	1.94%
U.S. Govt. Agency Guaranteed	1,688,611	21,172	(12,632)	1,697,151	1.05
Non-Agency CMOs (a)	193,183	32	(20,973)	172,242	0.63
Asset-Backed Securities (a)	20,018	20,765	(392)	40,391	4.47
Total	$ 6,223,282	$ 148,944	$ (43,126)	$ 6,329,100	1.66%

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

(a) Gross unrealized losses include noncredit related other-than-temporary impairment included in AOCI of $15.2 million for Non-Agency CMOs and $0 for Asset-Backed Securities.
(b) Gross unrealized losses include noncredit related other-than temporary impairment included in AOCI of $19.7 million for Non-Agency CMOs and $0 for Asset-Backed Securities.

Held-to-maturity

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

(dollars in thousands)	March 31, 2014 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	$ 427,379	$ 21,904	$ (13,510)	$ 435,773	4.06%
RABs and Other (a)	139,100	8,707	(1,662)	146,145	6.01
Total	$ 566,479	$ 30,611	$ (15,172)	$ 581,918	4.54%

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

(a) Gross unrealized losses include noncredit related other-than-temporary impairment included in AOCI of $0 for Rural America Bonds.
(b) Gross unrealized losses include noncredit related other-than-temporary impairment included in AOCI of $56 thousand for Rural America Bonds.

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

Available-for-sale

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Guaranteed	$ –	– %	$ 47	0.36 %	$ 7,464	1.31 %	$ 4,411,805	1.94 %	$ 4,419,316	1.94 %
U.S. Govt. Agency Guaranteed	2	1.88	26,331	1.08	67,699	1.49	1,603,119	1.03	1,697,151	1.05
Non-Agency CMOs	–	–	–	–	1,323	0.84	170,919	0.62	172,242	0.63
Asset-Backed Securities	–	–	–	–	–	–	40,391	4.47	40,391	4.47
Total fair value	$ 2	1.88 %	$ 26,378	1.08 %	$ 76,486	1.46 %	$ 6,226,234	1.67 %	$ 6,329,100	1.66 %
Total amortized cost	$ 2		$ 26,227		$ 75,720		$ 6,121,333		$ 6,223,282	

Held-to-maturity

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Agency Guaranteed	$ –	– %	$ –	– %	$ 527	4.68 %	$ 426,852	4.06 %	$ 427,379	4.06 %
RABs and Other	–	–	32,998	6.39	35,130	5.89	70,972	5.89	139,100	6.01
Total amortized cost	$ –	– %	$ 32,998	6.39 %	$ 35,657	5.87 %	$ 497,824	4.32 %	$ 566,479	4.54 %
Total fair value	$ –		$ 35,366		$ 38,311		$ 508,241		$ 581,918	

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

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

	March 31, 2014					
	Less than 12 Months		12 Months or Greater		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Guaranteed	$ 1,118,390	$ (7,375)	$ 163,298	$ (1,754)	$ 1,281,688	$ (9,129)
U.S. Govt. Agency Guaranteed	726,677	(18,549)	521,777	(7,593)	1,248,454	(26,142)
Non-Agency CMOs	7,210	(106)	164,827	(20,867)	172,037	(20,973)
Asset-Backed Securities	–	–	7,736	(392)	7,736	(392)
RABs and Other	2,092	(49)	45,515	(1,613)	47,607	(1,662)
Total	$ 1,854,369	$ (26,079)	$ 903,153	$ (32,219)	$ 2,757,522	$ (58,298)

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

Numerous factors are considered in determining whether an impairment is other-than-temporary. They include: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Bank intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss recognized equals the full difference between amortized cost and fair value of the security. When the Bank does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and noncredit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

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

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

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

Following are the assumptions used at:

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

	December 31, 2013	
Assumptions Used	**Mortgage-backed Securities**	**Asset-backed Securities**
Default rate by range	0.46% to 46.36%	7.77% to 61.91%
Prepayment rate by range	4.59% to 10.37%	5.02% to 15.08%
Loss severity by range	4.16% to 64.28%	57.46% to 100.00%

Based on the results of all analyses, the Bank has recognized credit-related other-than-temporary impairment of $1.4 million for 2014, which is included in Net Other-than-temporary Impairment Losses 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.

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

	For the three months ended March 31,	
(dollars in thousands)	**2014**	**2013**
Amount related to credit loss-beginning balance	$ 57,131	$ 55,654
Additions for initial credit impairments	–	–
Additions for subsequent credit impairments	1,351	1,118
Reductions for increases in expected cash flows	(177)	(384)
Reductions for securities sold/settled/matured	–	–
Amount related to credit loss-ending balance	58,305	56,388
Life to date incurred credit losses	(20,127)	(17,859)
Remaining unrealized credit losses	$ 38,178	$ 38,529

For all other impaired investments, the Bank has not recognized any credit losses as the impairments are deemed temporary and result from noncredit related factors. The Bank has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities. Substantially all of these investments were in U.S. Government agency securities and the Bank expects these securities would not be settled at a price less than their amortized cost. For the three months ended March 31, 2014, net unrealized losses of $1.7 million were recognized in other comprehensive income for investments that are not other-than-temporarily impaired.

