



FARM CREDIT

2013 ANNUAL INFORMATION STATEMENT OF THE FARM CREDIT SYSTEM

Federal Farm Credit Banks Funding Corporation

10 Exchange Place, Suite 1401 • Jersey City, New Jersey 07302 • 201-200-8000

FEBRUARY 28, 2014

This annual information statement provides important information for investors in the debt securities jointly issued by the four Farm Credit System Banks — AgFirst Farm Credit Bank, AgriBank, FCB, CoBank, ACB and Farm Credit Bank of Texas (collectively, the Banks). These debt securities, which we refer to as Systemwide Debt Securities, include:

- Federal Farm Credit Banks Consolidated Systemwide Bonds,
- Federal Farm Credit Banks Consolidated Systemwide Discount Notes,
- Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes, and
- any other debt securities that the Farm Credit System Banks may jointly issue from time to time.

This annual information statement does not constitute an offer to sell or a solicitation of an offer to buy Systemwide Debt Securities. Systemwide Debt Securities are offered by the Federal Farm Credit Banks Funding Corporation on behalf of the Banks pursuant to offering circulars for each type of debt offering. The relevant offering circular as of this date is the Federal Farm Credit Banks Consolidated Systemwide Bonds and Discount Notes Offering Circular dated October 18, 2010, as amended by supplements dated April 22, 2011, January 1, 2013 and February 19, 2014.

The offering circular may be amended or supplemented from time to time and a new offering circular may be issued. Before purchasing Systemwide Debt Securities, you should carefully read the relevant offering circular, this annual information statement and other current information released by the Funding Corporation regarding the Banks or Systemwide Debt Securities. At this time, no Systemwide Debt Securities are being offered under the Federal Farm Credit Banks Global Debt Program Offering Circular dated October 10, 1996, the Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes Offering Circular dated July 19, 1993, as amended by supplements dated February 26, 1997 and June 11, 1999 or the Federal Farm Credit Banks Consolidated Systemwide Master Notes Offering Circular dated December 21, 1999, as amended by the supplement dated August 20, 2001. No securities previously offered under the Global Debt Offering Circular or the Master Notes Offering Circular are currently outstanding.

Systemwide Debt Securities are the joint and several obligations of the Banks and are not obligations of and are not guaranteed by the United States government. Systemwide Debt Securities are not required to be registered and have not been registered under the Securities Act of 1933. In addition, the Banks are not required to file and do not file periodic reports under the Securities Exchange Act of 1934. Systemwide Debt Securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, these authorities have not confirmed the accuracy or determined the adequacy of any offering material.

Certification

The undersigned certify that (1) we have reviewed this annual information statement, (2) this annual information statement has been prepared in accordance with all applicable statutory or regulatory requirements, and (3) the information contained in this annual information statement is true, accurate, and complete to the best of the signatories' knowledge and belief.



J. Less Guthrie
Chairman of the Board



Theresa E. McCabe
President and CEO

Karen R. Brenner
Managing Director — Financial
Management Division

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WHERE YOU CAN FIND ADDITIONAL INFORMATION

Farm Credit System quarterly and annual information statements and press releases relating to financial results or other developments affecting the System issued by the Federal Farm Credit Banks Funding Corporation for the current fiscal year and the two preceding fiscal years, as well as offering circulars relating to Systemwide Debt Securities, are available for inspection at, or will be furnished without charge upon request to, the Federal Farm Credit Banks Funding Corporation, 10 Exchange Place, Suite 1401, Jersey City, New Jersey 07302; telephone (201) 200-8000. These documents are also available on the Funding Corporation's website located at www.farmcreditfunding.com. Other information regarding the System can be found on the System's website located at www.farmcredit.com.

In addition, copies of quarterly and annual reports of each Bank and each Farm Credit Bank (AgFirst Farm Credit Bank, AgriBank, FCB and Farm Credit Bank of Texas) combined with its affiliated Associations may be obtained from the individual Bank. Bank addresses and telephone numbers where copies of these documents may be obtained are listed on page S-29 of this annual information statement. These documents and further information on each Bank or each Farm Credit Bank combined with its affiliated Associations and links to a Bank's affiliated Associations' websites are also available on each Bank's website as follows:

- AgFirst Farm Credit Bank — www.agfirst.com
- AgriBank, FCB — www.agribank.com
- CoBank, ACB — www.cobank.com
- Farm Credit Bank of Texas — www.farmcreditbank.com

Information contained on these websites is not incorporated by reference into this annual information statement and you should not consider information contained on these websites to be part of this annual information statement.

FIVE-YEAR SUMMARY OF SELECTED COMBINED FINANCIAL DATA AND KEY FINANCIAL RATIOS

The following selected combined financial data for each of the five years in the period ended December 31, 2013 has been derived from the audited combined financial statements of the Farm Credit System. The selected combined financial data and combined financial statements of the Farm Credit System combine the financial condition and operating results of each of the Banks, their affiliated Associations, the Federal Farm Credit Banks Funding Corporation, and the Farm Credit Insurance Fund, and reflect the investments in, and allocated earnings of, certain service organizations owned by the Banks or Associations. All significant intra-System transactions and balances have been eliminated in combination. Because System entities are financially and operationally interdependent, we believe providing the combined financial information is more meaningful to investors in Systemwide Debt Securities than financial information relating to the Banks on a stand-alone basis (i.e., without the Associations).

