Quarterly REPORT

AGFIRST FARM CREDIT BANK & DISTRICT ASSOCIATIONS

THIRD QUARTER 2014

FARM CREDIT

THIRD QUARTER 2014

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2014 quarterly report of AgFirst Farm Credit Bank and District Associations, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Robert H. Spiers, Jr.
Chairman of the Board

Leon T. Amerson
Chief Executive Officer & President

Charl L. Butler
Chief Financial Officer

November 7, 2014

Report on Internal Control Over Financial Reporting

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

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

The Bank's and each District Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2014. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Bank and each District Association concluded that as of September 30, 2014, the internal control over financial reporting was effective based upon the COSO (1992) criteria. Additionally, based on this assessment, the Bank and each District Association determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2014.

Leon T. Amerson
Chief Executive Officer & President

Charl L. Butler
Chief Financial Officer

November 7, 2014

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

The following discussion reviews the combined financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the District, as of and for the three and nine month periods ended September 30, 2014. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Combined Financial Statements, and the 2013 Annual Report of AgFirst Farm Credit Bank and District Associations. The accompanying combined financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

As of September 30, 2014, the District included nineteen Associations, all of which were structured as Agricultural Credit Association (ACA) holding companies, with Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries. PCAs originate and service short- and intermediate-term loans; FLCAs originate and service long-term real estate mortgage loans; and ACAs originate both long-term and short- and intermediate-term loans. See Note 10, *Business Combinations*, in the Notes to the Combined Financial Statements for further information.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of the District. However, neither the three months nor the nine months results of operations may be indicative of an entire year due to the seasonal nature of a portion of the District's business.

FORWARD-LOOKING INFORMATION

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

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

FINANCIAL CONDITION

Loan Portfolio

The District's aggregate loan portfolio consists primarily of direct loans made by the Associations to eligible borrowers located within their chartered territories. Bank loans to District Associations have been eliminated in the combined District presentation. Diversification of the loan volume by Farm Credit Administration (FCA) regulatory type is illustrated in the following table:

Loan Portfolio *(dollars in thousands)*	**September 30, 2014**		**December 31, 2013**		**September 30, 2013**	
Real Estate Mortgage	$ 10,492,799	44 %	$ 10,268,260	44 %	$ 10,142,047	44 %
Production and Intermediate-Term	7,582,138	31	7,479,455	32	7,408,367	32
Rural Residential Real Estate	2,929,038	12	2,833,416	12	2,792,634	12
Processing and Marketing	1,415,457	6	1,091,648	5	1,115,607	5
Energy and Water/Waste Disposal	447,615	2	496,898	2	495,454	2
Farm-Related Business	420,251	2	352,315	2	372,910	2
Communication	376,330	2	358,601	2	353,074	2
Loans to Cooperatives	288,874	1	241,023	1	251,225	1
Loans to Other Financing Institutions (OFIs)	100,712	–	83,116	–	85,066	–
Lease Receivables	4,057	–	4,922	–	5,079	–
Other (including Mission Related)	60,284	–	60,854	–	60,281	–
Total	$ 24,117,555	100 %	$ 23,270,508	100 %	$ 23,081,744	100 %

Total loans outstanding were $24.118 billion at September 30, 2014, an increase of $847.0 million, or 3.64 percent, compared to total loans outstanding at December 31, 2013 and an increase of $1.036 billion, or 4.49 percent, since September 30, 2013. Loan demand continues to be modest due to a number of reasons, including higher than the historical average capital and cash levels of borrowers. Low economic growth has inhibited loan demand from borrowers in economically dependent sectors and borrowers dependent on non-farm income. An increasingly competitive environment for agricultural loans has also challenged volume. Future District loan demand is difficult to predict; however, it is expected to remain modest as those factors discussed above are anticipated to persist.

Credit Quality

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

	Total Loan Portfolio Credit Quality as of:		
Classification	**September 30, 2014**	**December 31, 2013**	**September 30, 2013**
Acceptable	93.91%	92.81%	91.92%
OAEM *	3.08%	3.36%	3.62%
Substandard/Doubtful/Loss	3.01%	3.83%	4.46%

**Other Assets Especially Mentioned*

Loan portfolio credit quality at the producer level, as shown in the table above, reflected improvement primarily due to the stabilization of economic conditions. Most distressed property sales are now occurring at or near appraised values, indicating that real estate values have stabilized in most District markets. Grain prices have declined to levels not seen for a number of years due to higher than expected inventory and harvest levels. This benefitted the poultry, cattle, and swine sectors but will pressure margins of grain producers. Improved housing starts have positively impacted certain housing-related segments such as forestry and nursery/greenhouse but remain below historic levels. Credit quality is anticipated to continue to improve incrementally assuming stable economic conditions.

Nonaccrual Loans

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the combined District at September 30, 2014 were $327.7 million compared to $414.2 million at December 31, 2013. The decrease of $86.5 million resulted primarily from repayments of $117.0 million, transfers to other property owned of $31.9 million, reinstatements to accrual status of $16.9 million, and charge-offs of $12.7 million. Offsetting these decreases were $63.5 million of loan balances transferred to nonaccrual status, advances of $15.6 million, and recoveries of charge-offs of $14.1 million. The largest nonaccrual borrower relationship at September 30, 2014 accounted for 6.28 percent of the total nonaccrual balance. At September 30, 2014, total nonaccrual loans were primarily classified in the forestry (19.15 percent of the total), nursery/greenhouse (15.14 percent), poultry (11.66 percent), and tree fruits/nuts (7.84 percent) segments. Nonaccrual loans were 1.36 percent and 1.78 percent of total loans outstanding at September 30, 2014 and December 31, 2013, respectively.

Troubled Debt Restructurings

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank and District Associations would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms, rates, or amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by the Bank and District Associations. TDRs decreased $19.7 million since December 31, 2013 and totaled $259.9 million at September 30, 2014. TDRs at September 30, 2014 were comprised of $127.7 million of accruing restructured loans and $132.2 million of nonaccrual restructured loans. Restructured loans were primarily in the nursery/greenhouse (21.13 percent of the total), forestry (19.38 percent), and poultry (11.46 percent) segments.

Other Property Owned

Other property owned (OPO) consists primarily of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank and District Associations (or a lender group) in satisfaction of secured loans. OPO is generally comprised of real estate, equipment, and equity interests in companies or partnerships. OPO decreased $14.0 million since December 31, 2013 and totaled $54.8 million at September 30, 2014. The decrease was primarily due to disposals of $43.1 million offset by transfers to OPO of $33.7 million. The largest OPO holding at September 30, 2014 was in the other real estate segment and totaled $6.8 million. See discussion of OPO expense in the *Noninterest Expense* section below.

Allowance for Loan Losses

The District maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan portfolio as of each reported balance sheet date. Although aggregated in the District's combined financial statements, the allowance for loan losses of each District entity is particular to that institution and is not available to absorb losses realized by other District entities.

The allowance for loan losses was $181.4 million at September 30, 2014, as compared with $187.4 million at December 31, 2013, which was a decrease of $6.1 million. Activity which reduced the allowance during the nine months ended September 30, 2014 included loan charge-offs of $12.9 million, as loan collectability became more measurable and apparent, and a provision expense reversal of $7.3 million. Offsetting these decreases were recoveries of $14.1 million. Charge-offs during the nine month period were related primarily to borrowers in the forestry (22.92 percent of the total), poultry (17.43 percent), field crops (9.08 percent), and cattle (6.95 percent) segments. Recoveries during the nine month period were related primarily to borrowers in the nursery/greenhouse (27.46 percent of the total), other real estate (24.03 percent), and forestry (21.65 percent) segments. The allowance at September 30, 2014 included specific reserves of $41.1 million (22.68 percent of the total) and $140.2 million (77.32 percent) of general reserves. The largest commodity segments included in the allowance at September 30, 2014 were the forestry (14.62 percent of the total), cattle (9.63 percent), poultry (9.63 percent), nursery/greenhouse (8.80 percent), and field crops (8.69 percent) segments. See Note 2, *Loans and Allowance for Loan Losses,* in the Notes to the Combined Financial Statements for further information. See *Provision for Loan Losses* section below for additional details regarding loan loss provision expense and reversals.

Liquidity and Funding Sources

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

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

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

The System does not have a guaranteed line of credit from the U.S. Treasury or the Federal Reserve. However, the Farm Credit System Insurance Corporation (FCSIC) has an agreement with the Federal Financing Bank, 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 may use these funds to provide assistance to the System banks in exigent market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to $10 billion and terminates on September 30, 2015, unless otherwise renewed. The decision whether to seek funds from the Federal Financing Bank is at the discretion of FCSIC. 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 would be available if needed by AgFirst or the System.

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

At September 30, 2014, AgFirst had $26.466 billion in total debt outstanding compared to $26.225 billion at December 31, 2013. Total interest-bearing liabilities increased slightly primarily due to additional funding needs related to modest increases in loans and liquidity investments as discussed elsewhere in this report.

Cash and cash equivalents, which decreased $469.5 million from December 31, 2013 to a total of $760.9 million at September 30, 2014, consist primarily of cash on deposit and money market securities that are short-term in nature (from overnight maturities to maturities that range up to 90 days). Incremental movements in cash balances are due primarily to changes in liquidity needs in relation to upcoming debt maturities between reporting periods.

Investment securities totaled $7.490 billion, or 22.83 percent of total assets at September 30, 2014, compared to $7.295 billion, or 22.61 percent, as of December 31, 2013. Investment securities increased $194.7 million (2.67 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 $6.771 billion at September 30, 2014. Available-for-sale investments at September 30, 2014 included $4.070 billion in U.S. Government guaranteed securities, $2.316 billion in U.S. Government agency guaranteed securities, $160.3 million in non-agency collateralized mortgage obligations (CMOs), $191.5 million in asset-backed securities, and $33.1 million in Mission Related Investments. Since the majority of the portfolio is invested in U.S. Government guaranteed and agency securities, the portfolio is highly liquid and potential credit loss exposure is limited.

As of September 30, 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 September 30, 2014, AgFirst met all individual level criteria and had a total of 223 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 $112.2 million at September 30, 2014, compared to $99.9 million at December 31, 2013. These net unrealized gains are reflected in Accumulated Other Comprehensive Income (AOCI) in the Financial Statements. The net unrealized gains stem from normal market factors such as the current interest rate environment.

The District performs periodic credit reviews, including other-than-temporary impairment analyses, on its entire investment securities portfolio. Based on the results of all analyses, the District recognized other-than-temporary credit related impairment of $1.6 million for the nine months ended September 30, 2014 which was included in Net Other-than-temporary Impairment Losses in the Statements of Income. See Note 3, *Investment Securities*, in the Notes to the Combined Financial Statements for further information.