Note 4 — Debt

Bonds and Notes

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

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

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

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

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

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

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

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

Note 5 — Shareholders' Equity

Perpetual Preferred Stock

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

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

Accumulated Other Comprehensive Income

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

	Changes in Accumulated Other Comprehensive Income by Component *(a)*	
	For the three months ended March 31,	
(dollars in thousands)	**2014**	**2013**
Unrealized Gains (Losses) on Investments:		
Balance at beginning of period	$ 100,698	$ 174,547
Other comprehensive income before reclassifications	3,822	8,409
Amounts reclassified from AOCI	1,298	(6,474)
Net current period other comprehensive income	5,120	1,935
Balance at end of period	$ 105,818	$ 176,482
Firm Commitments:		
Balance at beginning of period	$ 289	$ 1,514
Other comprehensive income before reclassifications	–	–
Amounts reclassified from AOCI	(263)	(382)
Net current period other comprehensive income	(263)	(382)
Balance at end of period	$ 26	$ 1,132
Employee Benefit Plans:		
Balance at beginning of period	$ (3,444)	$ (4,593)
Other comprehensive income before reclassifications	–	–
Amounts reclassified from AOCI	67	92
Net current period other comprehensive income	67	92
Balance at end of period	$ (3,377)	$ (4,501)
Total Accumulated Other Comprehensive Income:		
Balance at beginning of period	$ 97,543	$ 171,468
Other comprehensive income before reclassifications	3,822	8,409
Amounts reclassified from AOCI	1,102	(6,764)
Net current period other comprehensive income	4,924	1,645
Balance at end of period	$ 102,467	$ 173,113

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*		
(dollars in thousands)	**For the three months ended March 31,**		
	2014	**2013**	**Income Statement Line Item**
Investment Securities:			
Sales gains & losses	$ 53	$ 7,592	Gains (losses) on investments, net
Holding gains & losses	(1,351)	(1,118)	Net other-than-temporary impairment
Net amounts reclassified	(1,298)	6,474	
Cash Flow Hedges:			
Interest income	263	382	See Note 11.
Net amounts reclassified	263	382	
Defined Benefit Pension Plans:			
Periodic pension costs	(67)	(92)	See Note 7.
Net amounts reclassified	(67)	(92)	
Total reclassifications for period	$ (1,102)	$ 6,764	

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

Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

Level 1

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

Level 2

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

Level 3

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

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

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

(dollars in thousands)	**Asset Backed Securities**	**Non-Agency CMOs**	**Standby Letters of Credit**
Balance at December 31, 2013	$ 38,798	$ 173,486	$ 745
Total gains or (losses) realized/unrealized:			
Included in earnings	–	(1,220)	–
Included in other comprehensive income	2,554	5,819	–
Issuances	–	–	–
Settlements	(961)	(5,843)	(105)
Transfers in and/or out of Level 3	–	–	–
Balance at March 31, 2014	$ 40,391	$ 172,242	$ 640

(dollars in thousands)	**Asset-Backed Securities**	**Non-Agency CMOs**	**Standby Letters of Credit**
Balance at December 31, 2012	$ 33,390	$ 204,699	$ 1,089
Total gains or (losses) realized/unrealized:			–
Included in earnings	–	(1,118)	–
Included in other comprehensive income	1,609	8,086	–
Issuances	–	–	–
Settlements	(1,210)	(12,460)	(164)
Transfers in and/or out of Level 3	–	–	–
Balance at March 31, 2013	$ 33,789	$ 199,207	$ 925

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

Investment Securities

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

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

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

Derivative Instruments

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

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

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

Other Property Owned/Impaired Loans

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

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Firm commitments-when-issued securities	$ –	Broker/Consensus pricing	Offered quotes	None outstanding
Non-agency securities	$ 212,633	Vendor priced	**	
Impaired loans and other property owned	$ 74,163	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