While this annual information statement reports on the combined financial condition and results of operations of the Banks, Associations, and other System entities specified above, only the Banks are jointly and severally liable for payments on Systemwide Debt Securities. As an important component of the System combined financial statements, Note 22 to the accompanying combined financial statements provides combining Bank-only financial condition and results of operations information. Copies of quarterly and annual reports of each Bank are available on its website; see page 2 for a listing of the websites.

The combined statement of condition at December 31, 2013 and 2012 and the related combined statements of income, of comprehensive income, of changes in capital, and of cash flows for each of the three years in the period ended December 31, 2013 and related notes appear elsewhere in this annual information statement.

	2013	2012	2011	2010	2009
	(in millions)				
Combined Statement of Condition Data					
Loans	\$201,060	\$191,904	\$174,664	\$175,351	\$164,830
Allowance for loan losses	(1,238)	(1,343)	(1,290)	(1,447)	(1,359)
Net loans	199,822	190,561	173,374	173,904	163,471
Cash, Federal funds sold and investments	51,893	46,928	47,281	46,282	42,221
Accrued interest receivable	1,719	1,668	1,750	1,881	1,952
Other property owned	198	324	458	454	241
Total assets	260,782	246,664	230,411	229,973	215,457
Systemwide bonds and medium-term notes	188,852	183,418	171,140	169,579	165,692
Systemwide discount notes	18,637	14,548	13,640	19,194	11,604
Subordinated debt	1,555	1,555	1,650	1,650	1,550
Other bonds	3,215	2,399	2,109	802	1,062
Mandatorily redeemable preferred stock				225	225
Protected borrower stock	1	2	5	7	8
Total liabilities	218,181	208,055	194,471	196,722	185,498
Capital	42,601	38,609	35,940	33,251	29,959
Combined Statement of Income Data					
Net interest income	\$ 6,674	\$ 6,477	\$ 6,259	\$ 5,890	\$ 5,392
Loan loss reversal (provision for loan losses)	31	(313)	(430)	(667)	(925)
Net noninterest expense	(1,844)	(1,824)	(1,620)	(1,510)	(1,422)
Income before income taxes	4,861	4,340	4,209	3,713	3,045
Provision for income taxes	(221)	(222)	(269)	(218)	(195)
Net income	\$ 4,640	\$ 4,118	\$ 3,940	\$ 3,495	\$ 2,850

Combined Key Financial Ratios

Certain combined key financial ratios of the System are set forth below:

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Return on average assets	1.86%	1.74%	1.71%	1.60%	1.33%
Return on average capital	11.43	10.96	11.21	10.90	9.92
Net interest income as a percentage of average earning assets	2.78	2.87	2.86	2.82	2.65
Operating expense as a percentage of net interest income and noninterest income	33.4	32.2	30.5	31.0	31.3
Net loan charge-offs as a percentage of average loans	0.03	0.13	0.28	0.36	0.32
Nonperforming assets as a percentage of loans and other property owned	1.11	1.53	1.97	2.18	2.29
Allowance for loan losses as a percentage of loans outstanding at year end	0.62	0.70	0.74	0.83	0.82
Capital as a percentage of total assets at year end	16.3	15.7	15.6	14.5	13.9
Capital and allowance for loan losses as a percentage of loans outstanding at year end	21.8	20.8	21.3	19.8	19.0
Debt to capital at year end	5.12:1	5.39:1	5.41:1	5.92:1	6.19:1

BUSINESS

Overview of the Farm Credit System

The Farm Credit System is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. Cooperatives are organizations that are owned and controlled by their members who use the cooperatives' products or services. The U.S. Congress authorized the creation of the first System institutions in 1916. Our mission is to provide sound and dependable credit to American farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, and certain farm-related businesses. We do this by making appropriately structured loans to qualified individuals and businesses at competitive

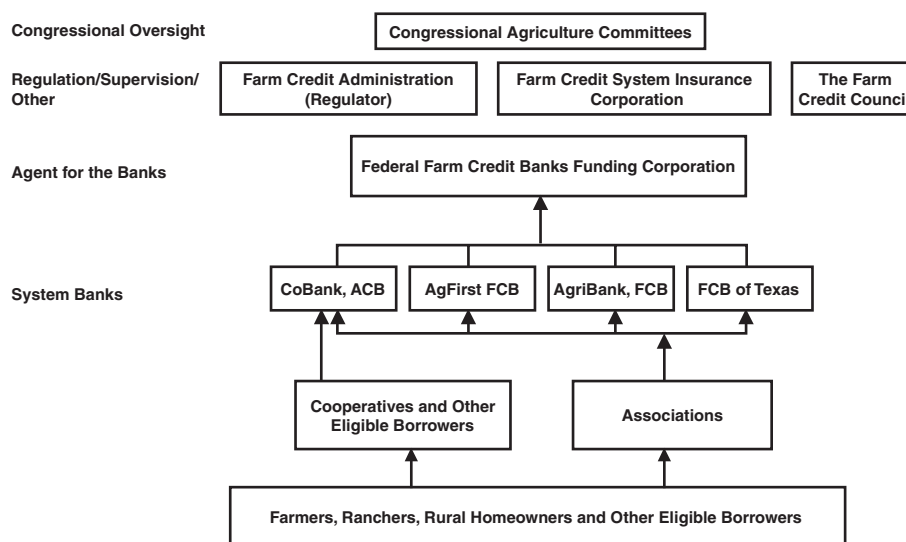
rates and providing financial services and advice to those persons and businesses.