Capital Resources

Total shareholders' equity increased $416.4 million (8.05 percent) from December 31, 2013 to a total of $5.591 billion at September 30, 2014. This increase is primarily attributed to 2014 unallocated retained earnings from net income of $471.6 million.

On May 15, 2013, the Bank redeemed and cancelled the entire $150.0 million of Perpetual Non-Cumulative Preferred Stock issued October 14, 2003. This redemption was in accordance with the AgFirst Board approved capital plan. The stock was redeemed at its par value together with accrued and unpaid dividends. See Note 5, *Shareholders' Equity*, in the Notes to the Combined Financial Statements for further information.

Favorable earnings and minimal balance sheet growth in recent years have resulted in strong Bank capital levels. After considering the current capital levels and projected capital needs, on October 20, 2014, the Bank's Board of Directors declared a special cash patronage distribution totaling $175.0 million to be paid on January 1, 2015. Also see Note 13, *Subsequent Events*, in the Notes to the Financial Statements.

On September 4, 2014, the FCA published a proposed rule in the Federal Register to modify the regulatory capital requirements for System banks and associations. See *Regulatory Matters* section below for further discussion on the proposed rule.

RESULTS OF OPERATIONS

Net income for the three months ended September 30, 2014 was $169.1 million, compared to $177.4 million for the three months ended September 30, 2013, a decrease of $8.3 million, or 4.66 percent. Net income for the nine months ended September 30, 2014 was $471.6 million, compared to $504.0 million for the corresponding period in 2013, a decrease of $32.5 million, or 6.44 percent.

Key Results of Operations Comparisons

	Annualized for the nine months ended September 30, 2014	For the year ended December 31, 2013	Annualized for the nine months ended September 30, 2013
Return on average assets	1.98%	1.99%	2.12%
Return on average shareholders' equity	12.04%	12.96%	13.91%
Net interest margin	3.33%	3.47%	3.49%
Operating expense as a percentage of net interest income and noninterest income	42.14%	40.64%	38.66%
Net (charge-offs) recoveries to average loans	0.01%	(0.18)%	(0.19)%

The first four ratios above have deteriorated in 2014 primarily due to a decrease in net interest income which is discussed below. For the operating expense as a percentage of net interest income and noninterest income ratio, operating expense consists primarily of noninterest expense (see discussion below) excluding losses/gains from other property owned. The net (charge-offs) recoveries to average loans ratio has improved in 2014 due to provision recoveries discussed below.

Net Interest Income

Net interest income for the three months ended September 30, 2014 was $261.3 million compared to $265.1 million for the same period of 2013, a decrease of $3.7 million or 1.41 percent. For the nine months ended September 30, 2014, net interest income was $768.8 million compared to $799.9 million for the same period of 2013, a decrease of $31.1 million, or 3.89 percent. The net interest margin, which is net interest income as a percentage of average earning assets, was 3.30 percent and 3.33 percent, a decrease of 12 and 16 basis points, respectively, for the three and nine month periods ended September 30, 2014, compared to the prior year periods. The decline was primarily the result of lower earning asset yields. In addition, the nine month period was also negatively impacted by higher rates paid on interest bearing liabilities. Over time, as interest rates change and as assets prepay or reprice, the positive impact on the net interest margin that the District has experienced over the last several years from calling debt will continue to diminish. For the three and nine month periods ended September 30, 2014 compared with the corresponding periods in 2013, the negative impact of the rate related decrease was partially offset by the positive impact of an increase in the average balance of loans.

The following table illustrates the changes in net interest income:

	For the three months ended September 30, 2014 vs. September 30, 2013	For the three months ended September 30, 2014 vs. September 30, 2013	For the three months ended September 30, 2014 vs. September 30, 2013	For the nine months ended September 30, 2014 vs. September 30, 2013	For the nine months ended September 30, 2014 vs. September 30, 2013	For the nine months ended September 30, 2014 vs. September 30, 2013
	Increase (decrease) due to changes in:			**Increase (decrease) due to changes in:**		
(dollars in thousands)	**Volume**	**Rate**	**Total**	**Volume**	**Rate**	**Total**
Interest Income:						
Loans	$ 9,724	$ (8,307)	$ 1,417	$ 24,240	$ (24,993)	$ (753)
Investments & Cash Equivalents	(660)	(3,984)	(4,644)	(6,154)	(12,238)	(18,392)
Total Interest Income	$ 9,064	$ (12,291)	$ (3,227)	$ 18,086	$ (37,231)	$ (19,145)
Interest Expense:						
Interest-Bearing Liabilities	$ 194	$ 317	$ 511	$ (1,092)	$ 13,042	$ 11,950
Changes in Net Interest Income	$ 8,870	$ (12,608)	$ (3,738)	$ 19,178	$ (50,273)	$ (31,095)

Provision for Loan Losses

The District measures risks inherent in its loan portfolio on an ongoing basis and, as necessary, recognizes provision for loan loss expense so that appropriate allowances for loan losses are maintained. Loan loss provision was a net reversal (recovery) of $4.7 million and $7.3 million for the three and nine month periods ended September 30, 2014, respectively, compared to a net reversal of $4.0 million and provision expense of $4.4 million for the three and nine months ended September 30, 2013. For the three months ended September 30, 2014, the net provision reversal consisted of $5.7 million of specific reserve reversals partially offset by $1.0 million of general reserve expense. For the third quarter of 2014, the net provision reversals were comprised primarily of reversals related to the forestry ($3.7 million), other real estate ($1.6 million), processing ($1.5 million), and nursery/greenhouse ($783 thousand) segments, partially offset by net provision expense in the rural home loans ($864 thousand), corn ($862 thousand), field crops ($780 thousand), and cotton ($660 thousand) segments. For the nine months ended September 30, 2014, the net provision reversal consisted of $7.6 million of specific reserve reversals and $236 thousand of general reserve expense. The net provision reversals for the nine month period were comprised primarily of reversals related to the forestry ($8.4 million), field crops ($7.0 million), nursery/greenhouse ($6.0 million), tree fruits and nuts ($4.4 million), and other real estate ($3.4 million) segments, partially offset by net provision expense in the fruits/vegetables ($7.5 million), tobacco ($3.1 million), rural home loans ($3.0 million), cattle ($2.3 million), poultry ($2.3 million), and grain ($1.8 million) segments. See Note 2, *Loans and Allowance for Loan Losses,* in the Notes to the Combined Financial Statements for further information.

Noninterest Income

The following table illustrates the changes in noninterest income:

Change in Noninterest Income	**For the three months ended September 30,**			**For the nine months ended September 30,**		
(dollars in thousands)	**2014**	**2013**	**Increase/ (Decrease)**	**2014**	**2013**	**Increase/ (Decrease)**
Loan fees	$ 6,455	$ 7,545	$ (1,090)	$ 21,251	$ 25,100	$ (3,849)
Fees for financially related services	3,324	3,192	132	6,017	6,371	(354)
Building lease income	891	1,149	(258)	2,584	3,376	(792)
Net impairment losses on investments	(114)	109	(223)	(1,566)	(2,254)	688
Gains (losses) on investments, net	–	–	–	149	7,592	(7,443)
Gains (losses) on called debt	(506)	(115)	(391)	(5,721)	(4,117)	(1,604)
Gains (losses) on other transactions	1,527	898	629	4,719	3,445	1,274
Other noninterest income	557	800	(243)	4,428	5,596	(1,168)
Total noninterest income	$ 12,134	$ 13,578	$ (1,444)	$ 31,861	$ 45,109	$ (13,248)

Noninterest income decreased $1.4 million for the three months ended September 30, 2014 compared to the corresponding period in 2013. The decrease was primarily due to decreases in loan fees and building lease income and higher losses on called debt, partially offset by higher gains on other transactions. Noninterest income decreased $13.2 million for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 primarily as a result of lower gains on investments, lower loan fee income, and higher losses on called debt.

Loan fees decreased $1.1 million and $3.8 million for the three and nine month periods ended September 30, 2014, compared to the same periods in the prior year. The decrease was primarily a result of competitive capital market conditions.

The decline in building lease income for the three and nine month periods was primarily due to the Bank occupying space in 2014 in its new office building that was previously leased to tenants.

Lower net impairment losses on investments for the nine month periods of $688 thousand partially offset some of the declines in noninterest income and resulted primarily from improvement in credit quality of home equity loans which collateralize most of the District's impaired investments.

Gains on investments decreased $7.4 million for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 primarily due to $7.6 million of securities gains recognized in March 2013 on bond sales that were made to manage the investment portfolio's size within regulatory guidelines. See discussion of investments in Note 3, *Investment Securities*, in the Notes to the Combined Financial Statements for further information.

Increased losses on called debt of $391 thousand and $1.6 million for the three and nine month periods, respectively, also contributed to the decline in noninterest income. 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. 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 month periods, gains on other transactions increased $629 thousand primarily as a result of $1.0 million of lower losses on sale of rural home loans and a $343 thousand increase in gains realized on benefit trusts, partially offset by a $915 thousand increase in reserve expense for unfunded commitments. Changes in the reserve for unfunded commitments result from fluctuations in both the balance and composition of unfunded commitments between periods. For the nine month periods, gains on other transactions increased $1.3 million primarily as a result of a $695 thousand increase in gains on sale of rural home loans and a $501 thousand increase in gains on sales of premises and equipment.

The decrease of $1.2 million in other noninterest income for the nine months ended September 30, 2014 compared to the same period in 2013 resulted primarily from $419 thousand lower captive insurance allocated gains based on claims experience and $770 lower revenue received from data processing services provided to a System entity outside the District.

Noninterest Expenses

The following table illustrates the changes in noninterest expense:

Change in Noninterest Expenses	**For the three months ended September 30,**			**For the nine months ended September 30,**		
(dollars in thousands)	**2014**	**2013**	**Increase/ (Decrease)**	**2014**	**2013**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 67,057	$ 67,100	$ (43)	$ 206,460	$ 204,114	$ 2,346
Occupancy and equipment	10,162	9,528	634	30,082	27,550	2,532
Insurance Fund premiums	6,420	5,331	1,089	18,533	14,234	4,299
Other operating expenses	27,161	27,055	106	82,366	80,806	1,560
Losses (gains) from other property owned	(2,329)	(4,113)	1,784	(2,457)	9,132	(11,589)
Total noninterest expenses	$ 108,471	$ 104,901	$ 3,570	$ 334,984	$ 335,836	$ (852)

Noninterest expense increased $3.6 million and decreased $852 thousand for the three and nine months ended September 30, 2014, respectively, compared to the corresponding periods in 2013. For three month periods, the increase was due primarily to lower gains from other property owned and higher insurance fund premiums. The decrease in the nine month period was primarily due to a decrease in losses from other property owned partially offset by increases in all other categories of noninterest expenses.

