CULTIVATING RELATIONSHIPS

GROWING PARTNERSHIPS

THIRD QUARTER 2013 QUARTERLY REPORT

AGFIRST
FARM CREDIT BANK

THIRD QUARTER 2013

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2013 quarterly report of AgFirst Farm Credit Bank, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Robert H. Spiers, Jr.
Chairman of the Board

Leon T. Amerson
Chief Executive Officer & President

Charl L. Butler
Chief Financial Officer

November 8, 2013

Report on Internal Control Over Financial Reporting

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

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

The Bank's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2013. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Bank concluded that as of September 30, 2013, the internal control over financial reporting was effective based upon the COSO (1992) criteria. Additionally, based on this assessment, the Bank determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2013.

Leon T. Amerson
Chief Executive Officer & President

Charl L. Butler
Chief Financial Officer

November 8, 2013

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

The following discussion reviews the financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) as of and for the three and nine month periods ended September 30, 2013. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Financial Statements, and the 2012 Annual Report of AgFirst Farm Credit Bank. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the District. The accompanying financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of AgFirst. However, 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 AgFirst's business.

FORWARD-LOOKING INFORMATION

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

- political, legal, regulatory, financial markets, and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural infrastructure, international, and farm-related business sectors, as well as in the general economy;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income of District borrowers;
- changes in United States government support of the agricultural industry and the Farm Credit System (System) as a government-sponsored enterprise (GSE), as well as investor and rating agency reactions to events involving the U.S. government, GSEs and other financial institutions;
- 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; and
- cyber-security risks, including "denial of service," "hacking," and "identity theft," that could adversely affect the Bank's business and financial performance, or reputation.

FINANCIAL CONDITION

Loan Portfolio

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

Loan Portfolio *(dollars in thousands)*	**September 30, 2013**		**December 31, 2012**		**September 30, 2012**	
Direct Notes	$ 13,786,315	68.72%	$ 13,833,602	68.45%	$ 14,005,554	69.57%
Participations/Syndications purchased, net	3,815,353	19.02	4,037,770	19.98	3,870,735	19.23
Correspondent Lending	2,373,785	11.83	2,277,400	11.27	2,246,724	11.16
Loans to OFIs	85,066	0.43	60,479	0.30	8,087	0.04
Total	$ 20,060,519	100.00%	$ 20,209,251	100.00%	$ 20,131,100	100.00%

Total loans outstanding were $20.061 billion at September 30, 2013, a decrease of $148.7 million, or 0.74 percent, compared to total loans outstanding at December 31, 2012. Loan demand remains weak for a number of reasons, including current grower capital and cash levels that are higher than the historical average which has resulted in lower borrowings for capital investment in certain sectors. Also, the slow recovery of the general economy has resulted in lower production in economically dependent sectors. Relatively high unemployment and uncertainty of future employment has had a negative impact on some borrowers dependent on non-farm income. Future loan demand is difficult to predict; however, it is expected to remain weak through 2014.

Credit Quality

Credit quality continues to be impacted by prolonged weakness in the economy as shown below:

	Total Loan Portfolio Credit Quality as of:		
Classification	**September 30, 2013**	**December 31, 2012**	**September 30, 2012**
Acceptable	88.68%	91.03%	89.21%
OAEM *	7.15%	3.19%	4.38%
Substandard/Doubtful/Loss	4.17%	5.78%	6.41%

**Other Assets Especially Mentioned*

For a discussion of the increase in other assets especially mentioned (OAEM) and the decrease in acceptable and substandard classifications since year end, see the *Direct Notes* section below. Loan portfolio credit quality at the producer level reflected minor improvement. Most distressed property sales are now occurring at or near appraised values, indicating that real estate values have stabilized in most District markets. Production farm land maintained its value throughout the financial downturn. High commodity prices for grains during 2012 were very beneficial to row crop farmers. However, grain prices have declined in 2013 due to higher than expected inventory and an anticipated good harvest. This has been beneficial to the poultry, cattle, and swine sectors. Improved housing starts in 2013 have positively impacted certain housing-related segments such as forestry and lumber. The nursery/greenhouse segment remains stressed as those industries lag construction starts.

Under the terms of a financial assistance agreement, the Bank may be required to purchase certain high risk assets from a District Association. If such a purchase occurs, it likely would not have a material adverse effect on either the financial condition or future operating results of the Bank. See Note 5, *Commitments and Contingent Liabilities,* in the Notes to the Financial Statements for further information.

The credit conditions discussed above affect the credit quality of the Bank's participation/syndication loan portfolio directly. They also affect the credit quality of loan portfolios and earnings performance of the individual District Associations, which in turn is reflected in the quality of the Bank's Direct Notes. Slow economic growth will have an impact on credit quality for some time. It will take time to fully resolve some problem assets due to their dependency on general economic conditions, including employment, the housing market, and real estate values.

Direct Notes

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

At September 30, 2013, the total principal amount outstanding under Direct Notes was $13.786 billion, a decrease of $47.3 million, or 0.34 percent, compared to December 31, 2012. As previously mentioned, high grower capital levels and the weak economy were the primary reasons for the decline in Direct Note volume from December to September.

Credit quality statistics for the Direct Note portfolio are shown in the following chart:

	Direct Note Credit Quality as of:		
Classification	**September 30, 2013**	**December 31, 2012**	**September 30, 2012**
Acceptable	85.87%	90.12%	87.68%
OAEM *	9.42%	3.39%	4.64%
Substandard/Doubtful/Loss	4.71%	6.49%	7.68%

**Other Assets Especially Mentioned*

As of September 30, 2013, fourteen of the nineteen District Associations' Direct Notes, representing 85.87 percent of the Direct Note portfolio, were classified acceptable. Four of the remaining Direct Notes, representing 9.42 percent of the portfolio, were classified as OAEM and one of the Direct Notes, representing 4.71 percent of the portfolio, was classified as substandard (adverse). From December 31, 2012 to September 30, 2013, the classification of the Direct Note for one Association moved from acceptable to OAEM while one Association Direct Note improved from substandard to OAEM.

None of the Direct Notes, including the one classified as substandard (adverse), are considered impaired. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan. Presently, collection of the full Direct Note amount due for the Association classified as substandard is expected in accordance with the contractual terms of the debt arrangements, and no allowance has been recorded for Direct Notes. All assets of the various Associations are pledged as collateral for their respective Direct Notes. In the opinion of management, all Association Direct Notes are adequately collateralized. The risk funds of an Association, including both capital and the allowance for loan losses, also protect the interest of the Bank should a Direct Note default. At September 30, 2013, total assets of the Association with its Direct Note classified as substandard were $866.4 million and total risk funds were $205.7 million. Also at September 30, 2013, the Direct Note balance classified as substandard was $649.5 million compared to $112.6 million of total substandard loans, including accrued interest, for this Association.

As of September 30, 2013, five District Associations, with combined assets of $3.705 billion, were operating under written supervisory agreements with the FCA. Those agreements require the District Associations to take corrective actions with respect to specific areas of their operations. Also, as of September 30, 2013, two District Associations were operating under special credit agreements pursuant to their GFAs as a result of covenant violations. Neither these enforcement actions nor GFA covenant violations are expected to have a significant adverse impact on the Bank's or District's financial condition or results of operations.

Participations/Syndications

AgFirst has a Capital Markets Unit that purchases and sells loan participations and syndications. As of September 30, 2013, the participations/syndications portfolio totaled $3.815 billion, a decrease of $222.4 million, or 5.51 percent, from December 31, 2012. Borrower demand is anticipated to remain moderate through 2014.

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

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

	Participations/Syndications Credit Quality as of:		
Classification	**September 30, 2013**	**December 31, 2012**	**September 30, 2012**
Acceptable	91.56%	89.03%	88.57%
OAEM *	3.50%	4.28%	5.88%
Substandard/Doubtful/Loss	4.94%	6.69%	5.55%

**Other Assets Especially Mentioned*

Correspondent Lending

AgFirst also maintains a Correspondent Lending Unit, which consists primarily of first lien residential mortgages. As of September 30, 2013, the correspondent lending portfolio totaled $2.374 billion. From December 31, 2012 to September 30, 2013, this portfolio increased $96.4 million, or 4.23 percent.

Until July 31, 2013, substantially all loans in the correspondent lending portfolio had guarantees from the Federal National Mortgage Association (Fannie Mae) and/or the Federal Agricultural Mortgage Corporation (Farmer Mac), thereby limiting credit risk to AgFirst. The guarantees were in the form of Long-Term Standby Commitments to Purchase, which give AgFirst the right to deliver delinquent loans to the guarantor at par. The Fannie Mae guarantee program ended on July 31, 2013. Subsequent to this date, new loans in this portfolio purchased by the Bank are held without a Fannie Mae guarantee. At September 30, 2013, $2.275 billion of loans in the correspondent lending portfolio were guaranteed and $98.9 million were unguaranteed. In addition, at September 30, 2013, $7.9 million of unguaranteed correspondent lending loans were held for sale. The Bank has adjusted its methodology of providing allowance for this portfolio to reflect the discontinuation of the Fannie Mae guarantee.

At September 30, 2013, 99.89 percent of the correspondent lending portfolio was classified as acceptable and 0.11 percent was classified as OAEM.

Nonaccrual Loans

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the Bank at September 30, 2013 were $76.3 million compared to $80.2 million at December 31, 2012. Nonaccrual loans decreased $3.9 million during the nine months ended September 30, 2013, due primarily to $16.9 million repayments, $12.2 million in charge-offs, and $4.6 million transferred to other property owned, offset by $26.0 million of loan balances transferred to nonaccrual status, $2.2 million in recoveries, and $1.6 million in advances on nonaccrual loans. The ten largest nonaccrual borrower relationships accounted for 75.25 percent of the total nonaccrual balance. At September 30, 2013, total nonaccrual loans were primarily classified in the tree fruits/nuts (25.30 percent of the total), forestry (24.45 percent), nursery/greenhouse (18.20 percent), and ethanol (9.29 percent) segments. Some of these nonaccrual loans are secured by real estate. Although the valuation of the real estate securing these loans has recently stabilized, it continues to reflect the negative impact of the economic environment of the past several years. Nonaccrual loans were 0.38 percent and 0.40 percent of total loans outstanding at September 30, 2013 and December 31, 2012, respectively.