Consistent with our mission of serving rural America, we also make rural residential real estate loans, finance rural communication, energy and water infrastructures and make loans to support agricultural exports and to finance other eligible entities.

Congress established the Farm Credit Administration as the System's independent federal regulator to examine and regulate System institutions, including their safety and soundness. System institutions are federal instrumentalities.

Structure/Ownership of the Farm Credit System

The following chart depicts the current overall structure and ownership of the System.



The Associations are cooperatives owned by their borrowers, and the Farm Credit Banks (AgFirst, AgriBank and Texas) are cooperatives primarily owned by their affiliated Associations. The Agricultural Credit Bank (CoBank) is a cooperative principally owned by cooperatives, other eligible borrowers and its affiliated Associations. The Banks and Associations each have their own board of directors and are not commonly owned. Each Bank and Association manages and controls its own business activities, operations and financial performance.

The Banks jointly own the Federal Farm Credit Banks Funding Corporation (Funding Corporation).

The Funding Corporation, as agent for the Banks, issues and markets Systemwide Debt Securities in order to raise funds for the lending activities and operations of the Banks and Associations. The Funding Corporation also provides the Banks with certain consulting, accounting and financial reporting services, including the preparation of the System's quarterly and annual information statements and the System's combined financial statements contained in those information statements. As the System's financial spokesperson, the Funding Corporation is primarily responsible for financial disclosure and the release of public information concerning the financial condition and performance of the System.

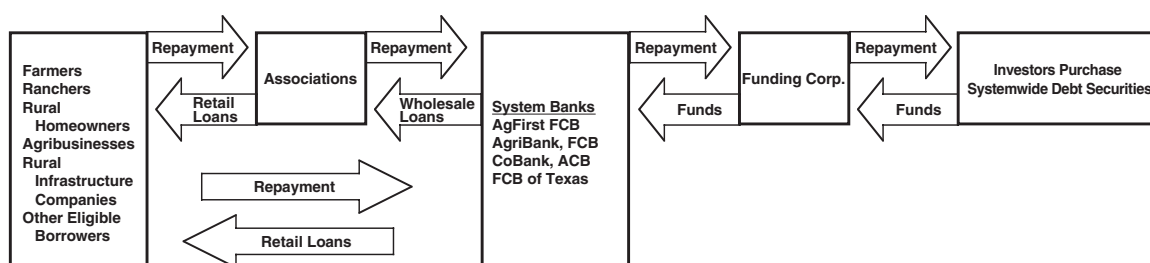
Systemwide Debt Securities are the general unsecured joint and several obligations of the Banks. Systemwide Debt Securities are not obligations of and are not guaranteed by the United States government. In addition, Systemwide Debt Securities are not the direct obligations of the Associations and, as a result, the capital of the Associations may not be available to support principal or interest payments on Systemwide Debt Securities.

Our Business Model

A Bank and its affiliated Associations are financially and operationally interdependent as the Bank is statutorily required to serve as an intermediary between the financial markets and the retail lending activities of its affiliated Associations. The Banks are the primary source of funds for the Associations. Associations are not legally authorized to accept deposits and may not borrow from other financial institutions without the approval of their affiliated Bank. The Banks are not legally authorized to accept deposits and they principally obtain their funds

through the issuance of Systemwide Debt Securities. Other less significant sources of funding for the Banks include internally generated earnings, the issuance of common and preferred equities and the issuance of subordinated debt. As a result, the loans made by the Associations are primarily funded by the issuance of Systemwide Debt Securities by the Banks. The repayment of Systemwide Debt Securities is dependent upon the ability of borrowers to repay their loans from the Associations. In addition, CoBank makes retail loans and leases directly to cooperatives, rural infrastructure companies, and other eligible borrowers. The Banks also purchase retail loan participations from Associations, other Banks and non-System lenders. Therefore, the repayment of Systemwide Debt Securities is also dependent upon the ability of these borrowers to repay their loans.

The chart below illustrates the flow of funds from investors in Systemwide Debt Securities to the System's borrowers and the ultimate repayment of funds to investors resulting from borrower loan repayments.



Overview of Our Business

As required by the Farm Credit Act, we specialize in providing financing and related services to eligible, creditworthy borrowers in the agricultural and rural sectors, to certain related entities, and to domestic or foreign parties in connection with the export of U.S. agricultural products. We make credit available in all 50 states, the Commonwealth of Puerto Rico, and, under conditions set forth in the Farm Credit Act, U.S. territories.

System institutions may also provide a variety of financially related services to their borrowers, as discussed in the “Financially Related Services” section.

Government-Sponsored Enterprise Status

In order to better accomplish our mission, Congress has granted the System certain attributes that

result in government-sponsored enterprise status for the System. As a government-sponsored enterprise, we have traditionally been able to raise funds at competitive rates and terms, in varying economic environments. This ability to raise funds has historically allowed us to make competitively priced loans to eligible borrowers and thus accomplish our mission. (See “Business — Risk Factors” for a discussion of the potential impact of changes on the sovereign credit rating of the U.S. on the System given its government-sponsored enterprise status and the uncertainty about the future of government-sponsored enterprises.)