Salaries and employee benefits decreased $43 thousand and increased $2.3 million for the three and nine month periods, respectively. For the three and nine month periods, increases of $1.8 million and $7.4 million, respectively, resulted from 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 costs also contributed to the increase in salaries and employee benefits. These increases were partially offset by $3.4 million and $10.3 million in lower pension expense for the three and nine month periods of 2014, respectively, compared to the same periods in the prior year. These decreases resulted primarily from an increase in the discount rate used to calculate net periodic benefit cost.

Occupancy and equipment expense increased $634 thousand and $2.5 million for the three and nine month periods, respectively, primarily as a result of increases in depreciation and hardware/software maintenance expenses related to the Bank's new data center.

For the three and nine month periods, Insurance Fund premiums increased $1.1 million and $4.3 million, respectively, primarily as a result of an increase in the base annual premium rate to 12 basis points in 2014 from 10 basis points in 2013. The FCSIC Board makes premium rate adjustments, as necessary, to maintain the secure base amount which is based upon insured debt outstanding at System banks. Also contributing to the higher expense for the nine month periods was a $1.4 million insurance fund premium reimbursement received by the Bank in May 2013, after the Farm Credit System Insurance Corporation (FCSIC) made a clarification that cash held in a deposit account at the Federal Reserve Bank qualifies as a deduction in the premium calculation. The reimbursement was for the periods July 1, 2008, when the premium methodology initially changed to a debt basis, through December 31, 2012.

Losses on other property owned increased $1.8 million and decreased $11.6 million for the three and nine month periods in 2014, respectively, compared with the same periods in the prior year. The decrease for the nine month periods was primarily a result of lower writedowns of $10.4 million in 2014 compared to 2013 as real estate values stabilized. The increase in losses for the three month periods primarily resulted from lower gains on sales of $1.4 million for the 2014 period. See *Other Property Owned* section above for further information.

DISTRICT MERGER ACTIVITY

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

REGULATORY MATTERS

On March 31, 2014, the FCA published an interim final rule rescinding all requirements for nonbinding advisory votes on senior officer compensation at System banks and associations. The comment period for the interim rule ended on April 30, 2014 and the final rule became effective on June 18, 2014.

On July 25, 2014, the FCA published a proposed rule in the Federal Register to revise the requirements governing the eligibility of investments for System banks and associations. The public comment period ended on October 23, 2014. The stated objectives of the proposed rule are as follows:

- To strengthen the safety and soundness of System banks and associations.
- To ensure that System banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption.
- To enhance the ability of the System banks to supply credit to agricultural and aquatic producers.
- To comply with the requirements of section 939A of the Dodd-Frank Act.
- To modernize the investment eligibility criteria for System banks.
- To revise the investment regulation for System associations to improve their investment management practices so they are more resilient to risk.

On September 4, 2014, the FCA published a proposed rule in the Federal Register to modify the regulatory capital requirements for System banks and associations. The public comment period ends on January 2, 2015. The stated 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.
- To meet the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Combined Balance Sheets

(dollars in thousands)	**September 30, 2014**	**December 31, 2013**
	(unaudited)	*(audited)*
Assets		
Cash	**$ 523,400**	$ 1,085,489
Cash equivalents	**237,509**	144,885
Investment securities:		
Available for sale (amortized cost of $6,658,691 and $6,504,339, respectively)	**6,770,890**	6,604,262
Held to maturity (fair value of $742,096 and $700,862, respectively)	**719,273**	691,219
Total investment securities	**7,490,163**	7,295,481
Loans held for sale	**8,303**	6,834
Loans	**24,117,555**	23,270,508
Allowance for loan losses	**(181,356)**	(187,437)
Net loans	**23,936,199**	23,083,071
Accrued interest receivable	**222,467**	176,986
Accounts receivable	**43,620**	38,196
Investments in other Farm Credit System institutions	**14,907**	14,962
Other investments	**439**	84,247
Premises and equipment, net	**188,610**	170,154
Other property owned	**54,846**	68,801
Other assets	**86,151**	92,165
Total assets	**$ 32,806,614**	$ 32,261,271
Liabilities		
Systemwide bonds payable	**$ 22,697,838**	$ 24,315,776
Systemwide notes payable	**3,982,043**	2,110,328
Accrued interest payable	**46,815**	54,198
Accounts payable	**76,267**	203,491
Advanced conditional payments	**12,069**	12,911
Other liabilities	**400,521**	389,893
Total liabilities	**27,215,553**	27,086,597
Commitments and contingencies (Note 8)		
Shareholders' Equity		
Perpetual preferred stock	**125,250**	125,250
Protected borrower equity	**817**	901
Capital stock and participation certificates	**160,998**	156,382
Additional paid-in-capital	**60,270**	60,270
Retained earnings		
Allocated	**1,623,712**	1,693,689
Unallocated	**3,768,349**	3,313,471
Accumulated other comprehensive income (loss)	**(148,335)**	(175,289)
Total shareholders' equity	**5,591,061**	5,174,674
Total liabilities and equity	**$ 32,806,614**	$ 32,261,271

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

Combined Statements of Income

(unaudited)

(dollars in thousands)	**For the three months ended September 30, 2014**	**2013**	**For the nine months ended September 30, 2014**	**2013**
Interest Income				
Investments	**$ 32,048**	$ 36,692	**$100,797**	$119,189
Loans	**280,650**	279,233	**824,407**	825,160
Total interest income	**312,698**	315,925	**925,204**	944,349
Interest Expense	**51,376**	50,865	**156,363**	144,413
Net interest income	**261,322**	265,060	**768,841**	799,936
Provision for (reversal of allowance for) loan losses	**(4,678)**	(3,980)	**(7,338)**	4,431
Net interest income after provision for (reversal of allowance for) loan losses	**266,000**	269,040	**776,179**	795,505
Noninterest Income				
Loan fees	**6,455**	7,545	**21,251**	25,100
Fees for financially related services	**3,324**	3,192	**6,017**	6,371
Building lease income	**891**	1,149	**2,584**	3,376
Total other-than-temporary impairment losses	**(60)**	109	**(134)**	(1,427)
Portion of loss recognized in other comprehensive income	**(54)**	—	**(1,432)**	(827)
Net other-than-temporary impairment losses	**(114)**	109	**(1,566)**	(2,254)
Gains (losses) on investments, net	**—**	—	**149**	7,592
Gains (losses) on called debt	**(506)**	(115)	**(5,721)**	(4,117)
Gains (losses) on other transactions	**1,527**	898	**4,719**	3,445
Other noninterest income	**557**	800	**4,428**	5,596
Total noninterest income	**12,134**	13,578	**31,861**	45,109
Noninterest Expenses				
Salaries and employee benefits	**67,057**	67,100	**206,460**	204,114
Occupancy and equipment	**10,162**	9,528	**30,082**	27,550
Insurance Fund premiums	**6,420**	5,331	**18,533**	14,234
Other operating expenses	**27,161**	27,055	**82,366**	80,806
Losses (gains) from other property owned	**(2,329)**	(4,113)	**(2,457)**	9,132
Total noninterest expenses	**108,471**	104,901	**334,984**	335,836
Income before income taxes	**169,663**	177,717	**473,056**	504,778
Provision for income taxes	**565**	349	**1,475**	741
Net income	**$169,098**	$177,368	**$471,581**	$504,037

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

Combined Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	**For the three months ended September 30, 2014**	**2013**	**For the nine months ended September 30, 2014**	**2013**
Net income	**$ 169,098**	$ 177,368	**$ 471,581**	$ 504,037
Other comprehensive income net of tax:				
Unrealized gains (losses) on investments:				
Other-than-temporarily impaired	**5,145**	78,329	**14,566**	14,028
Not other-than-temporarily impaired	**(3,442)**	(110,864)	**(2,233)**	(102,328)
Change in value of cash flow hedges	**(214)**	(242)	**(668)**	(943)
Employee benefit plans adjustments	**5,096**	8,173	**15,289**	24,518
Other comprehensive income (Note 5)	**6,585**	(24,604)	**26,954**	(64,725)
Comprehensive income	**$ 175,683**	$ 152,764	**$ 498,535**	$ 439,312

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

Combined Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Protected Borrower Equity	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Retained Earnings: Allocated	Retained Earnings: Unallocated	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2012	$ 275,250	$ 1,351	$ 157,260	$ 60,270	$ 1,531,077	$ 3,076,113	$ (213,502)	$ 4,887,819
Comprehensive income						504,037	(64,725)	439,312
Protected borrower equity retired		(347)						(347)
Capital stock/participation certificates issued (retired), net			4,702					4,702
Dividends declared/paid			317			(460)		(143)
Dividends paid on perpetual preferred stock						(5,908)		(5,908)
Redemption of perpetual preferred stock (Note 5)	(150,000)							(150,000)
Patronage distribution:								
Cash patronage						(7,575)		(7,575)
Nonqualified allocated retained earnings					5,980	(5,980)		—
Retained earnings retired					(63,103)	136		(62,967)
Patronage distribution adjustment					907	533		1,440
Balance at September 30, 2013	$ 125,250	$ 1,004	$ 162,279	$ 60,270	$ 1,474,861	$ 3,560,896	$ (278,227)	$ 5,106,333
Balance at December 31, 2013	$ 125,250	$ 901	$ 156,382	$ 60,270	$ 1,693,689	$ 3,313,471	$ (175,289)	$ 5,174,674
Comprehensive income						**471,581**	**26,954**	**498,535**
Protected borrower equity retired		**(84)**						**(84)**
Capital stock/participation certificates issued (retired), net			**4,283**					**4,283**
Dividends declared/paid			**338**			**(485)**		**(147)**
Dividends paid on perpetual preferred stock						**(1,297)**		**(1,297)**
Patronage distribution:								
Cash patronage						**(14,250)**		**(14,250)**
Retained earnings retired					**(70,587)**	**67**		**(70,520)**
Patronage distribution adjustment			**(5)**		**610**	**(738)**		**(133)**
Balance at September 30, 2014	**$ 125,250**	**$ 817**	**$ 160,998**	**$ 60,270**	**$ 1,623,712**	**$ 3,768,349**	**$ (148,335)**	**$ 5,591,061**