Troubled Debt Restructurings

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms, rates, or amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by the Bank. TDRs increased $7.3 million since December 31, 2012 and totaled $45.4 million at September 30, 2013. TDRs were comprised of $4.3 million of accruing restructured loans and $41.1 million of nonaccruing restructured loans. Restructured loans were primarily in the nursery/greenhouse (29.08 percent of the total), forestry (25.76 percent), ethanol (15.61 percent), other real estate (9.53 percent), and tree fruits/nuts (9.14 percent) segments.

Other Property Owned

Other property owned (OPO) consists primarily of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank (or a lender group) in satisfaction of secured loans. OPO is generally comprised of real estate, equipment, and equity interests in companies or partnerships. OPO decreased $8.4 million since December 31, 2012 and totaled $11.1 million at September 30, 2013. The decrease was due to disposals of $9.2 million and net write-downs of $3.8 million, primarily offset by transfers from nonaccrual of $4.6 million. Transfers from nonaccrual consisted primarily of two land holdings totaling $3.3 million. Disposals primarily included two land holdings totaling $5.8 million. The largest property writedown of $2.2 million was for an ethanol facility that also represented the largest OPO holding. This property had a remaining balance of $2.3 million at September 30, 2013 (20.70 percent of the total).

Allowance for Loan Losses

The Bank maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan portfolio as of each reported balance sheet date. The allowance for loan losses was $27.3 million at September 30, 2013, as compared with $44.5 million at December 31, 2012, which was a decrease of $17.2 million for the nine month period. Activity within the allowance for the nine months ended September 30, 2013 included reversals for the provision for loan loss of $7.2 million and loan charge-offs of $12.2 million, offset by $2.2 million recoveries, as loan collectability became more measurable and apparent during the nine month period. The allowance at September 30, 2013 included specific reserves of $11.9 million (43.46 percent of the total) and general reserves of $15.4 million (56.54 percent). The general reserves at September 30, 2013 included $282 thousand of allowance provided by the Bank for loans in the Correspondent Lending portfolio purchased after July 31, 2013 which are being held without a Fannie Mae guarantee. See further discussion in the *Correspondent Lending* section above. None of the allowance relates to the Direct Note portfolio. The total allowance at September 30, 2013 was comprised primarily of reserves for the forestry (20.62 percent), nursery/greenhouse (19.39 percent of the total), non-farm income (14.08 percent), and tree fruits/nuts (11.26 percent) segments. See Note 3, *Loans and Allowance for Loan Losses*, in the Notes to the Financial Statements for further information. See *Provision for Loan Losses* section below for details regarding the effects on the allowance from provision for loan losses.

Liquidity and Funding Sources

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

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

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

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

At September 30, 2013, AgFirst had $25.982 billion in total debt outstanding compared to $26.287 billion at December 31, 2012. Total interest-bearing liabilities decreased primarily due to the decrease in liquidity investments and the decline in loan volume as discussed elsewhere in this report, which when combined with an increase in retained earnings, reduced funding requirements.

Cash and cash equivalents, which increased $57.7 million from December 31, 2012 to a total of $930.9 million at September 30, 2013, 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 $7.214 billion, or 25.31 percent of total assets at September 30, 2013, compared to $7.484 billion, or 25.91 percent, as of December 31, 2012. Investment securities decreased $270.1 million (3.61 percent), compared to December 31, 2012. Management maintains the available-for-sale liquidity investment portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines. In order to maintain the portfolio size within revised regulatory limits, during the quarter ended March 31, 2013, the Bank sold $114.6 million of agency mortgage-backed securities which resulted in a gain of $7.6 million.

Investment securities classified as being available-for-sale totaled $6.585 billion at September 30, 2013. Available-for-sale investments at September 30, 2013 included $4.563 billion in U.S. government guaranteed securities, $1.806 billion in U.S. government agency guaranteed securities, $179.6 million in non-agency collateralized mortgage obligations (CMOs), and $37.0 million in asset-backed securities. Since the majority of the portfolio is invested in agency securities, the portfolio is highly liquid and potential credit loss exposure is limited.

As of September 30, 2013, AgFirst exceeded all applicable regulatory liquidity requirements. FCA regulations require that the Bank have a liquidity policy that establishes a minimum total "coverage" level of 90 days and that short-term liquidity requirements must be met by certain high quality investments or cash. "Coverage" is defined as the number of days that maturing debt could be funded with eligible cash, cash equivalents, and available-for-sale investments maintained by the Bank. Eligible liquidity investments are classified according to three liquidity quality levels with level 1 being the highest. The first 15 days of liquidity coverage are met using only level 1 instruments, which include cash and cash equivalents. Days 16 through 30 of liquidity coverage are met using level 1 and level 2 instruments. Level 2 consists primarily of U.S. government guaranteed securities. Days 31 through 90 are met using level 1, level 2, and level 3 securities. Level 3 consists primarily of U.S. agency investments. Additionally, a supplemental liquidity buffer in excess of the 90-day minimum liquidity reserve is set to provide coverage to at least 120 days.

At September 30, 2013, AgFirst met all individual level criteria and had a total of 217 days of debt coverage compared to 218 days at December 31, 2012. 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 $91.8 million at September 30, 2013, compared to $174.5 million at December 31, 2012. These net unrealized gains are reflected in Accumulated Other Comprehensive Income (AOCI) in the Financial Statements. The net unrealized gains stem from normal market factors such as the current interest rate environment.

The Bank performs periodic credit reviews, including other-than-temporary impairment analyses, on its entire investment securities portfolio. Based on the results of all analyses, the Bank recognized other-than-temporary credit related impairment of $2.1 million for the nine months ended September 30, 2013, which was included in Net Other-Than-Temporary Impairment Losses on Investments in the Statements of Income. See Note 2, *Investment Securities*, in the Notes to the Financial Statements for further information.

Capital Resources

Total shareholders' equity increased $97.4 million (4.24 percent) from December 31, 2012 to a total of $2.396 billion at September 30, 2013. This increase is primarily attributed to 2013 unallocated retained earnings from net income of $350.1 million. Offsetting the increase were decreases for the redemption of preferred stock referenced below of $150.0 million, decreases of $83.4 million in net unrealized gains during 2013 on investment securities, patronage distributions of $10.0 million, dividends paid on preferred stock of $5.9 million, and a net reduction of $3.3 million in capital stock/participation certificates.

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. See Note 8, *Perpetual Preferred Stock*, in the Notes to the Financial Statements for further information.

Favorable earnings and minimal balance sheet growth in recent years have resulted in stronger than historical Bank capital levels. After considering current capital levels and projected capital needs, on October 21, 2013, the Bank's Board of Directors declared a special cash patronage distribution totaling $200.0 million to be paid January 1, 2014 primarily to District Associations. Also see Note 12, *Subsequent Events*, in the Notes to the Financial Statements.

Regulatory Capital Ratios

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

	Regulatory Minimum	9/30/13	12/31/12	9/30/12
Permanent Capital Ratio	7.00%	22.90%	23.58%	22.56%
Total Surplus Ratio	7.00%	22.86%	23.55%	22.53%
Core Surplus Ratio	3.50%	20.08%	20.04%	18.94%
Net Collateral Ratio	103.00%	107.97%	107.03%	107.74%

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

The Bank's permanent capital and total surplus ratios decreased at September 30, 2013 as compared to December 31, 2012. These ratios are calculated using a three month average daily balance for both capital and assets. Therefore, reductions in capital in December related to accrued patronage and a decrease in the minimum Association stock requirement from 1.75 percent to 1.40 percent of Association Direct Note balances had minimal impact on the December 31, 2012 ratios, but fully impacted the ratios at September 30, 2013. The redemption of $150.0 million Perpetual Preferred Stock on May 15, 2013 discussed above also had a negative impact on the September 30, 2013 ratios.

RESULTS OF OPERATIONS

Net income for the three months ended September 30, 2013 was $118.1 million, compared to $104.4 million for the three months ended September 30, 2012, an increase of $13.7 million, or 13.08 percent. Net income for the nine months ended September 30, 2013 was $350.1 million, compared to $357.6 million for the nine months ended September 30, 2012, a decrease of $7.5 million, or 2.10 percent.

Key Results of Operations Comparisons

	Annualized for the nine months ended September 30, 2013	For the year ended December 31, 2012	Annualized for the nine months ended September 30, 2012
Return on average assets	1.65%	1.63%	1.66%
Return on average shareholders' equity	19.76%	20.06%	20.96%
Net interest income as a percentage of average earning assets	2.00%	2.19%	2.22%
Net (charge-offs) recoveries to average loans	(0.07)%	0.01%	0.03%

Net Interest Income

Net interest income for the three months ended September 30, 2013 was $131.8 million compared to $150.3 million for the same period of 2012, a decrease of $18.5 million or 12.28 percent. For the nine months ended September 30, 2013, net interest income was $408.5 million, compared to $458.4 million for the same period of 2012, a decrease of $49.9 million or 10.88 percent. The net interest margin was 1.90 percent and 2.00 percent, a decrease of 26 and 22 basis points, respectively, for the three and nine month periods compared to the prior year. The decrease was primarily the result of lower earning asset yields. Over time, as interest rates change and as assets prepay or reprice, the positive impact on the net interest margin that the Bank has experienced over the last several years from calling debt will continue to diminish. The three and nine month periods ended September 30, 2013, compared with the corresponding periods in 2012, were also negatively impacted by lower average balances, driven primarily by a reduction in loan volume as previously discussed.