Agricultural Industry Overview

The agricultural sector has been a key economic force in the U.S. economy and is strongly affected by

domestic and global economic conditions. The System was created to provide support for this sector because of its significance to the well-being of the U.S. economy and the U.S. consumer. Profitability in our business is dependent on the health of the U.S. agricultural sector, which is heavily influenced by domestic and world demand for agricultural products, and impacted by government support programs, including crop insurance, to producers of certain agricultural commodities. (See “Business — Risk Factors” for a discussion of potential changes in the agricultural spending policies of the U.S. government in light of the U.S. budget deficit and its potential impact on the System’s borrowers.) Further, off-farm income is important to the repayment ability of many agricultural producers. Accordingly, our business also may be impacted by the health of the general U.S. economy.

System Lending Institutions

The two types of entities through which we conduct our lending business are the Banks and the Associations.

Banks

At December 31, 2013, the System had four Banks (three Farm Credit Banks and one Agricultural Credit Bank). The Banks’ lending operations include wholesale loans to their affiliated Associations and loan participations in eligible loans purchased from Associations, other Banks and non-System lenders. In addition, CoBank, as the Agricultural Credit Bank, has additional nationwide authority to make retail loans directly to cooperatives and other eligible entities.

The Banks obtain a substantial majority of funds for their lending operations through the issuance of Systemwide Debt Securities, but also obtain some of their funds from internally generated earnings, from the issuance of common and preferred equities and from the issuance of subordinated debt.

Associations

At December 31, 2013, the System had 82 Associations. As of January 1, 2014, due to mergers involving several Associations, the System had 78 Associations throughout the nation and the Commonwealth of Puerto Rico. There are 76 Agricultural Credit Associations with Production Credit Association subsidiaries and Federal Land Credit Association subsidiaries, and two Federal Land Credit Associations. The Federal Land Credit Associations make real estate mortgage loans, includ-

ing rural residential real estate loans. Agricultural Credit Associations may, directly or through their subsidiaries, make real estate mortgage loans, production and intermediate-term loans, agribusiness loans (processing and marketing loans, and certain farm-related business loans) and rural residential real estate loans. These retail loans are made to farmers, ranchers, producers or harvesters of aquatic products, farm-related businesses and rural homeowners. Associations may also purchase eligible loan participations from other System entities and non-System lenders. Although the Associations obtain some of the funds for their lending operations from internally generated earnings and from the issuance of equities, the substantial majority of their funding is obtained through borrowings from their affiliated Bank.

Districts

Each Bank combined with its affiliated Associations is referred to as a District. The following table lists the four Districts and provides information about the asset size and the loan portfolio size of each District as of December 31, 2013.

<u>District</u>	<u>Assets</u>	<u>Loans</u>
	<u>(in millions)</u>	
AgFirst	\$ 32,261	\$23,271
AgriBank	100,329	82,770
Texas	22,373	17,725
CoBank	106,355	81,603

There is substantial variation among the Districts with respect to size, number and mix of Associations. The largest Associations, those with assets over \$1 billion, accounted for 48.7% of the System’s assets at both December 31, 2013 and 2012 and accounted for 59.0% and 58.0% of the System’s loans at December 31, 2013 and 2012. A summary of these Associations by asset size can be found in the Supplemental Financial Information on pages F-85 and F-86.

Products and Services

Loans by Banks

The Banks lend to the Associations in their District and, to a much lesser extent, other eligible financial institutions relating to their agricultural loan portfolios (e.g., national or state banks, trust or finance companies, savings institutions or credit unions).

CoBank also may make the following types of loans:

- Agribusiness loans — primarily to finance the operations of cooperatives and other businesses in various agricultural sectors such as grain handling and marketing, farm supply, food processing, dairy, livestock, fruits, nuts, vegetables, cotton, biofuels and forest products,
- Communication loans — primarily to finance rural communication companies,
- Energy loans — primarily to finance electric generation, transmission and distribution systems serving rural areas,
- Water/waste water loans — primarily to finance water and waste water systems serving rural areas, and
- Agricultural export finance loans — primarily to provide short- and medium-term trade finance to other banks to support U.S. exporters for international trade of agricultural products. The federal government guarantees a substantial portion of these loans.

The primary products and services related to these loans, except agricultural export finance loans, include term loans, revolving lines of credit, project financing, leasing, tax-exempt bond issuances, capital markets services and cash management and investment products.

These lending authorities are subject to certain limitations and criteria. The Banks may purchase participations in loans made by the Associations, other Banks and non-System lenders to eligible borrowers or certain entities whose operations are functionally similar to those of an eligible borrower and may also participate in any loan originated or purchased by CoBank.

Loans by Associations

The Associations offer the following types of loans to their borrowers:

- Real estate mortgage loans — generally to purchase farm real estate, refinance existing mortgages, construct various facilities used in agricultural operations, or purchase other rural residential/lifestyle real estate for both full-time and part-time farmers. In addition, credit for other agricultural purposes and family

needs is available to full-time and part-time farmers. Real estate mortgage loans have maturities ranging from five to 40 years and must be secured by first liens on the real estate. These loans may be made only in amounts up to 85% of the appraised value of the property taken as security or up to 97% of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory maximum percentage.