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

Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the nine months ended September 30, 2014	2013
Cash flows from operating activities:		
Net income	**$ 471,581**	$ 504,037
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	**13,754**	12,762
Amortization of net deferred loan (fees) costs and premium amortization (discount accretion)	**(2,817)**	(6,492)
Premium amortization (discount accretion) on investment securities	**7,552**	7,700
(Premium amortization) discount accretion on bonds and notes	**4,881**	5,075
Amortization (accretion) of yield mark resulting from merger	**(2,137)**	(4,111)
Provision for loan losses	**(7,338)**	4,431
(Gains) losses on other property owned	**(5,160)**	7,319
Net impairment losses on investments	**1,566**	2,254
(Gains) losses on investments, net	**(149)**	(7,592)
(Gains) losses on other transactions	**(4,719)**	(3,445)
Net change in loans held for sale	**7,166**	15,524
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	**(45,481)**	(32,794)
(Increase) decrease in accounts receivable	**(5,424)**	24,185
(Increase) decrease in other assets	**(2,492)**	(3,428)
Increase (decrease) in accrued interest payable	**(7,383)**	5,133
Increase (decrease) in accounts payable	**9,669**	3,997
Increase (decrease) in other liabilities	**41,034**	26,537
Total adjustments	**2,522**	57,055
Net cash provided by (used in) operating activities	**474,103**	561,092
Cash flows from investing activities:		
Investment securities purchased	**(1,271,526)**	(1,507,572)
Proceeds from investment securities sold or matured	**1,079,412**	1,697,118
Net (increase) decrease in loans	**(879,551)**	(230,047)
(Increase) decrease in investments in other Farm Credit System institutions	**55**	(122)
Proceeds from payments received on other investments	**83,954**	83,954
Purchase of premises and equipment, net	**(32,513)**	(18,404)
Proceeds from sale of premises and equipment, net	**1,511**	1,341
Proceeds from sale of other property owned	**50,137**	53,340
Net cash provided by (used in) investing activities	**(968,521)**	79,608
Cash flows from financing activities:		
Bonds and notes issued	**17,334,234**	16,649,595
Bonds and notes retired	**(17,089,398)**	(16,948,884)
Net increase (decrease) in advanced conditional payments	**(842)**	7,680
Protected borrower equity retired	**(84)**	(347)
Capital stock and participation certificates issued/retired, net	**4,283**	4,702
Patronage refunds and dividends paid	**(151,423)**	(97,167)
Redemption of perpetual preferred stock	**—**	(150,000)
Dividends paid on perpetual preferred stock	**(1,297)**	(5,908)
Retained earnings retired	**(70,520)**	(62,967)
Net cash provided by (used in) financing activities	**24,953**	(603,296)
Net increase (decrease) in cash and cash equivalents	**(469,465)**	37,404
Cash and cash equivalents, beginning of period	**1,230,374**	925,448
Cash and cash equivalents, end of period	**$ 760,909**	$ 962,852
Supplemental schedule of non-cash investing and financing activities:		
Financed sales of other property owned	**$ 2,726**	$ 7,084
Receipt of property in settlement of loans	**33,748**	49,113
Change in unrealized gains (losses) on investments, net	**12,333**	(88,300)
Employee benefit plans adjustments	**(15,289)**	(24,518)
Non-cash changes related to interest rate hedging activities:		
Increase (decrease) in bonds and notes	**$ (8,506)**	$ (11,011)
Decrease (increase) in other assets	**8,506**	11,011
Supplemental information:		
Interest paid	**$ 159,172**	$ 134,922
Taxes paid, net	**1,551**	514

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

Notes to the Combined Financial Statements

(unaudited)

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

Organization

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

Basis of Presentation

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

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

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

Significant Accounting Policies

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

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

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

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

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

Recently Issued Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-15, "Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." The Update is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Under Generally Accepted Accounting Principles (GAAP), financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. Financial reporting under this presumption is commonly referred to as the going concern basis of accounting. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. Currently, GAAP lacks guidance about management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern or to provide related footnote disclosures. The Update provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The amendments in this Update apply to all companies and not-for-profit organizations and become effective in the annual period ending after December 15, 2016, with early application permitted.

In August 2014, the FASB issued ASU 2014-14, "Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure." Currently, there is diversity in practice related to how creditors classify certain government-guaranteed mortgage loans upon foreclosure. The amendments in this Update require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: 1. The loan has a government guarantee that is not separable from the loan before foreclosure; 2. At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; 3. At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this Update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For all other entities, the amendments in this Update are effective for annual periods ending after December 15, 2015, and interim periods beginning after December 15, 2015.

In June 2014, the FASB issued ASU 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures," which changes the accounting for repurchase-to-maturity transactions and repurchase financing arrangements. It also requires enhanced disclosures about repurchase agreements and other similar transactions. The new guidance aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements such that, these transactions would all be accounted for as secured borrowings. The accounting changes in this Update are effective for public companies for the first interim or annual period beginning after December 15, 2014. In addition, for public companies, the disclosure for certain transactions accounted for as a sale is effective for the first interim or annual period beginning on or after December 15, 2014, and the disclosure for transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. For all other entities, all changes are effective for annual periods beginning after December 15, 2014, and interim periods beginning after December 15, 2015. Earlier application for a public company is prohibited, but all other companies and organizations may elect to apply the requirements for interim periods beginning after December 15, 2014.

In May 2014 the FASB, responsible for U.S. Generally Accepted Accounting Principles (U.S. GAAP), and the International Accounting Standards Board (IASB), responsible for International Financial Reporting Standards (IFRS), jointly issued converged standards on the recognition of revenue from contracts with customers. Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)" and IFRS 15 "Revenue from Contracts with Customers" are intended to improve the financial reporting of revenue and comparability of the top line in financial statements globally and supersede substantially all previous revenue recognition guidance. The core principle of the new standards is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. Because of the pervasive nature of the new guidance, the boards have established a joint transition resource group in order to aid transition to the new standard. For public entities reporting under U.S. GAAP, the amendments in the Update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. For nonpublic entities, the amendments are effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. A nonpublic entity may elect to adopt this guidance earlier under certain circumstances. The amendments are to be applied retrospectively. The District has identified ancillary revenues that will be subject to this guidance. However, because financial instruments are not within the scope of the guidance, it is expected that adoption will not have a material impact on the District's financial condition or results of operations, but may result in additional disclosures.

In April 2014, the FASB issued ASU 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." The amendments in this Update change the requirements for reporting discontinued operations in Subtopic 205-20. A discontinued operation may include a component of an entity or a group of components of an entity, or a business or nonprofit activity. A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations only if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. A public business entity and a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market should apply the amendments in this Update prospectively to both of the following: (1) All disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years and (2) All businesses or nonprofit activities that, on acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years.

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

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

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

Note 2 — Loans and Allowance for Loan Losses

For a complete description of the District's accounting for loans (including impaired loans and the allowance for loan losses) and definitions of loan types, see the 2013 Annual Report to Shareholders. Although aggregated in the District's combined financial statements, the allowance for loan losses of each District entity is particular to that institution and is not available to absorb losses realized by other District entities.

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

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

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

(dollars in thousands)	**September 30, 2014**	**December 31, 2013**
Real estate mortgage	$ 10,492,799	$ 10,268,260
Production and intermediate-term	7,582,138	7,479,455
Loans to cooperatives	288,874	241,023
Processing and marketing	1,415,457	1,091,648
Farm-related business	420,251	352,315
Communication	376,330	358,601
Energy and water/waste disposal	447,615	496,898
Rural residential real estate	2,929,038	2,833,416
Lease receivables	4,057	4,922
Loans to other financing institutions (OFIs)	100,712	83,116
Other (including Mission Related)	60,284	60,854
Total Loans	$ 24,117,555	$ 23,270,508

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

	September 30, 2014					
	Within Farm Credit System		**Outside Farm Credit System**		**Total**	
(dollars in thousands)	**Participations Purchased**	**Participations Sold**	**Participations Purchased**	**Participations Sold**	**Participations Purchased**	**Participations Sold**
Real estate mortgage	$ 180,261	$ 43,793	$ 70,134	$ 14,705	$ 250,395	$ 58,498
Production and intermediate-term	472,922	338,729	523,914	18,964	996,836	357,693
Loans to cooperatives	248,548	–	12,873	–	261,421	–
Processing and marketing	629,162	56,240	673,014	–	1,302,176	56,240
Farm-related business	140,539	1,764	84,578	–	225,117	1,764
Communication	365,562	–	9,875	–	375,437	–
Energy and water/waste disposal	442,818	–	6,611	–	449,429	–
Rural residential real estate	–	–	2,261	–	2,261	–
Lease receivables	1,969	–	–	–	1,969	–
Other (including Mission Related)	12,000	–	7,538	–	19,538	–
Total	$ 2,493,781	$ 440,526	$ 1,390,798	$ 33,669	$ 3,884,579	$ 474,195

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

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

	September 30, 2014			
(dollars in thousands)	Due less than 1 year	Due 1 through 5 years	Due after 5 years	Total
Real estate mortgage	$ 539,322	$ 2,486,864	$ 7,466,613	$ 10,492,799
Production and intermediate-term	2,200,500	3,164,344	2,217,294	7,582,138
Loans to cooperatives	65,837	153,934	69,103	288,874
Processing and marketing	96,913	766,571	551,973	1,415,457
Farm-related business	42,117	262,901	115,233	420,251
Communication	44,074	258,004	74,252	376,330
Energy and water/waste disposal	48,061	133,326	266,228	447,615
Rural residential real estate	27,691	72,571	2,828,776	2,929,038
Lease receivables	2,406	1,651	–	4,057
Loans to OFIs	55,634	39,628	5,450	100,712
Other (including Mission Related)	1,106	9,491	49,687	60,284
Total Loans	$ 3,123,661	$ 7,349,285	$ 13,644,609	$ 24,117,555
Percentage	12.95%	30.47%	56.58%	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:

	September 30, 2014	December 31, 2013
Real estate mortgage:		
Acceptable	93.12%	91.94%
OAEM	3.03	3.71
Substandard/doubtful/loss	3.85	4.35
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	91.58%	89.77%
OAEM	4.64	4.90
Substandard/doubtful/loss	3.78	5.33
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	99.64%	99.94%
OAEM	0.26	0.06
Substandard/doubtful/loss	0.10	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	97.56%	97.00%
OAEM	1.67	1.48
Substandard/doubtful/loss	0.77	1.52
	100.00%	100.00%
Farm-related business:		
Acceptable	97.95%	96.78%
OAEM	1.40	2.03
Substandard/doubtful/loss	0.65	1.19
	100.00%	100.00%
Communication:		
Acceptable	97.85%	100.00%
OAEM	2.15	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	September 30, 2014	December 31, 2013
Energy and water/waste disposal:		
Acceptable	94.78%	99.95%
OAEM	5.13	–
Substandard/doubtful/loss	0.09	0.05
	100.00%	100.00%
Rural residential real estate:		
Acceptable	99.20%	99.08%
OAEM	0.29	0.29
Substandard/doubtful/loss	0.51	0.63
	100.00%	100.00%
Lease receivables:		
Acceptable	96.22%	96.42%
OAEM	3.36	3.10
Substandard/doubtful/loss	0.42	0.48
	100.00%	100.00%
Loans to OFIs:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Other (including Mission Related):		
Acceptable	85.71%	85.05%
OAEM	5.18	5.25
Substandard/doubtful/loss	9.11	9.70
	100.00%	100.00%
Total Loans:		
Acceptable	93.91%	92.81%
OAEM	3.08	3.36
Substandard/doubtful/loss	3.01	3.83
	100.00%	100.00%