The following table illustrates the changes in net interest income:

	For the three months ended September 30, 2013 vs. September 30, 2012			For the nine months ended September 30, 2013 vs. September 30, 2012		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
(dollars in thousands)	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Loans	$ (474)	$ (7,541)	$ (8,015)	$ (677)	$ (37,381)	$ (38,058)
Investments & Cash Equivalents	(736)	(10,273)	(11,009)	(2,861)	(26,714)	(29,575)
Total Interest Income	$ (1,210)	$ (17,814)	$ (19,024)	$ (3,538)	$ (64,095)	$ (67,633)
Interest Expense:						
Interest-Bearing Liabilities	$ (1,144)	$ 574	$ (570)	$ (2,928)	$ (14,815)	$ (17,743)
Changes in Net Interest Income	$ (66)	$ (18,388)	$ (18,454)	$ (610)	$ (49,280)	$ (49,890)

Provision for Loan Losses

AgFirst measures risks inherent in its loan portfolio on an ongoing basis and, as necessary, recognizes loan loss expense so that appropriate reserves for loan losses are maintained. For the three and nine months ended September 30, 2013, provision for loan losses was a net reversal of $5.7 million and $7.2 million, respectively, compared to provision expense of $13.8 million and $10.9 million, respectively, for the three and nine month periods ended September 30, 2012.

Provision for loan losses for the three months ended September 30, 2013 included net reversals of provisions of $3.2 million for specific reserves and $2.5 million for general reserves. For the nine months ended September 30, 2013, the provision for loan losses included net reversals of provisions of $2.3 million for specific reserves and $4.9 million for general reserves. For both the three and nine month periods ended September 30, 2013, the most significant reversals of allowance related to one borrower in the non-farm income segment ($1.6 million) and one borrower in the nursery/greenhouse segment ($1.3 million). The reversals of allowance for loan losses for the general reserve for the three month period ended September 30, 2013 related primarily to the non-farm income and processing segments and totaled $3.3 million. The general reserve reversals for the nine month period ended September 30, 2013 related primarily to the processing, non-farm income, and forestry segments and totaled $4.9 million. See Note 3, *Loans and Allowance for Loan Losses,* in the Notes to the Financial Statements for further information.

Noninterest Income

The following table illustrates the changes in noninterest income:

Change in Noninterest Income	**For the three months ended September 30,**			**For the nine months ended September 30,**		
(dollars in thousands)	**2013**	**2012**	**Increase/ (Decrease)**	**2013**	**2012**	**Increase/ (Decrease)**
Loan fees	$ 2,316	$ 3,267	$ (951)	$ 7,662	$ 8,495	$ (833)
Building lease income	1,143	–	1,143	3,326	–	3,326
Net impairment losses on investments	–	–	–	(2,071)	(3,167)	1,096
Gains (losses) on investments, net	–	–	–	7,592	–	7,592
Gains (losses) on called debt	(115)	(11,675)	11,560	(4,117)	(32,044)	27,927
Gains (losses) on other transactions	63	1,282	(1,219)	(164)	1,975	(2,139)
Insurance premium refund	–	–	–	–	10,363	(10,363)
Other noninterest income	1,080	1,085	(5)	3,910	3,837	73
Total noninterest income	$ 4,487	$ (6,041)	$ 10,528	$ 16,138	$ (10,541)	$ 26,679

Noninterest income increased $10.5 million and $26.7 million for the three and nine month periods ended September 30, 2013, respectively, compared to the corresponding periods in 2012. The variance for both periods was primarily due to a decrease in losses on called debt. Contributing to the nine month increase were $7.6 million in gains on sale of investments offset by the Bank's recording $10.4 million of insurance premium refunds during the second quarter of 2012 from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. The insurance premium refund was nonrecurring and resulted from the assets of the FCSIC exceeding the secure base amount as defined by the Farm Credit Act.

Building lease income increased $1.1 million and $3.3 million for the three and nine months ended September 30, 2013, compared to the same periods in 2012. This income was received in 2013 from tenants of the Bank office building which was purchased in the fourth quarter of 2012. The Bank is in the process of upfitting vacant space in the building and will relocate its operations there in 2014. Related expenses are recorded in occupancy and equipment expenses discussed below.

Net impairment losses on investments decreased $1.1 million for the nine months ended September 30, 2013 as compared to the same period in 2012. This resulted primarily from improvement in both probability of default and projected credit loss for securities analyzed for impairment. No impairment losses were recorded during the three month periods ended September 30, 2013 or 2012.

Gains on investments of $7.6 million during the nine months ended September 30, 2013 were primarily the result of the sale of U.S. government agency mortgage-backed securities. See discussion of investments in the *Liquidity and Funding Sources* section above and Note 2, *Investment Securities*, in the Notes to the Financial Statements for further information.

Losses on called debt decreased $11.6 million and $27.9 million for the three and nine month periods in 2013, respectively, compared to the same periods in 2012. 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. Call options were exercised on bonds totaling $5.611 billion for the nine months ended September 30, 2013 compared to $18.899 billion for the same period of 2012, as opportunities to call debt were more limited in the 2013 period. The called debt losses are more than offset by interest expense savings realized as called debt is replaced by new debt issued at a lower rate of interest. Over time, the favorable effect on net interest income is diminished as earning assets reprice downward.

For the three months ended September 30, 2013, gains on other transactions decreased $1.2 million compared to the same period last year due primarily to $975 thousand higher losses on the sale of correspondent lending loans for the third quarter 2013 compared to the prior year. For the nine months ended September 30, 2013, losses on other transactions increased $2.1 million compared to the same period last year. This increase resulted primarily from $1.3 million in insurance recoveries recorded in 2012 and $997 thousand increased losses on the sale of correspondent lending loans for the nine months ended September 30, 2013 compared to the prior year.

Noninterest Expense

The following table illustrates the changes in noninterest expense:

Change in Noninterest Expense	**For the three months ended September 30,**			**For the nine months ended September 30,**		
(dollars in thousands)	**2013**	**2012**	**Increase/ (Decrease)**	**2013**	**2012**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 11,366	$ 11,547	$ (181)	$ 34,983	$ 34,271	$ 712
Occupancy and equipment	4,571	3,540	1,031	13,079	11,146	1,933
Insurance Fund premiums	2,041	1,106	935	4,662	3,251	1,411
Other operating expenses	10,208	9,236	972	29,422	25,849	3,573
Losses (gains) from other property owned	(4,191)	582	(4,773)	(419)	4,740	(5,159)
Total noninterest expense	$ 23,995	$ 26,011	$ (2,016)	$ 81,727	$ 79,257	$ 2,470

Noninterest expense decreased $2.0 million for the three months ended September 30, 2013 and increased $2.5 million for the nine months ended September 30, 2013 compared to the corresponding periods in 2012. The decrease for the three months ended September 30, 2013 was due primarily to increases in gains from other property owned. The increase for the nine months ended September 30, 2013 was due primarily to increases in occupancy and equipment, Insurance Fund premiums, and other operating expenses, offset by increases in gains from other property owned.

Salaries and employee benefits decreased $181 thousand and increased $712 thousand for the three and nine months ended September 30, 2013, respectively, compared to the prior year periods. The variance for the nine month period was due primarily to normal salary administration and higher employee benefit costs. These factors were offset for the three month period by an increase in performance of investments which fund the non-qualified pension plans which resulted in a reduction in expense.

Occupancy and equipment expense for the three and nine months ended September 30, 2013 increased $1.0 million and $1.9 million, respectively, compared to the corresponding periods in the prior year. These increases were due primarily to increases for the cost of space to maintain the building purchased for future Bank occupancy, as referenced above in the *Noninterest Income* section.

Insurance Fund premiums increased $935 thousand and $1.4 million for the three and nine month periods ended September 30, 2013. The premium expense increased as a result of an increase in the 2013 base annual premium rate to 10 basis points from the 2012 base annual premium rate of 5 basis points. 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. Offsetting the premium expense increase for the nine month period was a $1.4 million Insurance Fund premium reimbursement received by the Bank in May 2013 after 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.

Other operating expenses increased $972 thousand and $3.6 million for the three and nine months ended September 30, 2013, compared to the prior year. The increases primarily resulted from additional consulting and professional fees required for system enhancements of $509 thousand and $2.2 million for the three and nine month periods, respectively. Also contributing to the increases was additional fee expense related to the correspondent lending portfolio of $330 thousand and $1.3 million, for the three and nine month periods, respectively, due primarily to increased guarantee fees resulting from higher guarantee fee rates and higher volume in the correspondent lending portfolio.

The increases in gains from other property owned of $4.8 million and $5.1 million for the three and nine months ended September 30, 2013 compared to the corresponding periods in the prior year resulted primarily from a $4.3 million gain recorded during the third quarter 2013 from a sale in the previous year of an ethanol plant, including $2.3 million which was previously deferred pending settlement of litigation.

DISTRICT MERGER ACTIVITY

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements for information regarding merger activity in the District.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2012 Annual Report of AgFirst Farm Credit Bank for recently issued accounting pronouncements.