- Production and intermediate-term loans — for operating funds, equipment and other purposes. Eligible financing needs include operating inputs (such as labor, feed, fertilizer, and repairs), livestock, family living expenses, income taxes, debt payments on machinery or equipment, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically less than 12 months. Intermediate-term loans typically finance depreciable capital assets of a farm or ranch. Examples of the uses of intermediate-term loans are to purchase or refinance farm machinery, vehicles, equipment, breeding livestock, or farm buildings, to make improvements, or to provide working capital. Intermediate-term loans are made for a specific term, generally 10 years or less. These loans may be made on a secured or unsecured basis, but are normally secured.
- Agribusiness loans — may be made on a secured or unsecured basis.
- Processing and marketing loans — for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.
- Farm-related business loans — to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.
- Rural residential real estate loans — to purchase a single-family dwelling that will be the primary residence in rural areas, which may

include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans must be secured by a first lien on the property, except that it may be secured by a second lien if the institution also holds the first lien on the property.

Associations may also purchase participations in loans made by other Associations, System Banks and non-System lenders to eligible borrowers or certain entities whose operations are functionally similar to those of an eligible borrower.

Loan Interest Rate and Prepayment Features

Depending on the purpose of the loan, its repayment terms and the creditworthiness of the borrower, several interest rate (fixed or floating) and prepayment features may be available for a loan. Indexed floating-rate loans are tied solely to an external index such as the London InterBank Offered Rate (LIBOR) or the prime rates charged by certain commercial banks (Prime). The interest rate on an adjustable-rate loan may be fixed for a period of time and adjusted periodically by predetermined amounts and may have an adjustment rate cap for each period as well as for the life of the loan. The interest rate on an administered-rate loan may be adjusted periodically on a basis internally determined by the lending institution. The interest rate on a fixed-rate loan will not change for the fixed-rate period of the loan.

A range of prepayment options exists on fixed- and floating-rate loans. These options range from loans with “make-whole” prepayment fee provisions, i.e., the borrower pays an additional amount when the loan is prepaid to cover the loss from the residual higher-cost funding that can occur as a result of the prepayment, to loans that may be prepaid without any prepayment fee provisions.

Investments in Rural America

In addition to making loans to accomplish the System’s Congressionally mandated mission to finance agriculture and rural America, the Banks and Associations may make investments in rural America to address the diverse needs of agriculture and rural communities across the country. The Farm Credit Administration approves these investments on a case-by-case basis. The Farm Credit Administration has also approved these investments on a program basis. Examples of investment programs that the Farm

Credit Administration has considered include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America. Effective December 31, 2014, the Farm Credit Administration will conclude each pilot program approved as part of the Investment in Rural America program initiated in 2004. Each institution participating in such program may continue to hold its investments through the maturity dates for each investment, provided the institution continues to meet all approval conditions. Although the pilot programs are concluding, the FCA can consider future requests on a case-by-case basis.

Financially Related Services

System institutions also provide a variety of products and services to their borrowers designed to enhance their business. Products and services provided by certain System institutions include:

- acting as an agent or broker, credit and mortgage life or disability insurance developed specifically for System borrowers to protect the repayment of loan obligations,
- acting as an agent or broker, various types of crop insurance covering specific risks (e.g., hail, fire, or lightning) and multi-peril crop insurance to protect against unpredictable weather and volatile markets in a combination of yield and revenue-based products,
- acting as an agent or broker, livestock risk protection that provides revenue protection during unpredictable declines in the livestock industry,
- estate planning, record keeping, and tax planning and preparation,
- fee appraisal services, and
- cash management products and services and other related services to allow borrowers to more effectively manage their financial positions.

The Banks and Associations make the above-described insurance available through private insurers.

One institution has entered, and others may enter, into a contractual arrangement to provide financial support to a captive reinsurance company in a specified dollar amount, which is not material to the System’s

financial condition or results of operations. That reinsurance company provides reinsurance for crop insurance policies written by Approved Insurance Providers as designated by USDA. The involved System institutions share in the gains and losses of the captive reinsurance company in accordance with the terms of the contract, but are responsible for losses only up to predetermined limits as set forth in the contract.

In addition, a subsidiary of one Bank and certain other System institutions provide leasing services to their customers that include a broad spectrum of lease options tailored to the borrower's unique financial needs. These leasing services include the leasing of equipment, vehicles and facilities used by our borrowers in their businesses.

Customers

Our borrowers consist of farmers, ranchers, producers and harvesters of aquatic products, agricultural cooperatives, eligible rural communications, energy and water infrastructure companies, rural homeowners and other eligible entities, including other financial institutions (e.g., national or state banks, trust or finance companies, savings institutions or credit unions).

We make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities. Our loan portfolio at the System level is diversified by commodity and geographic location. On a combined basis, loans to farmers of cash grains totaled 14.4% of the System's total assets at December 31, 2013, up from 14.0% at December 31, 2012. Loans to borrowers raising live-stock, which do not include poultry and dairy, represented 9.6% and 9.7% of the System's total assets at December 31, 2013 and December 31, 2012. However, due to the geographic territories served by individual Banks and Associations, most System institutions have higher concentrations of certain types of loans or commodities than does the System as a whole.

As part of our mission, we have established policies and programs for furnishing sound and constructive credit and related services to young, beginning, and small farmers and ranchers. A summary of these activities can be found in the Supplemental Financial Information on pages F-87 and F-88.

In accordance with the Farm Credit Act, each borrower, as a condition of borrowing, is generally required to invest in capital stock or participation certificates (non-voting equity investment) of the Association or Bank that originates the loan. The initial investment requirement may vary by Association

or Bank, with the minimum being the statutory minimum amount of 2% of the loan amount or one thousand dollars, whichever is less. The different classes of capital stock and participation certificates and the manner in which capital stock and participation certificates are issued, retired and transferred are set forth in the respective Bank's or Association's bylaws. The Bank or Association generally has a first lien on the capital stock and participation certificates as collateral for the repayment of the borrower/stockholder loan. For a more detailed discussion of these requirements, see Note 13 to the System's combined financial statements contained in this annual information statement.