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

	September 30, 2014					
(dollars in thousands)	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 52,315	$ 68,448	$ 120,763	$ 10,479,786	$ 10,600,549	$ 1,214
Production and intermediate-term	29,864	70,336	100,200	7,565,128	7,665,328	387
Loans to cooperatives	–	–	–	290,032	290,032	–
Processing and marketing	1,412	1,567	2,979	1,415,429	1,418,408	–
Farm-related business	1,143	1	1,144	420,943	422,087	–
Communication	29	–	29	376,567	376,596	–
Energy and water/waste disposal	–	–	–	449,276	449,276	–
Rural residential real estate	41,131	5,295	46,426	2,893,759	2,940,185	2,145
Lease receivables	–	17	17	4,045	4,062	–
Loans to OFIs	–	–	–	100,853	100,853	–
Other (including Mission Related)	–	3,346	3,346	57,479	60,825	–
Total	$ 125,894	$ 149,010	$ 274,904	$ 24,053,297	$ 24,328,201	$ 3,746

	December 31, 2013					
(dollars in thousands)	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 62,733	$ 110,112	$ 172,845	$ 10,177,077	$ 10,349,922	$ 1,498
Production and intermediate-term	42,101	79,585	121,686	7,422,605	7,544,291	388
Loans to cooperatives	16	–	16	241,753	241,769	–
Processing and marketing	148	1,517	1,665	1,092,564	1,094,229	–
Farm-related business	405	13	418	353,752	354,170	–
Communication	–	–	–	358,880	358,880	–
Energy and water/waste disposal	–	–	–	497,996	497,996	–
Rural residential real estate	45,437	5,871	51,308	2,792,361	2,843,669	1,651
Lease receivables	–	24	24	4,903	4,927	–
Loans to OFIs	–	–	–	83,228	83,228	–
Other (including Mission Related)	–	3,800	3,800	57,685	61,485	–
Total	$ 150,840	$ 200,922	$ 351,762	$ 23,082,804	$ 23,434,566	$ 3,537

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

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

(dollars in thousands)	September 30, 2014	December 31, 2013
Nonaccrual loans:		
Real estate mortgage	$ 180,876	$ 218,030
Production and intermediate-term	125,192	172,394
Processing and marketing	6,757	6,423
Farm-related business	3,506	3,747
Energy and water/waste disposal	425	234
Rural residential real estate	7,604	9,531
Lease receivables	17	24
Other (including Mission Related)	3,341	3,794
Total	$ 327,718	$ 414,177
Accruing restructured loans:		
Real estate mortgage	$ 59,104	$ 60,376
Production and intermediate-term	55,647	48,951
Farm-related business	771	815
Rural residential real estate	2,463	1,835
Other (including Mission Related)	9,684	9,879
Total	$ 127,669	$ 121,856
Accruing loans 90 days or more past due:		
Real estate mortgage	$ 1,214	$ 1,498
Production and intermediate-term	387	388
Rural residential real estate	2,145	1,651
Total	$ 3,746	$ 3,537
Total nonperforming loans	$ 459,133	$ 539,570
Other property owned	54,846	68,801
Total nonperforming assets	$ 513,979	$ 608,371
Nonaccrual loans as a percentage of total loans	1.36%	1.78%
Nonperforming assets as a percentage of total loans and other property owned	2.13%	2.61%
Nonperforming assets as a percentage of capital	9.19%	11.76%

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

(dollars in thousands)	September 30, 2014	December 31, 2013
Impaired nonaccrual loans:		
Current as to principal and interest	$ 163,995	$ 179,231
Past due	163,723	234,946
Total	327,718	414,177
Impaired accrual loans:		
Restructured	127,669	121,856
90 days or more past due	3,746	3,537
Total	131,415	125,393
Total impaired loans	$ 459,133	$ 539,570

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

	September 30, 2014			Quarter Ended September 30, 2014		Nine Months Ended September 30, 2014	
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	$ 67,663	$ 91,035	$ 16,360	$ 66,885	$ 515	$ 69,520	$ 1,607
Production and intermediate-term	64,493	86,545	21,594	65,302	592	70,497	1,898
Loans to cooperatives	–	–	–	–	–	–	–
Processing and marketing	5,913	5,884	742	6,045	77	6,017	203
Farm-related business	3,461	3,932	369	3,537	40	3,539	111
Energy and water/waste disposal	425	443	425	434	5	434	14
Rural residential real estate	3,403	4,187	932	3,577	29	3,634	103
Lease receivables	–	–	–	–	–	–	–
Other (including Mission Related)	11,282	11,246	716	10,859	134	10,881	391
Total	$ 156,640	$ 203,272	$ 41,138	$ 156,639	$ 1,392	$ 164,522	$ 4,327
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 173,531	$ 230,607	$ –	$ 178,425	$ 1,642	$ 187,363	$ 4,652
Production and intermediate-term	116,733	161,701	–	114,539	1,013	126,424	3,349
Loans to cooperatives	–	32	–	–	–	–	–
Processing and marketing	844	6,511	–	864	28	370	29
Farm-related business	816	873	–	834	9	906	26
Energy and water/waste disposal	–	–	–	–	–	4	–
Rural residential real estate	8,809	10,543	–	8,774	90	10,857	292
Lease receivables	17	70	–	17	–	20	1
Other (including Mission Related)	1,743	1,833	–	2,429	16	2,460	45
Total	$ 302,493	$ 412,170	$ –	$ 305,882	$ 2,798	$ 328,404	$ 8,394
Total impaired loans:							
Real estate mortgage	$ 241,194	$ 321,642	$ 16,360	$ 245,310	$ 2,157	$ 256,883	$ 6,259
Production and intermediate-term	181,226	248,246	21,594	179,841	1,605	196,921	5,247
Loans to cooperatives	–	32	–	–	–	–	–
Processing and marketing	6,757	12,395	742	6,909	105	6,387	232
Farm-related business	4,277	4,805	369	4,371	49	4,445	137
Energy and water/waste disposal	425	443	425	434	5	438	14
Rural residential real estate	12,212	14,730	932	12,351	119	14,491	395
Lease receivables	17	70	–	17	–	20	1
Other (including Mission Related)	13,025	13,079	716	13,288	150	13,341	436
Total	$ 459,133	$ 615,442	$ 41,138	$ 462,521	$ 4,190	$ 492,926	$ 12,721

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

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

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

(dollars in thousands)	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Lease Receivables	Other Loans (including Mission Related)	Total
Activity related to the allowance for credit losses:									
Balance at June 30, 2014	$ 72,040	$ 92,022	$ 10,037	$ 1,294	$ 1,530	$ 8,591	$ 76	$ 1,058	$ 186,648
Charge-offs	(2,167)	(1,892)	(1)	–	–	(633)	–	–	(4,693)
Recoveries	3,200	1,353	(552)	–	–	65	–	13	4,079
Provision for loan losses	(3,857)	(2,178)	408	71	(55)	947	(4)	(10)	(4,678)
Balance at September 30, 2014	$ 69,216	$ 89,305	$ 9,892	$ 1,365	$ 1,475	$ 8,970	$ 72	$ 1,061	$ 181,356
Balance at December 31, 2013	$ 74,933	$ 92,180	$ 10,049	$ 1,065	$ 1,427	$ 6,487	$ 91	$ 1,205	$ 187,437
Charge-offs	(5,611)	(6,446)	(2)	–	–	(831)	–	–	(12,890)
Recoveries	6,980	5,173	1,604	–	–	127	–	263	14,147
Provision for loan losses	(7,086)	(1,602)	(1,759)	300	48	3,187	(19)	(407)	(7,338)
Balance at September 30, 2014	$ 69,216	$ 89,305	$ 9,892	$ 1,365	$ 1,475	$ 8,970	$ 72	$ 1,061	$ 181,356
Balance at June 30, 2013	$ 74,723	$ 116,754	$ 12,338	$ 810	$ 1,604	$ 4,494	$ 89	$ 557	$ 211,369
Charge-offs	(2,952)	(20,435)	(4,243)	–	–	(542)	–	(398)	(28,570)
Recoveries	4,678	667	230	–	–	20	–	279	5,874
Provision for loan losses	(6,545)	827	1,330	134	(38)	739	9	(436)	(3,980)
Loan type reclassification	(1,205)	318	439	–	(2)	–	–	450	–
Balance at September 30, 2013	$ 68,699	$ 98,131	$ 10,094	$ 944	$ 1,564	$ 4,711	$ 98	$ 452	$ 184,693
Balance at December 31, 2012	$ 76,832	$ 110,409	$ 18,990	$ 863	$ 1,364	$ 3,968	$ 40	$ 1,034	$ 213,500
Charge-offs	(10,408)	(27,726)	(8,878)	–	–	(824)	(5)	(398)	(48,239)
Recoveries	10,023	3,467	755	–	–	430	–	326	15,001
Provision for loan losses	(6,990)	11,663	(1,212)	81	263	1,137	63	(574)	4,431
Loan type reclassification	(758)	318	439	–	(63)	–	–	64	–
Balance at September 30, 2013	$ 68,699	$ 98,131	$ 10,094	$ 944	$ 1,564	$ 4,711	$ 98	$ 452	$ 184,693
Allowance on loans evaluated for impairment:									
Individually	$ 16,203	$ 21,594	$ 1,111	$ –	$ 425	$ 932	$ –	$ 716	$ 40,981
Collectively	52,856	67,711	8,781	1,365	1,050	8,038	72	345	140,218
Loans acquired with deteriorated credit quality	157	–	–	–	–	–	–	–	157
Balance at September 30, 2014	$ 69,216	$ 89,305	$ 9,892	$ 1,365	$ 1,475	$ 8,970	$ 72	$ 1,061	$ 181,356
Individually	$ 19,758	$ 23,433	$ 1,360	$ –	$ 234	$ 1,252	$ –	$ 856	$ 46,893
Collectively	54,987	68,374	8,689	1,065	1,193	5,235	91	349	139,983
Loans acquired with deteriorated credit quality	188	373	–	–	–	–	–	–	561
Balance at December 31, 2013	$ 74,933	$ 92,180	$ 10,049	$ 1,065	$ 1,427	$ 6,487	$ 91	$ 1,205	$ 187,437
Recorded investment in loans evaluated for impairment:									
Individually	$ 289,858	$ 149,137	$ 10,930	$ –	$ 425	$ 2,013,597	$ 155	$ 7,860	$ 2,471,962
Collectively	10,306,407	7,514,957	2,119,597	376,596	448,851	926,428	3,907	153,818	21,850,561
Loans acquired with deteriorated credit quality	4,284	1,234	–	–	–	160	–	–	5,678
Balance at September 30, 2014	$ 10,600,549	$ 7,665,328	$ 2,130,527	$ 376,596	$ 449,276	$ 2,940,185	$ 4,062	$ 161,678	$ 24,328,201
Individually	$ 342,341	$ 253,785	$ 11,901	$ –	$ 234	$ 2,316,950	$ 323	$ 8,231	$ 2,933,765
Collectively	9,998,917	7,285,303	1,678,267	358,880	497,762	526,536	4,604	136,482	20,486,751
Loans acquired with deteriorated credit quality	8,664	5,203	–	–	–	183	–	–	14,050
Balance at December 31, 2013	$ 10,349,922	$ 7,544,291	$ 1,690,168	$ 358,880	$ 497,996	$ 2,843,669	$ 4,927	$ 144,713	$ 23,434,566

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. The tables do not include purchased credit impaired loans.