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

Balance Sheets

(dollars in thousands)	**September 30, 2013** *(unaudited)*	**December 31, 2012** *(audited)*
Assets		
Cash	**$ 778,707**	$ 723,576
Cash equivalents	**152,190**	149,589
Investment securities:		
Available for sale (amortized cost of $6,493,067 and $6,708,382, respectively)	**6,584,935**	6,882,929
Held to maturity (fair value of $646,842 and $656,292, respectively)	**629,423**	601,482
Total investment securities	**7,214,358**	7,484,411
Loans held for sale	**7,895**	—
Loans	**20,060,519**	20,209,251
Allowance for loan losses	**(27,324)**	(44,539)
Net loans	**20,033,195**	20,164,712
Accrued interest receivable	**69,892**	72,549
Accounts receivable	**49,350**	75,168
Investments in other Farm Credit System institutions	**66,745**	66,828
Premises and equipment, net	**46,343**	41,047
Other property owned	**11,092**	19,477
Other assets	**78,748**	93,190
Total assets	**$ 28,508,515**	$ 28,890,547
Liabilities		
Systemwide debt securities	**$ 24,172,054**	$ 24,293,168
Systemwide notes payable	**1,809,479**	1,993,590
Accrued interest payable	**45,811**	40,681
Accounts payable	**42,745**	213,591
Other liabilities	**42,786**	51,287
Total liabilities	**26,112,875**	26,592,317
Commitments and contingencies (Note 5)		
Shareholders' Equity		
Perpetual preferred stock	**125,250**	275,250
Capital stock and participation certificates	**329,419**	332,705
Additional paid-in-capital	**36,580**	36,580
Retained earnings		
Allocated	**726**	795
Unallocated	**1,815,596**	1,481,432
Accumulated other comprehensive income (loss)	**88,069**	171,468
Total shareholders' equity	**2,395,640**	2,298,230
Total liabilities and equity	**$ 28,508,515**	$ 28,890,547

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

Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2013	2012	For the nine months ended September 30, 2013	2012
Interest Income				
Investment securities and other	**$ 34,064**	$ 45,073	**$ 110,985**	$ 140,560
Loans	**148,398**	156,413	**440,993**	479,051
Total interest income	**182,462**	201,486	**551,978**	619,611
Interest Expense	**50,622**	51,192	**143,517**	161,260
Net interest income	**131,840**	150,294	**408,461**	458,351
Provision for (reversal of) loan losses	**(5,732)**	13,838	**(7,212)**	10,943
Net interest income after provision for loan losses	**137,572**	136,456	**415,673**	447,408
Noninterest Income				
Loan fees	**2,316**	3,267	**7,662**	8,495
Building lease income	**1,143**	—	**3,326**	—
Total other-than-temporary impairment losses	**—**	—	**(1,165)**	(21,995)
Portion of loss recognized in other comprehensive income	**—**	—	**(906)**	18,828
Net other-than-temporary impairment losses	**—**	—	**(2,071)**	(3,167)
Gains (losses) on investments, net	**—**	—	**7,592**	—
Gains (losses) on called debt	**(115)**	(11,675)	**(4,117)**	(32,044)
Gains (losses) on other transactions	**63**	1,282	**(164)**	1,975
Insurance premium refund	**—**	—	**—**	10,363
Other noninterest income	**1,080**	1,085	**3,910**	3,837
Total noninterest income	**4,487**	(6,041)	**16,138**	(10,541)
Noninterest Expenses				
Salaries and employee benefits	**11,366**	11,547	**34,983**	34,271
Occupancy and equipment	**4,571**	3,540	**13,079**	11,146
Insurance Fund premiums	**2,041**	1,106	**4,662**	3,251
Other operating expenses	**10,208**	9,236	**29,422**	25,849
Losses (gains) from other property owned	**(4,191)**	582	**(419)**	4,740
Total noninterest expenses	**23,995**	26,011	**81,727**	79,257
Net income	**$ 118,064**	$ 104,404	**$ 350,084**	$ 357,610

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

Statements of Comprehensive Income

(unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
(dollars in thousands)	**2013**	**2012**	**2013**	**2012**
Net income	**$ 118,064**	$ 104,404	**$ 350,084**	$ 357,610
Other comprehensive income net of tax:				
Unrealized gains (losses) on investments:				
Other-than-temporarily impaired	**5,493**	12,468	**14,030**	(6,010)
Not other-than-temporarily impaired	**(37,585)**	33,356	**(96,766)**	67,466
Change in value of firm commitments - when issued securities	**(242)**	6,174	**(943)**	7,384
Employee benefit plans adjustments	**94**	112	**280**	110
Other comprehensive income (Note 9)	**(32,240)**	52,110	**(83,399)**	68,950
Comprehensive income	**$ 85,824**	$ 156,514	**$ 266,685**	$ 426,560

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

Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Additional Paid-In-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2011	$ 400,000	$ 405,767	$ —	$ 858	$ 1,218,648	$ 123,997	$ 2,149,270
Comprehensive income					357,610	68,950	426,560
Capital stock/participation certificates issued/(retired), net		(11,965)					(11,965)
Redemption of perpetual preferred stock (Note 8)	(124,750)		36,580				(88,170)
Dividends paid on perpetual preferred stock					(12,012)		(12,012)
Cash patronage declared					(11,108)		(11,108)
Retained earnings retired				(63)			(63)
Balance at September 30, 2012	$ 275,250	$ 393,802	$ 36,580	$ 795	$ 1,553,138	$ 192,947	$ 2,452,512
Balance at December 31, 2012	$ 275,250	$ 332,705	$ 36,580	$ 795	$ 1,481,432	$ 171,468	$ 2,298,230
Comprehensive income					**350,084**	**(83,399)**	**266,685**
Capital stock/participation certificates issued/(retired), net		**(3,286)**					**(3,286)**
Redemption of perpetual preferred stock (Note 8)	**(150,000)**						**(150,000)**
Dividends paid on perpetual preferred stock					**(5,908)**		**(5,908)**
Cash patronage declared					**(10,000)**		**(10,000)**
Retained earnings retired				**(69)**			**(69)**
Patronage distribution adjustment					**(12)**		**(12)**
Balance at September 30, 2013	**$ 125,250**	**$ 329,419**	**$ 36,580**	**$ 726**	**$ 1,815,596**	**$ 88,069**	**$ 2,395,640**

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the nine months ended September 30, 2013	2012
Cash flows from operating activities:		
Net income	**$ 350,084**	$ 357,610
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	**5,145**	4,918
Premium amortization (discount accretion) on investment securities	**10,289**	8,138
(Premium amortization) discount accretion on bonds and notes	**5,075**	2,675
Provision for (reversal of allowance for) loan losses	**(7,212)**	10,943
(Gains) losses on other property owned, net	**(549)**	4,332
Net impairment losses on investments	**2,071**	3,167
(Gains) losses on investments, net	**(7,592)**	—
(Gains) losses on other transactions	**164**	(1,975)
Net change in loans held for sale	**3,115**	22,179
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	**2,657**	(911)
(Increase) decrease in accounts receivable	**25,818**	3,272
(Increase) decrease in other assets	**3,431**	3,152
Increase (decrease) in accrued interest payable	**5,130**	(6,560)
Increase (decrease) in accounts payable	**5,137**	(19,438)
Increase (decrease) in other liabilities	**(7,268)**	(29,208)
Total adjustments	**45,411**	4,684
Net cash provided by (used in) operating activities	**395,495**	362,294
Cash flows from investing activities:		
Investment securities purchased	**(1,501,371)**	(965,801)
Investment securities sold or matured	**1,682,977**	1,263,302
Net (increase) decrease in loans	**122,018**	(1,776)
(Increase) decrease in investments in other Farm Credit System institutions	**83**	163
Purchase of premises and equipment, net	**(10,460)**	(3,805)
Proceeds from sale of other property owned	**13,537**	19,416
Net cash provided by (used in) investing activities	**306,784**	311,499
Cash flows from financing activities:		
Bonds and notes issued	**16,649,595**	33,100,092
Bonds and notes retired	**(16,948,884)**	(33,921,986)
Capital stock and participation certificates issued/retired, net	**(3,286)**	(11,965)
Cash distribution to shareholders	**(185,995)**	(191,834)
Redemption of perpetual preferred stock	**(150,000)**	(88,170)
Dividends paid on perpetual preferred stock	**(5,908)**	(12,012)
Retained earnings retired	**(69)**	(63)
Net cash provided by (used in) financing activities	**(644,547)**	(1,125,938)
Net increase (decrease) in cash and cash equivalents	**57,732**	(452,145)
Cash and cash equivalents, beginning of period	**873,165**	1,301,569
Cash and cash equivalents, end of period	**$ 930,897**	$ 849,424
Supplemental schedule of non-cash investing and financing activities:		
Receipt of property in settlement of loans	**$ 4,603**	$ 4,387
Change in unrealized gains (losses) on investments, net	**(82,736)**	61,456
Employee benefit plans adjustments	**(280)**	(110)
Non-cash changes related to interest rate hedging activities:		
Increase (decrease) in bonds and notes	**$ (11,011)**	$ (6,520)
Decrease (increase) in other assets	**11,011**	6,520
Supplemental information:		
Interest paid	**$ 133,312**	$ 165,145

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

Notes to the Financial Statements

(unaudited)

NOTE 1 — ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES, AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Organization

The accompanying financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst or Bank). AgFirst and its related Agricultural Credit Associations (Associations or District Associations) are collectively referred to as the AgFirst District (District). A complete description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations of the Bank as of and for the year ended December 31, 2012 are contained in the 2012 Annual Report to Shareholders. These unaudited interim financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Effective July 1, 2012, Chattanooga, ACA, merged with and into Jackson Purchase, ACA, which then changed its name to River Valley AgCredit, ACA, reducing the number of Associations to nineteen.

Basis of Presentation

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

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

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

Significant Accounting Policies

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

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

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

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

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

Recently Issued Accounting Pronouncements

In July 2013, the FASB issued Accounting Standards Update (ASU) 2013-10, "Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate for Hedge Accounting Purposes." As a result of the financial crisis in 2008, the exposure to and the demand for hedging the Fed Funds rate have increased significantly. That demand has been driven by an increased focus by banks on their sources of funding (including an increased focus on overnight interbank borrowings of surplus balances held at the Federal Reserve), the greater (and sometimes volatile) spread between LIBOR and OIS ("Overnight Index Swap Rate" or also referred to as the "Fed Funds Effective Swap Rate"), and new regulatory measures to curb systemic risks (such as increased collateralization of derivatives). Considering the increased importance of OIS, the objective of this ASU is to provide for the inclusion of the Fed Funds Effective Swap Rate (OIS) as a U.S. benchmark interest rate for hedge accounting purposes, in addition to UST (U.S. Treasuries) and LIBOR. The amendments are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. Adoption of this guidance did not impact the Bank's financial condition or its results of operations.