Loan Underwriting Standards

Credit risk arises from the potential inability of a borrower to meet a repayment obligation. This credit risk is managed at both the Association and Bank levels. Farm Credit Administration regulations establish loan-to-value limits for real estate mortgage loans and require that collateral be posted for real estate mortgage loans and some production loans. System institutions are required to adopt written standards for prudent lending and effective collateral evaluation.

Underwriting by Associations

The Associations manage credit risk through the use of underwriting standards, credit analysis of borrowers and portfolio management techniques. When making a loan, the Associations consider many factors about the borrower and apply certain underwriting standards to the lending process. The factors considered in the underwriting process include borrower integrity, credit history, cash flows, equity, and collateral, as well as other sources of loan repayment, loan pricing and an evaluation of management and the board of directors, if applicable. Additionally, many borrowers have off-farm sources of income that enhance their debt repayment capacity. Other factors that may influence the risk profiles of the loan portfolios of Associations include the benefit of vertical integration (control over all stages of production of a commodity) and the impact of urban and recreational influences on real estate values, which tend to reduce farm income volatility at the producer level.

To mitigate credit risk, each Association establishes lending limits, which represent the maximum amount of credit that can be extended to any one borrower. Further, in some instances, portfolio risk is managed through the purchase and sale of loan participations with other lenders in order to diversify portfolio concentrations by borrower, commodity and geography.

Underwriting by Banks

The Banks also employ risk management practices when making wholesale loans to their affiliated Associations and loans to their retail borrowers. With respect to retail lending, the Banks manage credit risk through the use of underwriting standards, credit analysis of borrowers and portfolio management techniques. Similar to the Associations, when making a loan, they consider many factors about the borrower and apply underwriting standards to the lending process. The factors considered, and underwriting standards utilized, include borrower earnings, cash flows, equity, and collateral, as well as loan pricing and an evaluation of management and the board of directors, if applicable. The Banks, similar to the Associations, also mitigate credit risk by establishing lending limits and manage the portfolio through the purchase and sale of loan participations.

In the case of wholesale loans to Associations, the assets of the Association secure the Bank's loan to the Association and the lending terms are specified in a general financing agreement between each Association and its affiliated Bank. These financing agreements typically include:

- measurable, risk-based covenants,
- collateralization of the loan by substantially all Association assets,
- the Bank's prior approval of certain loans made by an Association,
- a defined borrowing base calculation or maximum loan amount,
- a prohibition against other borrowings without the Bank's approval, and
- loan rates tied to financial performance.

Competition

The System competes with other lenders, including local, regional, national and international commercial banks, insurance companies, manufacturers and suppliers, captive finance companies of manufacturers and suppliers and non-traditional lenders. Competition varies throughout the nation. System charters and regulations impose geographic and authority limitations on System institutions that are not imposed on competitors. Commercial banks have a broad spectrum of lines of business and financially related services they can offer and may also have access to competitively priced funds for their lending activities as these banks have the ability to accept deposits.

Competition is also a consideration in connection with the issuance of Systemwide Debt Securities. In addition to securities issued by the U.S. Treasury, we compete with Fannie Mae, Freddie Mac, the Federal Home Loan Banks, other federal government-sponsored enterprises, foreign governments and other highly rated issuers for funds raised through the issuance of unsecured debt in the debt markets. Increases in the issuance of debt by these other issuers could lead to higher interest costs on our debt securities than would otherwise be the case. (See "Business — Risk Factors" for a discussion of how changing perceptions of government-sponsored enterprise status may intensify competition in connection with the issuance of Systemwide Debt Securities.)

Federal Farm Credit Banks Funding Corporation

As agent for the Banks, the Funding Corporation issues and markets Systemwide Debt Securities. The Funding Corporation, which was established by the Farm Credit Act, is owned by the Banks and is located in the metropolitan New York City area. The composition of the board of directors of the Funding Corporation is defined by statute and is comprised of nine voting members: four current or former Bank directors and three Bank chief executive officers or presidents elected by the Banks, and two additional voting members appointed by the shareholder-elected members of the board of directors after receiving recommendations from and consulting with the Secretary of the Treasury and the Chairman of the Board of Governors of the Federal Reserve System. The appointed directors cannot be affiliated with the System or our regulator and cannot be actively engaged with a member of the group of banks and securities dealers involved in selling Systemwide Debt Securities. The president of the Funding Corporation serves as a non-voting member of the Funding Corporation's board of directors.

At December 31, 2013, the Funding Corporation utilized a selling group of 29 banks and securities dealers to sell Systemwide Debt Securities. The Funding Corporation's selling group distributes Systemwide Debt Securities on a worldwide basis to investors, including commercial banks, states, municipalities, pension and money-market funds, insurance companies, investment companies, corporations and foreign banks and governments. In addition, the Funding Corporation assists the Banks with respect to a variety of asset/liability management and certain specialized funding activities.

The Funding Corporation, subject to Farm Credit Administration approval, is responsible for determining the amounts, maturities, rates of interest, and terms of each issuance of Systemwide Debt Securities and for establishing conditions of participation in the issuances of Systemwide Debt Securities by the Banks. In this regard, the Funding Corporation and all of the Banks have entered into the Second Amended and Restated Market Access Agreement. For a detailed discussion of the Market Access Agreement, see “Description of Systemwide Debt Securities — Agreements Among Certain System Institutions — Second Amended and Restated Market Access Agreement” below.