	Three months ended September 30, 2014				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification					
Real estate mortgage	$ 2,718	$ 6,030	$ –	$ 8,748	
Production and intermediate-term	263	13,052	2	13,317	
Total	$ 2,981	$ 19,082	$ 2	$ 22,065	
Post-modification					
Real estate mortgage	$ 2,764	$ 4,696	$ –	$ 7,460	$ –
Production and intermediate-term	285	12,623	2	12,910	–
Total	$ 3,049	$ 17,319	$ 2	$ 20,370	$ –

	Nine months ended September 30, 2014				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification					
Real estate mortgage	$ 4,533	$ 16,863	$ –	$ 21,396	
Production and intermediate-term	1,148	34,119	2	35,269	
Rural residential real estate	326	131	93	550	
Total	$ 6,007	$ 51,113	$ 95	$ 57,215	
Post-modification					
Real estate mortgage	$ 5,211	$ 15,332	$ –	$ 20,543	$ (10)
Production and intermediate-term	1,170	32,805	2	33,977	(1)
Rural residential real estate	325	114	93	532	(4)
Total	$ 6,706	$ 48,251	$ 95	$ 55,052	$ (15)

	Three months ended September 30, 2013				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification					
Real estate mortgage	$ 22,101	$ 3,915	$ 5,754	$ 31,770	
Production and intermediate-term	23,584	9,817	679	34,080	
Rural residential real estate	635	–	–	635	
Total	$ 46,320	$ 13,732	$ 6,433	$ 66,485	
Post-modification					
Real estate mortgage	$ 12,223	$ 3,745	$ 5,815	$ 21,783	$ (7,824)
Production and intermediate-term	17,922	9,858	470	28,250	(7,260)
Rural residential real estate	615	–	–	615	–
Total	$ 30,760	$ 13,603	$ 6,285	$ 50,648	$ (15,084)

	Nine months ended September 30, 2013				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification					
Real estate mortgage	$ 30,783	$ 18,340	$ 6,931	$ 56,054	
Production and intermediate-term	23,862	26,452	1,868	52,182	
Rural residential real estate	904	–	–	904	
Total	$ 55,549	$ 44,792	$ 8,799	$ 109,140	
Post-modification					
Real estate mortgage	$ 20,909	$ 18,358	$ 6,984	$ 46,251	$ (7,835)
Production and intermediate-term	18,200	26,527	1,653	46,380	(8,155)
Rural residential real estate	885	–	–	885	–
Total	$ 39,994	$ 44,885	$ 8,637	$ 93,516	$ (15,990)

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 September 30,		Nine months ended September 30,	
Defaulted Troubled Debt Restructurings	2014	2013	2014	2013
Real estate mortgage	$ 943	$ 3,920	$ 2,105	$ 4,983
Production and intermediate-term	2,063	3,851	4,201	8,877
Processing and marketing	–	7,456	–	27,042
Rural residential real estate	77	–	143	–
Total	$ 3,083	$ 15,227	$ 6,449	$ 40,902

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	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Real estate mortgage	$ 132,653	$ 146,018	$ 73,549	$ 85,642
Production and intermediate-term	109,020	115,909	53,373	66,958
Processing and marketing	–	24	–	24
Farm-related business	3,884	4,107	3,113	3,292
Rural residential real estate	4,648	3,605	2,185	1,770
Other (including Mission Related)	9,684	9,879	–	–
Total Loans	$ 259,889	$ 279,542	$ 132,220	$ 157,686
Additional commitments to lend	$ 8,121	$ 5,770		

Purchased Credit Impaired Loans

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

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

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

In connection with past mergers, certain Associations purchased impaired loans that are not accounted for as debt securities. The carrying amounts of those loans included in the balance sheet amounts of loans receivable at September 30, 2014, were as follows.

(dollars in thousands)		
Real estate mortgage	$	4,284
Production and intermediate-term		1,234
Rural residential real estate		160
Total Loans	$	5,678

At September 30, 2014, the allowance for loan losses related to these loans was $157 thousand compared with $561 thousand at December 31, 2013. During the three and nine months ended September 30, 2014, provision for loan losses on these loans was an expense reversal of $19 thousand and an expense reversal of $845 thousand, respectively, compared with expense of $301 thousand and an expense reversal of $567 thousand for the three and nine month periods ended September 30, 2013. See above for a summary of changes in the total allowance for loan losses for the period ended September 30, 2014.

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

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

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

Note 3 — Investment Securities

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

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

The FCA considers a non-agency security ineligible if it falls below AAA/Aaa credit rating criteria and requires Farm Credit System (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 September 30, 2014 had a fair value of $159.1 million and $38.7 million, respectively. The FCA requires System institutions to provide notification when a security becomes ineligible.

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

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

In its Conditions of Approval for the program, the FCA considers a Rural America Bond ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9. The FCA requires System institutions to provide notification when a security becomes ineligible. At September 30, 2014, the District held seven 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 nine months of 2014, proceeds from sales of investments were $7.6 million and realized gains were $149 thousand. During the first nine 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:

	September 30, 2014				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Guaranteed	$ 3,979,673	$ 99,084	$ (8,923)	$ 4,069,834	1.86%
U.S. Govt. Agency Guaranteed	2,302,420	21,471	(7,715)	2,316,176	0.87
Non-Agency CMOs (a)	178,571	29	(18,315)	160,285	0.63
Asset-Backed Securities (a)	166,141	25,809	(439)	191,511	1.16
RABs and Other (a)	31,886	2,001	(803)	33,084	6.13
Total	$ 6,658,691	$ 148,394	$ (36,195)	$ 6,770,890	1.49%

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

(a) Gross unrealized losses include noncredit related other-than-temporary impairment included in Accumulated Other Comprehensive Income (AOCI) of $12.7 million for Non-Agency CMOs, $0 for Asset-Backed Securities, and $100 thousand for RABs and Other.

(b) Gross unrealized losses include noncredit related other-than temporary impairment included in AOCI of $19.7 million for Non-Agency CMOs, $0 for Asset-Backed Securities, and $347 thousand for RABs and Other.

Held-to-maturity

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

	September 30, 2014				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	$ 468,112	$ 21,264	$ (9,362)	$ 480,014	3.82%
Asset-Backed Securities	45,006	902	(92)	45,816	1.99
RABs and Other (a)	206,155	12,344	(2,233)	216,266	5.63
Total	$ 719,273	$ 34,510	$ (11,687)	$ 742,096	4.22%

	December 31, 2013				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	$ 449,938	$ 22,065	$ (16,819)	$ 455,184	4.23%
Asset-Backed Securities	53,782	1,190	(172)	54,800	1.58
RABs and Other (b)	187,499	9,038	(5,659)	190,878	5.93
Total	$ 691,219	$ 32,293	$ (22,650)	$ 700,862	4.48%

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

A summary of the contractual maturity, estimated fair value and amortized cost of investment securities at September 30, 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	$ –	– %	$ 35	0.36 %	$ 50,899	0.65 %	$ 4,018,900	1.88 %	$ 4,069,834	1.86 %
U.S. Govt. Agency Guaranteed	2,516	4.82	156,754	1.40	259,020	0.67	1,897,886	0.84	2,316,176	0.87
Non-Agency CMOs	–	–	–	–	1,188	0.82	159,097	0.63	160,285	0.63
Asset-Backed Securities	–	–	117,962	0.53	34,865	1.26	38,684	6.58	191,511	1.16
RABs and Other	–	–	916	6.10	–	–	32,168	6.13	33,084	6.13
Total fair value	$ 2,516	4.82 %	$ 275,667	1.04 %	$ 345,972	0.73 %	$ 6,146,735	1.55 %	$ 6,770,890	1.49 %
Total amortized cost	$ 2,441		$ 276,203		$ 345,499		$ 6,034,548		$ 6,658,691	

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	$ –	– %	$ 450	4.64 %	$ –	– %	$ 467,662	3.82 %	$ 468,112	3.82 %
Asset-Backed Securities	778	6.26	29,981	1.68	5,443	1.91	8,804	2.69	45,006	1.99
RABs and Other	37,169	4.88	21,692	5.70	36,633	5.72	110,661	5.83	206,155	5.63
Total amortized cost	$ 37,947	4.91 %	$ 52,123	3.38 %	$ 42,076	5.23 %	$ 587,127	4.18 %	$ 719,273	4.22 %
Total fair value	$ 38,924		$ 53,997		$ 44,631		$ 604,544		$ 742,096	

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.