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

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

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

In December 2011, the FASB issued ASU 2011-11, “Balance Sheet (Topic 210) - Disclosures about Offsetting Assets and Liabilities.” The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of setoff associated with an entity’s recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in accordance with accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance, in conjunction with ASU 2013-01 above, did not impact the Bank’s financial condition or its results of operations, but resulted in additional disclosures.

Other recently issued accounting pronouncements are discussed in the 2012 Annual Report to Shareholders.

NOTE 2 — INVESTMENT SECURITIES

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

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

The FCA considers a non-agency security ineligible if it falls below the AAA/Aaa credit rating criteria and requires System institutions to provide notification to the FCA. Non-agency CMO and ABS securities not rated in the top category by at least one of the NRSROs at September 30, 2013 had a fair value of $178.2 million and $31.0 million, respectively. For each of these investment securities in the Bank's portfolio rated below AAA/Aaa, the FCA has approved, with conditions, for the Bank to continue to hold these investments.

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

Available-for-sale

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

	September 30, 2013				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. GNMA MBS/CMOs	$ 4,460,821	$ 113,150	$ (11,232)	$ 4,562,739	1.97%
U.S. Govt. Agency MBS/CMOs	1,800,254	19,652	(14,257)	1,805,649	0.97
Non-Agency CMOs (a)	209,667	18	(30,092)	179,593	0.58
Asset-Backed Securities (a)	22,325	15,449	(820)	36,954	0.78
Total	$ 6,493,067	$ 148,269	$ (56,401)	$ 6,584,935	1.64%

	December 31, 2012				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. GNMA MBS/CMOs	$ 4,814,556	$ 198,488	$ (12,431)	$ 5,000,613	2.18%
U.S. Govt. Agency MBS/CMOs	1,621,428	30,002	(7,203)	1,644,227	1.17
Non-Agency CMOs (b)	246,179	27	(41,507)	204,699	0.63
Asset-Backed Securities (b)	26,219	8,236	(1,065)	33,390	0.75
Total	$ 6,708,382	$ 236,753	$ (62,206)	$ 6,882,929	1.87%

(a) Gross unrealized losses include non-credit related other-than-temporary impairment included in AOCI of $21.0 million for Non-Agency CMOs and $0 for Asset-Backed Securities.
(b) Gross unrealized losses include non-credit related other-than temporary impairment included in AOCI of $27.9 million for Non-Agency CMOs and $0 for Asset-Backed Securities.

Held-to-maturity

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

	September 30, 2013				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. Agency MBS	$ 483,753	$ 24,185	$ (11,870)	$ 496,068	4.26%
Mission Related Investments (a)	145,670	7,368	(2,264)	150,774	6.01
Total	$ 629.423	$ 31,553	$ (14,134)	$ 646,842	4.67%

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

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

During the first nine months of 2013, proceeds from sales of investments were $122.2 million and realized gains were $7.6 million. There were no sales of investment securities during 2012.

A summary of the contractual maturity, estimated fair value and amortized cost of investment securities at September 30, 2013 follows:

Available-for-sale

(dollars in thousands)	Due in 1 year or less Amount	Weighted Average Yield	Due after 1 year through 5 years Amount	Weighted Average Yield	Due after 5 years through 10 years Amount	Weighted Average Yield	Due after 10 years Amount	Weighted Average Yield	Total Amount	Weighted Average Yield
U.S. Govt. GNMA MBS/CMOs	$ –	– %	$ 58	0.39 %	$ 7,595	1.28 %	$ 4,555,086	1.97 %	$ 4,562,739	1.97 %
U.S. Govt. Agency MBS/CMOs	18	0.68	8,366	2.47	38,863	2.48	1,758,402	0.93	1,805,649	0.97
Non-Agency CMOs	–	–	–	–	1,390	1.05	178,203	0.57	179,593	0.58
Asset-Backed Securities	–	–	–	–	–	–	36,954	0.78	36,954	0.78
Total fair value	$ 18	0.68 %	$ 8,424	2.45 %	$ 47,848	2.25 %	$ 6,528,645	1.64 %	$ 6,584,935	1.64 %
Total amortized cost	$ 18		$ 8,207		$ 47,560		$ 6,437,282		$ 6,493,067	

Held-to-maturity

(dollars in thousands)	Due in 1 year or less Amount	Weighted Average Yield	Due after 1 year through 5 years Amount	Weighted Average Yield	Due after 5 years through 10 years Amount	Weighted Average Yield	Due after 10 years Amount	Weighted Average Yield	Total Amount	Weighted Average Yield
U.S. Govt. Agency MBS	$ –	– %	$ –	– %	$ 628	4.75 %	$ 483,125	4.26 %	$ 483,753	4.26 %
Mission Related Investments	1,800	5.00	33,974	6.41	13,680	5.74	96,216	5.92	145,670	6.01
Total amortized cost	$ 1,800	5.00 %	$ 33,974	6.41 %	$ 14,308	5.69 %	$ 579,341	4.54 %	$ 629,423	4.67 %
Total fair value	$ 1,809		$ 36,261		$ 15,081		$ 593,691		$ 646,842	

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

An investment is considered impaired if its fair value is less than its cost. This also applies to those securities other-than-temporarily impaired for which a credit loss has been recognized but noncredit-related losses continue to remain unrealized. The following tables show the fair value and gross unrealized losses for 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, 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. GNMA MBS/CMOs	$ 941,931	$ (9,614)	$ 166,977	$ (1,618)	$ 1,108,908	$ (11,232)
U.S. Govt. Agency MBS/CMOs	1,036,130	(19,244)	326,978	(6,883)	1,363,108	(26,127)
Non-Agency CMOs	–	–	179,389	(30,092)	179,389	(30,092)
Asset-Backed Securities	–	–	8,296	(820)	8,296	(820)
Mission Related Investments	48,662	(2,196)	206	(68)	48,868	(2,264)
Total	$ 2,026,723	$ (31,054)	$ 681,846	$ (39,481)	$ 2,708,569	$ (70,535)

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

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

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

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

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

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

Following are the assumptions used at:

	September 30, 2013	
Assumptions Used	**Mortgage-backed Securities**	**Asset-backed Securities**
Default rate by range	1.12% to 33.34%	7.96% to 51.58%
Prepayment rate by range	4.73% to 9.68%	3.08% to 10.13%
Loss severity by range	4.08% to 75.94%	64.01% to 100.00%

	December 31, 2012	
Assumptions Used	**Mortgage-backed Securities**	**Asset-backed Securities**
Default rate by range	0.53% to 32.62%	5.49% to 57.89%
Prepayment rate by range	7.07% to 19.62%	5.65% to 17.57%
Loss severity by range	3.88% to 71.36%	56.22% to 100.00%

For all other impaired investments, the Bank has not recognized any credit losses as the impairments are deemed temporary and result from non-credit related factors. The Bank has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities. Substantially all of these investments were in U.S. Government agency securities and the Bank expects these securities would not be settled at a price less than their amortized cost. For the nine months ended September 30, 2013, net unrealized losses of $96.8 million were recognized in other comprehensive income for investments that are not other-than-temporarily impaired.

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

	For the three months ended September 30,		For the nine months ended September 30,	
(dollars in thousands)	**2013**	**2012**	**2013**	**2012**
Cumulative Losses Beginning of Period	$ 38,574	$ 36,548	$ 38,217	$ 36,224
Additions for initial credit impairments	–	–	339	1,768
Additions for subsequent credit impairments	–	–	1,732	1,399
Reductions for increases in expected cash flows	(235)	(253)	(813)	(787)
Reductions for losses incurred	(684)	2,021	(1,820)	(288)
Cumulative Losses End of Period	$ 37,655	$ 38,316	$ 37,655	$ 38,316

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES

For a complete description of the Bank's accounting for loans (including impaired loans and the allowance for loan losses) and definitions of loan types, see the 2012 Annual Report to Shareholders.

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

The credit risk management process begins with an analysis of the obligor's credit history, repayment capacity and financial position. Repayment capacity focuses on the obligor's ability to repay the obligation based on cash flows from operations or other sources of income, including non-farm income. Real estate mortgage loans must be secured by first liens on the real estate collateral. As required by 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, 2013	December 31, 2012
Direct notes*	$ 13,786,314	$ 13,833,602
Real estate mortgage	1,062,704	1,093,845
Production and intermediate-term	1,205,968	1,299,763
Loans to cooperatives	177,908	183,466
Processing and marketing	631,960	715,592
Farm-related business	165,016	128,680
Communication	189,871	207,852
Energy/water and waste disposal	449,695	488,416
Rural residential real estate	2,295,116	2,186,390
Loans to other financial institutions (OFIs)	85,066	60,479
Other (including mission-related)	10,901	11,166
Total Loans	$ 20,060,519	$ 20,209,251