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

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

Information about Other Financial Instrument Fair Value Measurements

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

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

(dollars in thousands)	At or for the Three Months Ended March 31, 2014 Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. Guaranteed	$ 4,419,316	$ –	$ 4,419,316	$ –	$ 4,419,316	
U.S. Govt. Agency Guaranteed	1,697,151	–	1,697,151	–	1,697,151	
Non-Agency CMOs	172,242	–	–	172,242	172,242	
Asset-backed securities	40,391	–	–	40,391	40,391	
Total investments available-for-sale	6,329,100	–	6,116,467	212,633	6,329,100	
Federal funds sold, securities purchased under resale agreements, and other	220,972	–	220,972	–	220,972	
Interest rate swaps and other derivative instruments	24,816	–	24,816	–	24,816	
Assets held in trust funds	7,743	7,743	–	–	7,743	
Recurring Assets	$ 6,582,631	$ 7,743	$ 6,362,255	$ 212,633	$ 6,582,631	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	–	–	–	–	–	
Standby letters of credit	640	–	–	640	640	
Recurring Liabilities	$ 640	$ –	$ –	$ 640	$ 640	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 65,027	$ –	$ –	$ 65,027	$ 65,027	$ 82
Other property owned	8,448	–	–	9,136	9,136	199
Nonrecurring Assets	$ 73,475	$ –	$ –	$ 74,163	$ 74,163	$ 281
Other Financial Instruments						
Assets:						
Cash	$ 494,495	$ 494,495	$ –	$ –	$ 494,495	
Investments held to maturity	566,479	–	435,773	146,145	581,918	
Loans	19,607,534	–	–	19,499,088	19,499,088	
Other investments	–	–	–	–	–	
Other Financial Assets	$ 20,668,508	$ 494,495	$ 435,773	$ 19,645,233	$ 20,575,501	
Liabilities:						
Systemwide debt securities	$ 25,255,495	$ –	$ –	$ 25,111,184	$ 25,111,184	
Other Financial Liabilities	$ 25,255,495	$ –	$ –	$ 25,111,184	$ 25,111,184	

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

Note 7 — Employee Benefit Plans

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

(dollars in thousands)	For the three months ended March 31, 2014	2013
Pension	$ 2,403	$ 2,424
401k	368	299
Other postretirement benefits	272	270
Total	$ 3,043	$ 2,993

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

(dollars in thousands)	Actual YTD Through 3/31/14	Projected Contributions for Remainder of 2014	Projected Total Contributions 2014
Pensions	$ 144	$ 7,290	$ 7,434
Other postretirement benefits	250	799	1,049
Total	$ 394	$ 8,089	$ 8,483

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

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

Note 8 — Commitments and Contingent Liabilities

Association Financial Assistance

Effective January 1, 2011, Farm Credit of North Florida, ACA, and Farm Credit of Southwest Florida, ACA, merged with and into Farm Credit of South Florida, ACA. Farm Credit of South Florida then changed its name to Farm Credit of Florida, ACA. As part of the merger, those Associations entered into an agreement with the Bank under which the Bank would provide limited financial assistance to the merged Association in the event of substantial further deterioration in the combined high risk asset portfolio of the merged Association. This agreement relates only to a finite pool of high risk assets of the merged Association existing at the merger date, which had a net book value at January 1, 2011 of $250.0 million. At March 31, 2014, those assets had a net book value of $68.3 million. This agreement with the Bank does not include losses that are sustained outside of the high risk asset pool. Protection to the Bank, such as limitations on the Association's ability to make patronage distributions and certain other restrictions, is provided in the agreement if certain merged Association capital ratios fail to meet minimum established levels.

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

No assistance was provided by the Bank to the merged Association under the agreement at March 31, 2014 or December 31, 2013. A total of $9.8 million of assistance was available at March 31, 2014 and December 31, 2013 to the merged Association under the first and second support levels of the agreement. Any assistance provided in the future likely would not have a material adverse impact on either the financial condition or future operating results of the Bank.

Other Commitments and Contingencies

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

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

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

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

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

There are no material claims pending against the Bank in which money damages are asserted.

Note 9 — Additional Financial Information

Offsetting of Financial and Derivative Assets

	March 31, 2014					
				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	$ 24,816	$ –	$ 24,816	$ (6,241)	$ –	$ 18,575
Reverse repurchase and similar arrangements	220,972	–	220,972	(220,972)	–	–
Total	$ 245,788	$ –	$ 245,788	$ (227,213)	$ –	$ 18,575

	December 31, 2013					
				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

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

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

The reverse repurchase agreements are accounted for as collateralized lending.

Note 10 — Business Combinations

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

Note 11 — Derivative Financial Instruments and Hedging Activities

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

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

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

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

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

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

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

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

Counterparty exposure related to derivatives at:

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

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

Fair Value Hedges

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

Cash Flow Hedges

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

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

Fair Values of Derivative Instruments

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

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

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

The following tables set forth the amount of net gain (loss) recognized in the Statements of Income and, for cash flow hedges, the amount of net gain (loss) recognized in the Balance Sheets for the periods presented.

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

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

Note 12 — Subsequent Events

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

On April 11, 2014, the Bank entered into a Special Credit Agreement with one District Association pursuant to its GFA as a result of events of default under the GFA.

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

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

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

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