The Funding Corporation also provides the Banks with certain consulting, accounting, and financial reporting services, including the preparation of the System’s quarterly and annual information statements and the System’s combined financial statements contained in those information statements. As the System’s financial spokesperson, the Funding Corporation is primarily responsible for financial disclosure and the release of public information concerning the financial condition and performance of the System.

Federal Agricultural Mortgage Corporation (Farmer Mac)

The System is financially and operationally separate and distinct from Farmer Mac with no ties similar to those that bind the System institutions. Additionally, the financial information of Farmer Mac is not included in the combined financial statements of the System. While Farmer Mac is statutorily defined as an institution of the System and is examined and regulated by the Farm Credit Administration, any reference to the System herein does not include Farmer Mac, and no System institution is liable for any debt or other obligation of Farmer Mac. Furthermore, Farmer Mac is not liable for any debt or other obligation of any other System institution except for contractual obligations arising from business transactions between Farmer Mac and certain System institutions. The assets of the Farm Credit Insurance Fund do not support any debt or other obligations of Farmer Mac nor do the System’s independent credit ratings apply to Farmer Mac, which has not been rated by any Nationally Recognized Statistical Rating Organization.

Farmer Mac provides a secondary market for qualified agricultural mortgage loans, rural housing

mortgage loans, rural utilities loans (to cooperative borrowers made by cooperative lenders) and the guaranteed portion of agricultural and rural development loans guaranteed by the U.S. Department of Agriculture. By statute, the Farmer Mac board of directors shall consist of 15 members, of which five shall be representatives of the System.

Some System institutions have entered into guarantee agreements with Farmer Mac that provide a credit enhancement on certain loans or to manage their capital positions. These transactions present counterparty risk should Farmer Mac fail to perform under these guarantees. However, this risk is considered “secondary” in that System institutions rely primarily on customer loan repayment capacity. These agreements are commonly referred to as long-term standby commitment to purchase agreements. System institutions may also securitize mortgage loans by exchanging the loans for Farmer Mac mortgage-backed securities. At December 31, 2013 and 2012, Farmer Mac guaranteed \$2.108 billion and \$1.853 billion of loans issued by System institutions and System institutions had exchanged \$858 million and \$999 million of loans for mortgage-backed securities issued by Farmer Mac.

The Farm Credit Council

The Farm Credit Council is a federated trade association representing the System before Congress, the Executive Branch and others. The Farm Credit Council provides the mechanism for member “grassroots” involvement in the development of System positions and policies with respect to federal legislation and government actions that impact the System. The financial information of The Farm Credit Council is not included in the combined financial statements of the System.

Governance

Boards of Directors

Each Bank and Association has its own board of directors, which is primarily comprised of directors elected by the stockholders, that oversees the management of the Bank or the Association. Farm Credit Administration regulations require each Bank and Association to have a nominating committee that is responsible for identifying, evaluating and nominating candidates for director positions. Each committee should nominate at least two candidates for each director position. Stockholder-elected directors must constitute at least 60 percent of the

members of the board. Therefore, each board may include additional directors appointed by the stockholder-elected directors. In addition, each Bank and each Association with assets exceeding \$500 million is required to have at least two outside directors. All other Associations must have at least one outside director. Each Bank and Association board must have a member who is a financial expert, except for those Associations with assets of \$500 million or less, who may retain a financial advisor. The boards of directors represent the interests of the stockholders of their particular institution. Each board of directors performs the following functions, among others:

- selects, compensates and evaluates the chief executive officer,
- approves the strategic plan and annual operating plans and budget,
- advises management on significant issues facing the institution, and
- oversees the financial reporting process, communications with stockholders and the institution's legal and regulatory compliance.

In addition to having a nominating committee, each Bank and Association has an audit committee and a compensation committee and may also have additional committees as determined by the board of the Bank or Association. The audit committee members must be members of the board and at least one member designated as a financial expert must serve on the audit committee. The audit committee is responsible for the oversight of the financial reporting process and the internal controls related to the preparation of the financial reports, and the appointment, compensation and retention of the independent auditors. The compensation committee is responsible for reviewing compensation policies and plans for senior officers and employees, and must approve the overall compensation program for senior officers. The Funding Corporation has a board of directors, an audit committee and a compensation committee that perform the same functions for the Funding Corporation.

Presidents' Planning Committee

The Presidents' Planning Committee is comprised of the chief executive officer or president of: each Bank, one Association from each District, the Funding Corporation, The Farm Credit Council and certain large Associations. The Presidents' Planning

Committee serves in a management coordination capacity for the System and provides a key advisory role in the System's decision-making process.

The Presidents' Planning Committee has certain broad responsibilities including:

- establishing and advancing strategic direction,
- identifying and analyzing business opportunities,
- providing advice and recommendations on legislative and regulatory issues,
- improving communications within the System and with the System's various stakeholders and external entities, and
- identifying and monitoring systemic risks, including reputational risks.

The Presidents' Planning Committee carries out these responsibilities with the objective of promoting and protecting the System's core values and strengths. Subcommittees of the Presidents' Planning Committee include: the Executive Committee, the Risk Management Committee, the Finance Committee, and the Regulatory, Legislative and Public Relations Committee. These subcommittees aid System communication and promote the sharing of best practices. The subcommittees actively engage in discussions about topics where common action is needed by the System.