	September 30, 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	$ 835,112	$ (2,566)	$ 599,532	$ (6,357)	$ 1,434,644	$ (8,923)
U.S. Govt. Agency Guaranteed	416,412	(1,368)	866,867	(15,709)	1,283,279	(17,077)
Non-Agency CMOs	14,317	(343)	144,923	(17,972)	159,240	(18,315)
Asset-Backed Securities	68,147	(157)	7,499	(374)	75,646	(531)
RABs and Other	6,741	(167)	48,763	(2,869)	55,504	(3,036)
Total	$ 1,340,729	$ (4,601)	$ 1,667,584	$ (43,281)	$ 3,008,313	$ (47,882)

	December 31, 2013					
	Less than 12 Months		12 Months or Greater		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Guaranteed	$ 880,174	$ (4,540)	$ 146,638	$ (1,452)	$ 1,026,812	$ (5,992)
U.S. Govt. Agency Guaranteed	935,615	(23,928)	380,282	(7,354)	1,315,897	(31,282)
Non-Agency CMOs	–	–	173,289	(26,778)	173,289	(26,778)
Asset-Backed Securities	1,968	(17)	14,366	(838)	16,334	(855)
RABs and Other	79,497	(5,496)	10,909	(2,184)	90,406	(7,680)
Total	$ 1,897,254	$ (33,981)	$ 725,484	$ (38,606)	$ 2,622,738	$ (72,587)

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

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

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

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

Following are the assumptions used at:

	September 30, 2014	
Assumptions Used	**Mortgage-backed Securities**	**Asset-backed Securities**
Default rate by range	0.74% to 30.68%	6.76% to 48.55%
Prepayment rate by range	5.95% to 15.48%	5.30% to 11.77%
Loss severity by range	3.94% to 66.66%	60.95% 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 District has recognized $1.6 million of credit-related other-than-temporary impairment for 2014, which is included in Net Other-than-temporary Impairment Losses in the Combined Statements of Income. Since the District does not intend to sell these other-than-temporarily impaired debt securities and is not more likely than not to be required to sell before recovery, the total other-than temporary impairment is reflected in the Statements of Income with: (1) a net other-than-temporary impairment amount related to estimated credit loss, and (2) an amount relating to all other factors, recognized as a reclassification to or from Other Comprehensive Income.

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

	For the three months ended September 30,		For the nine months ended September 30,	
(dollars in thousands)	**2014**	**2013**	**2014**	**2013**
Amount related to credit loss-beginning balance	$ 61,213	$ 57,439	$ 60,071	$ 55,654
Additions for initial credit impairments	–	–	–	631
Additions for subsequent credit impairments	114	–	1,566	1,732
Reductions for increases in expected cash flows	(199)	(235)	(618)	(813)
Securities sold/settled/matured	–	–	109	–
Amount related to credit loss-ending balance	61,128	57,204	61,128	57,204
Life to date incurred credit losses	(21,012)	(19,257)	(21,012)	(19,257)
Remaining unrealized credit losses	$ 40,116	$ 37,947	$ 40,116	$ 37,947

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

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.

The following table provides a summary of AgFirst's participation in outstanding Systemwide Debt Securities, by maturity. Weighted average interest rates include the effect of related derivative financial instruments. The table does not include $213.8 million of intra-system obligations.

September 30, 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)			
One year or less	$ 5,653,977	0.21%	$ 3,768,253	0.13%	$ 9,422,230	0.18%
Greater than one year to two years	5,647,085	0.53	–	–	5,647,085	0.53
Greater than two years to three years	4,063,941	0.73	–	–	4,063,941	0.73
Greater than three years to four years	1,721,963	1.34	–	–	1,721,963	1.34
Greater than four years to five years	1,719,103	1.51	–	–	1,719,103	1.51
Greater than five years	3,891,769	2.35	–	–	3,891,769	2.35
Total	$ 22,697,838	0.93%	$ 3,768,253	0.13%	$ 26,466,091	0.82%

Discount notes are issued with maturities ranging from 1 to 365 days. The average maturity of discount notes at September 30, 2014 was 117 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 periods presented below:

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

	For the three months ended September 30,		For the nine months ended September 30,	
(dollars in thousands)	**2014**	**2013**	**2014**	**2013**
Investment Securities:				
Balance at beginning of period	$ 110,495	$ 124,629	$ 99,865	$ 180,394
Other comprehensive income before reclassifications	1,589	(32,426)	10,916	(82,962)
Amounts reclassified from AOCI	114	(109)	1,417	(5,338)
Net current period other comprehensive income	1,703	(32,535)	12,333	(88,300)
Balance at end of period	$ 112,198	$ 92,094	$ 112,198	$ 92,094
Cash Flow Hedges:				
Balance at beginning of period	$ (165)	$ 813	$ 289	$ 1,514
Other comprehensive income before reclassifications	65	–	157	–
Amounts reclassified from AOCI	(279)	(242)	(825)	(943)
Net current period other comprehensive income	(214)	(242)	(668)	(943)
Balance at end of period	$ (379)	$ 571	$ (379)	$ 571
Employee Benefit Plans:				
Balance at beginning of period	$ (265,250)	$ (379,065)	$ (275,443)	$ (395,410)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	5,096	8,173	15,289	24,518
Net current period other comprehensive income	5,096	8,173	15,289	24,518
Balance at end of period	$ (260,154)	$ (370,892)	$ (260,154)	$ (370,892)
Total Accumulated Other Comprehensive Income:				
Balance at beginning of period	$ (154,920)	$ (253,623)	$ (175,289)	$ (213,502)
Other comprehensive income before reclassifications	1,654	(32,426)	11,073	(82,962)
Amounts reclassified from AOCI	4,931	7,822	15,881	18,237
Net current period other comprehensive income	6,585	(24,604)	26,954	(64,725)
Balance at end of period	$ (148,335)	$ (278,227)	$ (148,335)	$ (278,227)

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

(dollars in thousands)	For the three months ended September 30,		For the nine months ended September 30,		
	2014	**2013**	**2014**	**2013**	**Income Statement Line Item**
Investment Securities:					
Sales gains & losses	$ –	$ –	$ 149	$ 7,592	Gains (losses) on investments, net
Holding gains & losses	(114)	109	(1,566)	(2,254)	Net other-than-temporary impairment
Net amounts reclassified	(114)	109	(1,417)	5,338	
Cash Flow Hedges:					
Interest income	214	242	668	943	See Note 11.
Noninterest income	65	–	157	–	See Note 11.
Net amounts reclassified	279	242	825	943	
Employee Benefit Plans:					
Periodic pension costs	(5,096)	(8,173)	(15,289)	(24,518)	See Note 7.
Net amounts reclassified	(5,096)	(8,173)	(15,289)	(24,518)	
Total reclassifications for period	$ (4,931)	$ (7,822)	$ (15,881)	$ (18,237)	

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

Note 6 — Fair Value Measurement

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

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

The classifications of the District's assets and liabilities within the fair value hierarchy are as follows:

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

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

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

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

The District had no transfers of assets or liabilities measured on a recurring basis into or out of Level 1 or Level 2 during the reporting period. For Level 3 assets and liabilities measured at fair value on a recurring basis, the tables below present a reconciliation from the opening balances to the closing balances, and any transfers into or out of Level 3.

(dollars in thousands)	**Asset-Backed Securities**	**Non-Agency CMOs**	**RABs and Other**
Balance at December 31, 2013	$ 38,798	$ 173,486	$ 41,286
Total gains or (losses) realized/unrealized:			
Included in earnings	–	(1,322)	(18)
Included in other comprehensive income	7,674	8,475	2,030
Purchases	–	–	–
Sales	–	–	(4,886)
Settlements	(7,788)	(20,354)	(5,328)
Transfers in and/or out of Level 3	–	–	–
Balance at September 30, 2014	$ 38,684	$ 160,285	$ 33,084

(dollars in thousands)	**Asset-Backed Securities**	**Non-Agency CMOs**	**RABs and Other**
Balance at December 31, 2012	$ 33,390	$ 204,699	$ 53,491
Total gains or (losses) realized/unrealized:			
Included in earnings	(28)	(1,705)	(292)
Included in other comprehensive income	7,457	11,407	(5,565)
Purchases	–	–	313
Sales	–	–	–
Settlements	(3,865)	(34,808)	(2,475)
Transfers in and/or out of Level 3	–	–	–
Balance at September 30, 2013	$ 36,954	$ 179,593	$ 45,472

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.

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Forward contracts – when-issued securities	$ –	Broker/Consensus pricing	Offered quotes	None outstanding
RABs and other	$ 33,084	Discounted cash flow	Risk adjusted spread	0.01% – 91.61%
Non-agency securities	$ 198,969	Vendor priced	**	
Impaired loans and other property owned	$ 478,485	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*
Other investments – RBIC	$ 439	Third party evaluation	Income, expense, capital	Not applicable

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

Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

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

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

Information about Other Financial Instrument Fair Value Measurements

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

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

	At or for the Nine Months Ended September 30, 2014					
(dollars in thousands)	**Total Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**	**Fair Value Effects On Earnings**
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. Guaranteed	$ 4,069,834	$ –	$ 4,069,834	$ –	$ 4,069,834	
U.S. Govt. Agency Guaranteed	2,316,176	–	2,316,176	–	2,316,176	
Non-Agency CMOs	160,285	–	–	160,285	160,285	
Asset-backed securities	191,511	–	152,827	38,684	191,511	
RABs and other	33,084	–	–	33,084	33,084	
Total investments available-for-sale	6,770,890	–	6,538,837	232,053	6,770,890	
Federal funds sold, securities purchased under resale agreements, and other	237,509	–	237,509	–	237,509	
Interest rate swaps and other derivative instruments	19,008	–	19,008	–	19,008	
Assets held in trust funds	19,213	19,213	–	–	19,213	
Recurring Assets	$ 7,046,620	$ 19,213	$ 6,795,354	$ 232,053	$ 7,046,620	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	–	–	–	–	–	
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 417,995	$ –	$ –	$ 417,995	$ 417,995	$ 7,575
Other property owned	54,846	–	–	60,489	60,489	5,160
Other Investments	439	–	–	439	439	–
Nonrecurring Assets	$ 473,280	$ –	$ –	$ 478,923	$ 478,923	$ 12,735
Other Financial Instruments						
Assets:						
Cash	$ 523,400	$ 523,400	$ –	$ –	$ 523,400	
Investments held to maturity	719,273	–	525,830	216,266	742,096	
Loans	23,526,506	–	–	23,553,394	23,553,394	
Other investments	–	–	–	–	–	
Other Financial Assets	$ 24,769,180	$ 523,400	$ 525,830	$ 23,769,660	$ 24,818,890	
Liabilities:						
Systemwide debt securities	$ 26,679,881	$ –	$ –	$ 26,605,292	$ 26,605,292	
Other Financial Liabilities	$ 26,679,881	$ –	$ –	$ 26,605,292	$ 26,605,292	