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

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

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

	September 30, 2013							
	Within AgFirst District		**Within Farm Credit System**		**Outside Farm Credit System**		**Total**	
(dollars in thousands)	**Participations Purchased**	**Participations Sold**	**Participations Purchased**	**Participations Sold**	**Participations Purchased**	**Participations Sold**	**Participations Purchased**	**Participations Sold**
Real estate mortgage	$ 880,368	$ 32,726	$ 135,265	$ 10,506	$ 15,607	$ –	$ 1,031,240	$ 43,232
Production and intermediate-term	934,277	180,489	377,304	151,957	230,851	–	1,542,432	332,446
Loans to cooperatives	1,657	26,980	188,480	–	15,539	–	205,676	26,980
Processing and marketing	58,607	287,037	371,067	20,943	517,448	2,802	947,122	310,782
Farm-related business	27,007	20,319	114,844	–	44,351	–	186,202	20,319
Communication	–	69,246	251,496	–	10,000	–	261,496	69,246
Energy/water and waste disposal	–	22,249	466,909	–	6,953	–	473,862	22,249
Rural residential real estate	204	–	–	–	–	–	204	–
Loans to OFIs	–	–	–	–	85,066	–	85,066	–
Other (including mission-related)	10,968	–	–	–	–	–	10,968	–
Total	$ 1,913,088	$ 639,046	$ 1,905,365	$ 183,406	$ 925,815	$ 2,802	$ 4,744,268	$ 825,254

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

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

	September 30, 2013			
(dollars in thousands)	**Due less than 1 year**	**Due 1 through 5 years**	**Due after 5 years**	**Total**
Direct notes	$ 710,189	$ 3,022,758	$ 10,053,367	$ 13,786,314
Real estate mortgage	84,575	318,355	659,774	1,062,704
Production and intermediate-term	171,086	686,230	348,652	1,205,968
Loans to cooperatives	27,888	93,227	56,793	177,908
Processing and marketing	66,275	396,522	169,163	631,960
Farm-related business	13,390	120,124	31,502	165,016
Communication	3,803	102,443	83,625	189,871
Energy/water and waste disposal	10,421	170,564	268,710	449,695
Rural residential real estate	–	1,927	2,293,189	2,295,116
Loans to OFIs	–	83,866	1,200	85,066
Other (including mission-related)	–	116	10,785	10,901
Total Loans	$ 1,087,627	$ 4,996,132	$ 13,976,760	$ 20,060,519
Percentage	5.42%	24.91%	69.67%	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, 2013	December 31, 2012
Direct notes:		
Acceptable	85.87%	90.12%
OAEM	9.42	3.39
Substandard/doubtful/loss	4.71	6.49
	100.00%	100.00%
Real estate mortgage:		
Acceptable	86.10%	86.49%
OAEM	5.98	7.27
Substandard/doubtful/loss	7.92	6.24
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	86.78%	81.16%
OAEM	5.95	5.94
Substandard/doubtful/loss	7.27	12.90
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	99.53%
OAEM	–	0.47
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	97.48%	93.28%
OAEM	–	2.05
Substandard/doubtful/loss	2.52	4.67
	100.00%	100.00%
Farm-related business:		
Acceptable	99.54%	97.96%
OAEM	0.46	1.86
Substandard/doubtful/loss	–	0.18
	100.00%	100.00%

	September 30, 2013	December 31, 2012
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Energy/water and waste disposal:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	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	97.24%	97.73%
OAEM	–	–
Substandard/doubtful/loss	2.76	2.27
	100.00%	100.00%
Total Loans:		
Acceptable	88.68%	91.03%
OAEM	7.15	3.19
Substandard/doubtful/loss	4.17	5.78
	100.00%	100.00%

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

	September 30, 2013					
(dollars in thousands)	**30 Through 89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**	**Recorded Investment 90 Days or More Past Due and Accruing Interest**
Direct notes	$ –	$ –	$ –	$ 13,813,076	$ 13,813,076	$ –
Real estate mortgage	18,442	18,284	36,726	1,034,497	1,071,223	43
Production and intermediate-term	2,739	8,246	10,985	1,202,177	1,213,162	–
Loans to cooperatives	–	–	–	178,940	178,940	–
Processing and marketing	6	7,088	7,094	627,230	634,324	–
Farm-related business	–	–	–	165,447	165,447	–
Communication	–	–	–	190,071	190,071	–
Energy/water and waste disposal	–	–	–	451,260	451,260	–
Rural residential real estate	33,424	4,339	37,763	2,266,320	2,304,083	2,754
Loans to OFIs	–	–	–	85,178	85,178	–
Other (including mission-related)	–	–	–	11,064	11,064	–
Total	$ 54,611	$ 37,957	$ 92,568	$ 20,025,260	$ 20,117,828	$ 2,797

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

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, 2013**	**December 31, 2012**
Nonaccrual loans:		
Real estate mortgage	$ 52,681	$ 33,388
Production and intermediate-term	14,068	33,941
Processing and marketing	7,089	10,927
Rural residential real estate	2,490	1,952
Total nonaccrual loans	$ 76,328	$ 80,208
Accruing restructured loans:		
Real estate mortgage	$ 4,263	$ 4,444
Total accruing restructured loans	$ 4,263	$ 4,444
Accruing loans 90 days or more past due:		
Real estate mortgage	$ 43	$ 94
Rural residential real estate	2,754	2,312
Other (including mission-related)	–	58
Total accruing loans 90 days or more past due	$ 2,797	$ 2,464
Total nonperforming loans	$ 83,388	$ 87,116
Other property owned	11,092	19,477
Total nonperforming assets	$ 94,480	$ 106,593
Nonaccrual loans as a percentage of total loans	0.38%	0.40%
Nonperforming assets as a percentage of total loans and other property owned	0.47%	0.53%
Nonperforming assets as a percentage of capital	3.94%	4.64%

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, 2013	December 31, 2012
Impaired nonaccrual loans:		
Current as to principal and interest	$ 22,900	$ 6,812
Past due	53,428	73,396
Total impaired nonaccrual loans	76,328	80,208
Impaired accrual loans:		
Restructured	4,263	4,444
90 days or more past due	2,797	2,464
Total impaired accrual loans	7,060	6,908
Total impaired loans	$ 83,388	$ 87,116

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

	September 30, 2013			Quarter Ended September 30, 2013		Nine Months Ended September 30, 2013	
(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	$ 15,130	$ 15,749	$ 4,314	$ 16,618	$ –	$ 19,145	$ –
Production and intermediate-term	9,427	12,235	7,527	10,354	1	22,907	14
Processing and marketing	–	–	–	–	–	6,923	–
Rural residential real estate	90	89	35	90	–	225	–
Other (including mission-related)	–	–	–	–	–	–	–
Total	$ 24,647	$ 28,073	$ 11,876	$ 27,062	$ 1	$ 49,200	$ 14
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 41,857	$ 65,366	$ –	$ 33,099	$ 51	$ 21,406	$ 206
Production and intermediate-term	4,641	6,367	–	15,029	25	7,494	70
Processing and marketing	7,089	12,108	–	4,250	–	2,101	–
Rural residential real estate	5,154	5,118	–	4,114	(3)	4,589	96
Other (including mission-related)	–	–	–	–	–	(9)	–
Total	$ 58,741	$ 88,959	$ –	$ 56,492	$ 73	$ 35,581	$ 372
Total impaired loans:							
Real estate mortgage	$ 56,987	$ 81,115	$ 4,314	$ 49,717	$ 51	$ 40,551	$ 206
Production and intermediate-term	14,068	18,602	7,527	25,383	26	30,401	84
Processing and marketing	7,089	12,108	–	4,250	–	9,024	–
Rural residential real estate	5,244	5,207	35	4,204	(3)	4,814	96
Other (including mission-related)	–	–	–	–	–	(9)	–
Total	$ 83,388	$ 117,032	$ 11,876	$ 83,554	$ 74	$ 84,781	$ 386

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

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

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

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

(dollars in thousands)	**Direct Note**	**Real Estate Mortgage**	**Production and Intermediate-term**	**Agribusiness***	**Communication**	**Energy and Water/Waste Disposal**	**Rural Residential Real Estate**	**Other (including mission related)**	**Total**
Allowance for credit losses:									
Balance at June 30, 2013	$ –	$ 10,162	$ 25,485	$ 3,998	$ 407	$ 931	$ 277	$ 52	$ 41,312
Charge-offs	–	(169)	(7,823)	(1,782)	–	–	(310)	–	(10,084)
Recoveries	–	1,827	1	–	–	–	–	–	1,828
Provision for loan losses	–	(2,613)	(4,201)	695	47	(12)	352	–	(5,732)
Loan type reclassification	–	(902)	902	–	–	–	–	–	–
Balance at September 30, 2013	$ –	$ 8,305	$ 14,364	$ 2,911	$ 454	$ 919	$ 319	$ 52	$ 27,324
Balance at December 31, 2012	$ –	$ 9,548	$ 26,933	$ 6,510	$ 405	$ 764	$ 1	$ 378	$ 44,539
Charge-offs	–	(170)	(7,884)	(3,782)	–	–	(378)	–	(12,214)
Recoveries	–	1,979	185	–	–	–	–	47	2,211
Provision for loan losses	–	(2,150)	(5,772)	183	49	155	696	(373)	(7,212)
Loan type reclassification	–	(902)	902	–	–	–	–	–	–
Balance at September 30, 2013	$ –	$ 8,305	$ 14,364	$ 2,911	$ 454	$ 919	$ 319	$ 52	$ 27,324
Balance at June 30, 2012	$ –	$ 7,775	$ 15,410	$ 3,286	$ 342	$ 678	$ 55	$ 435	$ 27,981
Charge-offs	–	(201)	(2,808)	–	–	–	(42)	–	(3,051)
Recoveries	–	–	3,810	(1)	–	–	–	6	3,815
Provision for loan losses	–	3,000	7,855	2,986	13	21	13	(50)	13,838
Balance at September 30, 2012	$ –	$ 10,574	$ 24,267	$ 6,271	$ 355	$ 699	$ 26	$ 391	$ 42,583
Balance at December 31, 2011	$ –	$ 8,882	$ 12,654	$ 4,974	$ 233	$ 305	$ 37	$ 629	$ 27,714
Charge-offs	–	(1,712)	(4,312)	(13)	–	–	(42)	(365)	(6,444)
Recoveries	–	2,834	7,530	–	–	–	–	6	10,370
Provision for loan losses	–	570	8,395	1,310	122	394	31	121	10,943
Balance at September 30, 2012	$ –	$ 10,574	$ 24,267	$ 6,271	$ 355	$ 699	$ 26	$ 391	$ 42,583
Loans individually evaluated for impairment	$ –	$ 4,314	$ 7,527	$ –	$ –	$ –	$ 35	$ –	$ 11,876
Loans collectively evaluated for impairment	–	3,991	6,837	2,911	454	919	284	52	15,448
Balance at September 30, 2013	$ –	$ 8,305	$ 14,364	$ 2,911	$ 454	$ 919	$ 319	$ 52	$ 27,324
Loans individually evaluated for impairment	$ –	$ 4,970	$ 15,747	$ 3,430	$ –	$ –	$ –	$ –	$ 24,147
Loans collectively evaluated for impairment	–	4,578	11,186	3,080	405	764	1	378	20,392
Balance at December 31, 2012	$ –	$ 9,548	$ 26,933	$ 6,510	$ 405	$ 764	$ 1	$ 378	$ 44,539
Recorded investment in loans outstanding:									
Loans individually evaluated for impairment	$ 13,813,076	$ 131,833	$ 14,068	$ 7,089	$ –	$ –	$ 2,303,878	$ –	$ 16,269,944
Loans collectively evaluated for impairment	–	939,390	1,199,094	971,622	190,071	451,260	205	96,242	3,847,884
Ending balance at September 30, 2013	$ 13,813,076	$ 1,071,223	$ 1,213,162	$ 978,711	$ 190,071	$ 451,260	$ 2,304,083	$ 96,242	$ 20,117,828
Loans individually evaluated for impairment	$ 13,861,790	$ 125,908	$ 33,988	$ 10,927	$ –	$ –	$ 2,195,718	$ –	$ 16,228,331
Loans collectively evaluated for impairment	–	975,997	1,273,143	1,019,448	208,156	489,532	335	71,817	4,038,428
Ending balance at December 31, 2012	$ 13,861,790	$ 1,101,905	$ 1,307,131	$ 1,030,375	$ 208,156	$ 489,532	$ 2,196,053	$ 71,817	$ 20,266,759

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about activity that occurred during the periods presented related to TDRs. The tables do not include any purchased credit impaired loans. There were no TDRs for the three months ended September 30, 2012.

	Three months ended September 30, 2013			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 15,575	$ –	$ –	$ 15,575
Production and intermediate-term	–	–	–	–
Total	$ 15,575	$ –	$ –	$ 15,575

	Three months ended September 30, 2013				
	Post modification Outstanding Recorded Investment				Effects of Modification
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Troubled debt restructurings:					
Real estate mortgage	$ 10,365	$ –	$ –	$ 10,365	$ (7,824)
Production and intermediate-term	2,499	–	–	2,499	–
Total	$ 12,864	$ –	$ –	$ 12,864	$ (7,824)

	Nine months ended September 30, 2013			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 15,575	$ 2,488	$ –	$ 18,063
Production and intermediate-term	–	–	–	–
Total	$ 15,575	$ 2,488	$ –	$ 18,063

	Nine months ended September 30, 2013				
	Post-modification Outstanding Recorded Investment				Effects of Modification
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Troubled debt restructurings:					
Real estate mortgage	$ 10,365	$ 2,488	$ –	$ 12,853	$ (7,824)
Production and intermediate-term	2,499	–	–	2,499	–
Total	$ 12,864	$ 2,488	$ –	$ 15,352	$ (7,824)

	Nine months ended September 30, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 3,995	$ –	$ 3,995
Production and intermediate-term	–	641	–	641
Total	$ –	$ 4,636	$ –	$ 4,636

	Nine months ended September 30, 2012				
	Post-modification Outstanding Recorded Investment				Effects of Modification
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Troubled debt restructurings:					
Real estate mortgage	$ –	$ 3,995	$ –	$ 3,995	$ –
Production and intermediate-term	–	641	–	641	–
Total	$ –	$ 4,636	$ –	$ 4,636	$ –

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Defaulted troubled debt restructurings:				
Real estate mortgage	$ –	$ 5,116	$ –	$ 8,104
Production and intermediate-term	898	1,489	2,762	6,403
Processing and marketing	7,088	–	26,217	–
Total	$ 7,986	$ 6,605	$ 28,979	$ 14,507

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, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Real estate mortgage	$ 28,136	$ 18,686	$ 23,873	$ 14,242
Production and intermediate-term	10,174	8,489	10,174	8,489
Processing and marketing	7,088	10,880	7,088	10,880
Total Loans	$ 45,398	$ 38,055	$ 41,135	$ 33,611
Additional commitments to lend	$ 3,165	$ 13,938		

NOTE 4 — FAIR VALUE MEASUREMENT

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

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

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

Level 1

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

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

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

Level 2

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

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

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

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

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

Level 3

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

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

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

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

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

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

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

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

(dollars in thousands)	Asset Backed Securities	Non-Agency CMOs	Standby Letters Of Credit
Balance at January 1, 2013	$ 33,390	$ 204,699	$ 1,089
Total gains or (losses):			
Included in earnings	(28)	(1,705)	–
Included in other comprehensive	7,457	11,407	–
Issuances	–	–	–
Settlements	(3,865)	(34,808)	(101)
Transfers in and/or out of Level 3	–	–	–
Balance at September 30, 2013	$ 36,954	$ 179,593	$ 988

(dollars in thousands)	Asset-Backed Securities	Non-Agency CMOs	Standby Letters Of Credit
Balance at January 1, 2012	$ 30,324	$ 241,756	$ 1,787
Total gains or (losses):			
Included in earnings	–	(3,167)	–
Included in other comprehensive	8,971	4,505	–
Issuances	–	–	–
Settlements	(7,232)	(30,993)	(391)
Transfers in and/or out of Level 3	–	–	–
Balance at September 30, 2012	$ 32,063	$ 212,101	$ 1,396

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

Investment Securities

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

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

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

Derivative Instruments

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

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

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

Other Property Owned/Impaired Loans

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

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

		Fair Value	Valuation Technique(s)	Unobservable Input	Range
Firm commitments-when issued securities	$	–	Broker/Consensus pricing	Offered quotes	None outstanding
Non-agency securities	$	216,547	Vendor priced	**	
Impaired loans and other property owned	$	83,443	Appraisal	Income and expense	*
				Comparable sales	*
				Replacement cost	*
				Comparability adjustments	*

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

Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

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

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

Information about Other Financial Instrument Fair Value Measurements

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

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

(dollars in thousands)	At or for the Nine Months Ended September 30, 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. GNMA MBS/CMOs	$ 4,562,739	$ –	$ 4,562,739	$ –	$ 4,562,739	
U.S. Govt. Agency MBS/CMOs	1,805,649	–	1,805,649	–	1,805,649	
Non-Agency CMOs	179,593	–	–	179,593	179,593	
Asset-backed securities	36,954	–	–	36,954	36,954	
Total investments available-for-sale	6,584,935	–	6,368,388	216,547	6,584,935	
Federal funds sold, securities purchased under resale agreements, and other	152,190	–	152,190	–	152,190	
Interest rate swaps and other derivative instruments	30,373	–	30,373	–	30,373	
Assets held in trust funds	6,211	6,211	–	–	6,211	
Recurring Assets	$ 6,773,709	$ 6,211	$ 6,550,951	$ 216,547	$ 6,773,709	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	–	–	–	–	–	
Standby letters of credit	988	–	–	988	988	
Recurring Liabilities	$ 988	$ –	$ –	$ 988	$ 988	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 71,512	$ –	$ –	$ 71,512	$ 71,512	$ 2,268
Other property owned	11,092	–	–	11,931	11,931	549
Nonrecurring Assets	$ 82,604	$ –	$ –	$ 83,443	$ 83,443	$ 2,817
Other Financial Instruments						
Assets:						
Cash	$ 778,707	$ 778,707	$ –	$ –	$ 778,707	
Investments held to maturity	629,423	–	496,068	150,774	646,842	
Loans	19,969,578	–	–	19,872,786	19,872,786	
Other investments	–	–	–	–	–	
Other Assets	$ 21,377,708	$ 778,707	$ 496,068	$ 20,023,560	$ 21,298,335	
Liabilities:						
Systemwide debt securities	$ 25,981,533	$ –	$ –	$ 25,798,507	$ 25,798,507	
Other Liabilities	$ 25,981,533	$ –	$ –	$ 25,798,507	$ 25,798,507	

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

NOTE 5 — COMMITMENTS AND CONTINGENT LIABILITIES

Association Financial Assistance

Effective January 1, 2011, Farm Credit of North Florida, ACA, and Farm Credit of Southwest Florida, ACA, merged with and into Farm Credit of South Florida, ACA. Farm Credit of South Florida then changed its name to Farm Credit of Florida, ACA. As part of the merger, those Associations entered into an agreement with the Bank under which the Bank would provide limited financial assistance to the merged Association in the event of substantial further deterioration in the combined high risk asset portfolio of the merged Association. This agreement relates only to a finite pool of high risk assets of the merged Association existing at the merger date, which had a net book value at January 1, 2011 of $250.0 million. At September 30, 2013, those assets had a net book value of $84.2 million. This agreement with the Bank does not include losses that are sustained outside of the high risk asset pool. Protection to the Bank, such as limitations on the Association's ability to make patronage distributions and certain other restrictions, is provided in the agreement if certain merged Association capital ratios fail to meet minimum established levels.