(dollars in thousands)	At or for the Year Ended December 31, 2013 Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. Guaranteed	$ 4,603,072	$ –	$ 4,603,072	$ –	$ 4,603,072	
U.S. Govt. Agency Guaranteed	1,747,620	–	1,747,620	–	1,747,620	
Non-Agency CMOs	173,486	–	–	173,486	173,486	
Asset-backed securities	38,798	–	–	38,798	38,798	
RABs and other	41,286	–	–	41,286	41,286	
Total investments available-for-sale	6,604,262	–	6,350,692	253,570	6,604,262	
Federal funds sold, securities purchased under resale agreements, and other	144,885	–	144,885	–	144,885	
Interest rate swaps and other derivative instruments	27,514	–	27,514	–	27,514	
Assets held in trust funds	17,547	17,547	–	–	17,547	
Recurring Assets	$ 6,794,208	$ 17,547	$ 6,523,091	$ 253,570	$ 6,794,208	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	–	–	–	–	–	
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 492,116	$ –	$ –	$ 492,116	$ 492,116	$ 3,797
Other property owned	68,801	–	–	75,936	75,936	(14,857)
Other investments	439	–	–	439	439	(1,133)
Nonrecurring Assets	$ 561,356	$ –	$ –	$ 568,491	$ 568,491	$ (12,193)
Other Financial Instruments						
Assets:						
Cash	$ 1,085,489	$ 1,085,489	$ –	$ –	$ 1,085,489	
Investments held to maturity	691,219	–	509,984	190,878	700,862	
Loans	22,597,789	–	–	22,495,644	22,495,644	
Other investments*	83,808	–	–	83,913	83,913	
Other Financial Assets	$ 24,458,305	$ 1,085,489	$ 509,984	$ 22,770,435	$ 24,365,908	
Liabilities:						
Systemwide debt securities	$ 26,426,104	$ –	$ –	$ 26,194,373	$ 26,194,373	
Other Financial Liabilities	$ 26,426,104	$ –	$ –	$ 26,194,373	$ 26,194,373	

**Final payments to financial institutions under these investment agreements occurred in 2014.*

Note 7 — Employee Benefit Plans

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

(dollars in thousands)	For the three months ended September 30, 2014	2013	For the nine months ended September 30, 2014	2013
Pension	$ 8,951	$ 12,390	$ 26,853	$ 37,170
401k	1,883	1,748	5,906	5,348
Other postretirement benefits	2,614	2,524	7,844	7,570
Total	$ 13,448	$ 16,662	$ 40,603	$ 50,088

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

(dollars in thousands)	**Actual YTD Through 9/30/14**	**Projected Contributions for Remainder of 2014**	**Projected Total Contributions 2014**
Pensions	$ 772	$ 46,552	$ 47,324
Other postretirement benefits	5,300	2,130	7,430
Total	$ 6,072	$ 48,682	$ 54,754

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

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

In May 2014, the AgFirst Plan Sponsor Committee voted to approve changes to certain employee benefit plans as follows:

(1) On January 1, 2015, the AgFirst Farm Credit Cash Balance Retirement Plan (Cash Balance Plan) will be frozen, employer contributions will cease, and the Cash Balance Plan will be closed to new entrants.
(2) In lieu of participation in and contributions to the Cash Balance Plan, additional employer contributions will be made to the Farm Credit Benefits Alliance 401(k) Plan.

The above changes are expected to become officially executed plan amendments in November 2014. The Cash Balance Plan will not be terminated on January 1, 2015, but is expected to be terminated in 2015 or 2016 once all necessary actions have been performed and approvals obtained. Participants in the Cash Balance Plan will continue to receive employer contributions to their hypothetical cash balance accounts through the end of 2014, at which time contributions will cease. Participants will continue receiving interest credits on the same basis as currently being provided until the Cash Balance Plan is terminated. Participants who are not already fully vested in their accounts will automatically become 100% vested on December 31, 2014. Following the termination of the Cash Balance Plan, vested benefits will be distributed to participants.

Beginning on January 1, 2015, for participants in the Cash Balance Plan and eligible employees hired on or after this date, an additional employer contribution will be made to the Farm Credit Benefits Alliance 401(k) Plan equal to 3% of the participants' eligible compensation.

Accounting guidance related to the curtailment of future benefit service under the Cash Balance Plan, as prescribed in ASC 715 "Compensation – Retirement Benefits," will apply if the plan amendments are officially executed as expected in mid-November 2014. This is not expected to have a material impact on the District's financial condition or results of operations.

Note 8 — Commitments and Contingent Liabilities

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

In the event a bank is unable to timely pay principal or interest on an insured debt obligation for which the bank is primarily liable, the Farm Credit System Insurance Corporation (FCSIC) must expend amounts in the Insurance Fund to the extent available to ensure the timely payment of principal and interest on the insured debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the banks on the obligation cannot be invoked until the amounts in the Insurance Fund have been exhausted. However, because of other mandatory and discretionary uses of the

Insurance Fund, there is no assurance that there will be sufficient funds to pay the principal or interest on the insured debt obligation.

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

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)	**9/30/14**	**12/31/13**
Total System bonds and notes	$ 214.352	$ 207.489
AgFirst bonds and notes	$ 26.466	$ 26.225

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

Note 9 — Additional Financial Information

Offsetting of Financial and Derivative Assets

	September 30, 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	$ 19,008	$ –	$ 19,008	$ (1,656)	$ –	$ 17,352
Reverse repurchase and similar arrangements	237,509	–	237,509	(237,509)	–	–
Total	$ 256,517	$ –	$ 256,517	$ (239,165)	$ –	$ 17,352

	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.

Bank Only Financial Data

Condensed financial information of AgFirst Farm Credit Bank follows:

Balance Sheets

(dollars in thousands)	**September 30, 2014**	**December 31, 2013**
	(unaudited)	*(audited)*
Cash, cash equivalents and investment securities	$ 8,099,828	$ 8,336,543
Loans	20,630,220	20,201,235
Allowance for loan losses	(20,181)	(22,908)
Net loans	20,610,039	20,178,327
Other assets	322,865	329,472
Total assets	$ 29,032,732	$ 28,844,342
Bonds and notes	$ 26,466,091	$ 26,224,879
Other liabilities	135,626	472,716
Total liabilities	26,601,717	26,697,595
Perpetual preferred stock	125,250	125,250
Capital stock and participation certificates	302,971	308,972
Additional paid-in-capital	36,580	36,580
Retained earnings	1,858,835	1,578,402
Accumulated other comprehensive income (loss)	107,379	97,543
Total shareholders' equity	2,431,015	2,146,747
Total liabilities and equity	$ 29,032,732	$ 28,844,342

Statements of Income

	For the nine months ended September 30,	
(dollars in thousands)	**2014**	**2013**
	(unaudited)	
Interest income	$ 515,832	$ 551,978
Interest expense	155,382	143,517
Net interest income	360,450	408,461
Provision for (reversal of) loan losses	(3,884)	(7,212)
Net interest income after provision for loan losses	364,334	415,673
Noninterest expense, net	82,572	65,589
Net income	$ 281,762	$ 350,084

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 allowed the Merger Associations to explore the benefits of a merger. During the second quarter of 2014, the Boards of the Merger Associations determined a merger would not be in the best interests of their shareholders and discontinued merger discussions.

Effective January 1, 2011, Farm Credit of North Florida, ACA, Farm Credit of Southwest Florida, ACA, and Farm Credit of South Florida, ACA, merged to form 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. No assistance was provided by the Bank to the merged Association under the agreement at September 30, 2014 or December 31, 2013. This agreement was terminated effective October 15, 2014.

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

Note 11 — Derivative Financial Instruments and Hedging Activities

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

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

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

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

	For the Nine Months Ended September 30,			
	2014		2013	
Notional Amounts *(dollars in millions)*	**Receive-Fixed Swaps**	**Forward Contracts**	**Receive-Fixed Swaps**	**Forward Contracts**
Balance at beginning of period	$ 250	$ –	$ 360	$ –
Additions	–	8	–	–
Maturities/amortization	–	(8)	(50)	–
Terminations	–	–	–	–
Balance at end of period	$ 250	$ –	$ 310	$ –

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

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

Counterparty exposure related to derivatives at:

(dollars in millions)	**September 30, 2014**	**December 31, 2013**
Estimated Gross Credit Risk	$19.0	$27.5
Percent of Notional	7.60%	11.01%
Cash Collateral Held *(on balance sheet)*	$–	$–
Securities Collateral Held *(off balance sheet)*	$1.7	$8.6
Cash Collateral Posted *(off balance sheet)*	$–	$–
Securities Collateral Posted *(on balance sheet)*	$–	$–

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

Fair Value Hedges

For derivative instruments designated as fair value hedges, the gains or losses on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings. The District includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. The amount of the loss on interest rate swaps recognized in interest expense for the nine months ended September 30, 2014 was $8.5 million, while the amount of the gain on the Systemwide Debt Securities was $8.5 million. The amount of the loss on interest rate swaps recognized in interest expense for the nine months ended September 30, 2013 was $11.0 million, while the amount of the gain on the Systemwide Debt Securities was $11.0 million. Gains and losses on each derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Cash Flow Hedges

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

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

Fair Values of Derivative Instruments

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

(dollars in thousands)	**Balance Sheet Classification – Assets**	**9/30/14 Fair Value**	**Balance Sheet Classification Liabilities**	**9/30/14 Fair Value**
Receive-fixed swaps	Other Assets	$ 19,008	Other Liabilities	$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		$ 19,008		$ –

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

The following table sets forth the amount of net gain (loss) on derivatives recognized in earnings and, for cash flow hedges, the amount of net gain (loss) recognized in AOCI for the periods presented. See Note 5, *Shareholders' Equity*.

(dollars in thousands)	Location of Gain or (Loss) Recognized in, or Reclassified from AOCI into, Income	Amount of Gain or (Loss) Recognized in, or Reclassified from AOCI into, Income **		Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)		Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	
		2014	2013	2014	2013	2014	2013
Fair Value Hedges:							
Receive-fixed swaps	Noninterest income	$ –	$ –				
Cash Flow Hedges:							
Firm Commitments	Interest Income	$ 668	$ 943	$ –	$ –	$ –	$ –
Forward Contracts	Gains (Losses) on Other Transactions	157	–	–	–	(157)	–

Note 12 — Regulatory Enforcement Matters

At September 30, 2014, two District Associations, with combined assets of approximately $1.003 billion, were operating under written agreements with the FCA. Those agreements require the District Associations to take corrective actions with respect to one or more of the following: asset quality, capital, portfolio management, and corporate governance. These enforcement actions are not expected to have a significant adverse impact on the District's financial condition or results of operations.

Note 13 — Subsequent Events

The District evaluated subsequent events and determined that, except as described below and in Note 10, *Business Combinations*, there were none requiring disclosure through November 7, 2014, which is the date the financial statements were issued.

On October 20, 2014, the Bank's Board of Directors declared a special patronage distribution totaling $175.0 million to be paid on January 1, 2015.