Under the financial assistance agreement, if specified minimum levels of capital allocated to the high risk asset pool are not maintained by the merged Association, the Bank would provide financial assistance as stipulated in the agreement. The assistance consists of three components. First, AgFirst would allow the Association to include AgFirst allocated stock owned by the merged Association in its capital ratio computations. This allocated stock, which totals $10.1 million, has been counted entirely by the Bank in its capital ratio computations under an existing capital sharing arrangement. Second, AgFirst would redeem purchased stock held by the merged Association, up to the total amount outstanding, which was $1.3 million at December 31, 2012, and the redeemed amount would be included in capital ratio computations by the merged Association. This purchased stock has been counted entirely by the Bank in its capital ratio computations under an existing capital sharing arrangement. The third and final level of assistance, if elected by the Association, would be a purchase by AgFirst of the high risk asset pool from the Association at net book value. There would also be a corresponding repurchase by the merged Association of its previously redeemed stock in AgFirst and a return to the capital sharing arrangement allowing the Bank to count the allocated stock in its capital ratio computations in amounts necessary to satisfy the capitalization requirement under AgFirst's capitalization plan then in effect.

At December 31, 2012, capital allocated to the high risk asset pool failed to meet specified minimum levels due to losses in the pool from resolution efforts, provisions, and write-downs subsequent to the merger date. This resulted in the Bank providing assistance under the agreement by allowing the merged Association to include in its capital ratio computations $3.3 million of the total $10.1 million of AgFirst allocated stock owned by the merged Association. At September 30, 2013, the amount of assistance increased to $7.2 million of allocated stock.

The high risk asset pool may continue to experience additional losses. Assistance provided under the agreement did not have a material impact on the financial condition and results of operations of the Bank at September 30, 2013 and additional assistance in the future likely would not have a material adverse impact on either the financial condition or future operating results of the Bank.

Other Commitments and Contingencies

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

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

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

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

(dollars in billions)	**9/30/2013**	**12/31/2012**
Total System bonds and notes	$ 200.888	$ 197.966
AgFirst bonds and notes	$ 25.982	$ 26.287

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

NOTE 6 — EMPLOYEE BENEFIT PLANS

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

	For the three months ended September 30,		For the nine months ended September 30,	
(dollars in thousands)	**2013**	**2012**	**2013**	**2012**
Pension	$ 2,425	$ 2,478	$ 7,274	$ 7,433
401k	306	284	914	866
Other postretirement benefits	269	223	808	670
Total	$ 3,000	$ 2,985	$ 8,996	$ 8,969

Following are retirement and other postretirement benefit contributions for the Bank. Projections are based upon actuarially determined amounts as of the most recent measurement date of December 31, 2012.

(dollars in thousands)	**Actual YTD Through 9/30/13**	**Projected Contributions for Remainder of 2013**	**Projected Total Contributions 2013**
Pensions	$ 433	$ 8,112	$ 8,545
Other postretirement benefits	762	317	1,079
Total	$ 1,195	$ 8,429	$ 9,624

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Bank participates. These amounts may change when a total funding amount and allocation is determined by the respective Plans' Sponsor Committees. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2013.

Further details regarding employee benefit plans are contained in the 2012 Annual Report to Shareholders.

NOTE 7 — DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

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

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

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

	For the Nine Months Ended September 30,			
	2013		2012	
Notional Amounts *(dollars in millions)*	**Receive-Fixed Swaps**	**Forward Contracts**	**Receive-Fixed Swaps**	**Forward Contracts**
Balance at beginning of period	$ 360	$ –	$ 535	$ 66
Additions	–	–	–	542
Maturities/amortization	(50)	–	–	(493)
Terminations	–	–	–	–
Balance at end of period	$ 310	$ –	$ 535	$ 115

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

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

At September 30, 2013, the Bank had not posted collateral with respect to any of these arrangements.

Counterparty exposure related to derivatives at:

(dollars in millions)	**September 30, 2013**	**December 31, 2012**
Estimated Gross Credit Risk	$30.4	$41.4
Percent of Notional	9.80%	11.50%
Cash Collateral Held *(on balance sheet)*	$–	$–
Securities Collateral Held *(off balance sheet)*	$10.5	$19.6

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

Fair Value Hedges

For derivative instruments designated as fair value hedges, the gains or losses on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings. The Bank includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. The amount of the loss on interest rate swaps recognized in interest expense for the 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. The amount of the loss on interest rate swaps recognized in interest expense for the nine months ended September 30, 2012 was $4.8 million, while the amount of the gain on the Systemwide Debt

Securities was $4.8 million. Gains and losses on each derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Cash Flow Hedges

From time to time, the Bank may acquire when-issued securities, generally government agency guaranteed bonds. The when-issued transactions are contracts to purchase securities that will not be delivered until 30, or more, days in the future. These purchase commitments are considered derivatives (cash flow hedges) in the form of forward contracts. Any differences in market value of the contracted securities, between the purchase and reporting or settlement date, represent the value of the forward contracts. These amounts are included in Other Comprehensive Income (OCI), and Other Liabilities or Other Assets as appropriate, as firm commitments in the Bank's Balance Sheet for each period end. At September 30, 2013 and December 31, 2012, the Bank had not committed to purchase any when-issued bonds.

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

Fair Values of Derivative Instruments

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

(dollars in thousands)	**Balance Sheet Classification – Assets**	**9/30/13 Fair Value**	**Balance Sheet Classification - Liabilities**	**9/30/13 Fair Value**
Derivatives designated as hedging instruments:				
Receive-fixed swaps	Other Assets	$ 30,373	Other Liabilities	$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		$ 30,373		$ –

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

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

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

(dollars in thousands)	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2013	2012		2013	2012		2013	2012
Derivatives – Cash Flow Hedging Relationships:								
Firm Commitments	$ –	$ 7,864	Interest Income	$ 943	$ 480	Interest Income	$ –	$ –

NOTE 8 — 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.

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

NOTE 9 — ACCUMULATED OTHER COMPREHENSIVE INCOME

The following presents activity related to AOCI for the three month and nine month periods ended September 30:

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

	Three Months		Year to Date	
(dollars in thousands)	**2013**	**2012**	**2013**	**2012**
Unrealized Gains (Losses) on Investments:				
Balance at beginning of period	$ 123,903	$ 148,458	$ 174,547	$ 132,826
Other comprehensive income before reclassifications	(32,092)	45,824	(77,215)	58,289
Amounts reclassified from AOCI	–	–	(5,521)	3,167
Net current period other comprehensive income	(32,092)	45,824	(82,736)	61,456
Balance at end of period	$ 91,811	$ 194,282	$ 91,811	$ 194,282
Firm Commitments:				
Balance at beginning of period	$ 813	$ (4,356)	$ 1,514	$ (5,566)
Other comprehensive income before reclassifications	–	6,355	–	7,864
Amounts reclassified from AOCI	(242)	(181)	(943)	(480)
Net current period other comprehensive income	(242)	6,174	(943)	7,384
Balance at end of period	$ 571	$ 1,818	$ 571	$ 1,818
Employee Benefit Plans:				
Balance at beginning of period	$ (4,407)	$ (3,265)	$ (4,593)	$ (3,263)
Other comprehensive income before reclassifications	–	(1)	–	(229)
Amounts reclassified from AOCI	94	113	280	339
Net current period other comprehensive income	94	112	280	110
Balance at end of period	$ (4,313)	$ (3,153)	$ (4,313)	$ (3,153)
Total Accumulated Other Comprehensive Income:				
Balance at beginning of period	$ 120,309	$ 140,837	$ 171,468	$ 123,997
Other comprehensive income before reclassifications	(32,092)	52,178	(77,215)	65,924
Amounts reclassified from AOCI	(148)	(68)	(6,184)	3,026
Net current period other comprehensive income	(32,240)	52,110	(83,399)	68,950
Balance at end of period	$ 88,069	$ 192,947	$ 88,069	$ 192,947

(dollars in thousands)	Reclassifications Out of Accumulated Other Comprehensive Income *(b)* Three Months 2013	Three Months 2012	Year to Date 2013	Year to Date 2012	Income Statement Line Item
Investment Securities:					
Sales gains & losses	$ –	$ –	$ 7,592	$ –	Gains (losses) on investments, net
Holding gains & losses	–	–	(2,071)	(3,167)	Net other-than-temporary impairment
Net amounts reclassified	–	–	5,521	(3,167)	
Cash Flow Hedges:					
Interest income	242	181	943	480	See footnote 7.
Net amounts reclassified	242	181	943	480	
Defined Benefit Pension Plans:					
Periodic pension costs	(94)	(113)	(280)	(339)	See footnote 6.
Net amounts reclassified	(94)	(113)	(280)	(339)	
Total reclassifications for period	$ 148	$ 68	$ 6,184	$ (3,026)	

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

NOTE 10 — OFFSETTING OF FINANCIAL AND DERIVATIVE ASSETS

September 30, 2013

(dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets Presented in the Balance Sheets	Gross Amounts Not Offset in the Balance Sheets: Financial Instruments	Gross Amounts Not Offset in the Balance Sheets: Cash Collateral Received	Net Amount
Derivatives	$ 30,373	$ –	$ 30,373	$ (10,518)	$ –	$ 19,855
Reverse repurchase and similar arrangements	152,190	–	152,190	(152,190)	–	–
Total	$ 182,563	$ –	$ 182,563	$ (162,708)	$ –	$ 19,855

December 31, 2012

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

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 7, *Derivative Financial Instruments and Hedging Activities*.

The reverse repurchase agreements are accounted for as collateralized lending.

NOTE 11 — 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 by the banks through the Funding Corporation. Certain conditions must be met before AgFirst can participate in the issuance of Systemwide Debt Securities. As one condition of participation, AgFirst is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets, at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable. This requirement does not provide holders of Systemwide Debt Securities with a security interest in any assets of the banks.

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

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

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

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

NOTE 12 — SUBSEQUENT EVENTS

The Bank has evaluated subsequent events and has determined that, except as described below, there are none requiring disclosure through November 8, 2013, which is the date the financial statements were issued.

On October 21, 2013, the Bank’s Board of Directors declared a special cash patronage distribution totaling $200.0 million to be paid primarily to District Associations on January 1, 2014.