Coordinating Committee

The Coordinating Committee is composed of the Chairman and Vice Chairman of the Board and chief executive officer of the Funding Corporation, the Chairman and Vice Chairman of the Presidents' Planning Committee and one additional member of the Presidents' Planning Committee who is an Association chief executive officer, and the executive committee of The Farm Credit Council board of directors. The Farm Credit Council chief executive officer is an ex officio member of the Coordinating Committee without a vote.

The Coordinating Committee's mission is to address issues that impact the System at the national level. This includes monitoring developments in the U.S. and world economies, the financial markets, agriculture, public policy, and regulatory developments to determine if threats or opportunities exist that demand a coordinated, System-level approach.

The Coordinating Committee has certain responsibilities including:

- ensuring coordination among the Funding Corporation board of directors, The Farm Credit Council board of directors and the Presidents' Planning Committee,
- establishing System-level planning and contingency priorities, and identifying and responding to emerging issues, threats or opportunities that require attention at the national level,
- providing overall direction and oversight of activities related to the established priorities, and
- communicating with boards and management of System institutions on a timely basis regarding activities of the Coordinating Committee.

System Audit Committee

As required by regulation, the board of directors of the Funding Corporation has established a System Audit Committee and adopted a written charter for the Committee. The charter provides for a Committee comprised of at least five members but not more than six members — one of the Funding Corporation's outside directors, two Bank or Association directors, two outside persons who have no current affiliation with the System and are financial experts. At the discretion of the board, a sixth member of the Committee may be added. The sixth member may be a second Funding Corporation outside director or an additional outside person with no current affiliation with the System and a financial expert. Under the charter, the Funding Corporation's board of directors selects all members of the System Audit Committee and appoints the chairman and vice chairman. The chairman of the System Audit Committee must be a financial expert. A copy of the charter is available on the Funding Corporation's website at www.farmcreditfunding.com.

The System Audit Committee reports to the board of directors of the Funding Corporation. The responsibilities of the System Audit Committee include, among other things:

- the oversight of the Funding Corporation's system of internal controls related to the preparation of the System's quarterly and annual information statements,

- the integrity of the System's quarterly and annual information statements,
- the review and assessment of the impact of accounting and auditing developments on the System's combined financial statements,
- the review and assessment of the impact of accounting policy changes related to the preparation of the System's combined financial statements,
- the appointment, compensation, retention and oversight of the System's independent auditors with the agreement of the Funding Corporation's board of directors,
- the pre-approval of allowable non-audit services at the System level,
- the establishment and maintenance of procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters at the System level and for the confidential, anonymous submission of concerns regarding questionable System accounting, internal accounting controls or auditing matters,
- the receipt of various reports from Funding Corporation management on internal controls, off-balance sheet arrangements, critical accounting policies, and material alternative accounting treatments,
- the review and approval of the scope and planning of the annual audit by the System's independent auditors,
- the approval of policies and procedures for the preparation of the System's quarterly and annual information statements, and
- the review and approval of the System's quarterly and annual information statements and financial press releases, after discussions with management and the independent auditors.

Internal Control Over Financial Reporting

The System's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining internal control over financial reporting and the Funding Corporation's management has assessed the effectiveness of the System's internal control over financial reporting as of December 31, 2013,

2012 and 2011. The Funding Corporation's management has used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework (1992)* to assess the effectiveness of internal control over financial reporting and has included a report on the assessment on page F-2 of this annual information statement.

The System has also engaged PricewaterhouseCoopers LLP, the System's independent auditors, to opine on the effectiveness of the System's internal control over financial reporting based on its integrated audits. Their report can be found on pages F-3 and F-4.

Code of Ethics

Each Bank and the Funding Corporation have adopted codes of ethics that apply to their chief executive officers, certain other executives, and senior professionals in the finance and accounting areas who are involved with the preparation of the System's financial statements and the maintenance of the financial records supporting the financial statements.

A copy of the Funding Corporation's code of ethics related to the preparation of the System's quarterly and annual information statements can be accessed on the Funding Corporation's website at www.farmcreditfunding.com. The Funding Corporation will disclose material amendments to or any waivers from a required provision of the codes of ethics for any individual covered by the Banks' or the Funding Corporation's codes of ethics by including that information in future information statements. No such amendments or waivers were made in 2013. Each Bank's code of ethics includes similar content and can be accessed through its website listed on page 2.

Complaints Regarding Accounting, Internal Accounting Controls and Auditing Matters

Each Bank and the Funding Corporation have adopted employee complaint procedures for accounting, financial reporting, internal accounting controls, or auditing matters. These procedures allow employees to submit confidential, anonymous concerns regarding accounting, financial reporting, internal accounting controls, or auditing matters without the fear of reprisal, retaliation or adverse action being taken against any employee who, in good faith, reports or assists in the investigation of a violation or suspected violation, or who makes an inquiry about the appropriateness of an anticipated or actual course of action. Any concerns or inquiries are addressed in accordance with these procedures.

Employees

The number of personnel employed by the System on a full-time equivalent basis was 13,336 at December 31, 2013, up from 12,970 at December 31, 2012 and 12,492 at December 31, 2011.

Properties

AgFirst owns its corporate offices in Columbia, South Carolina. The other three Banks each leased their respective corporate offices. In addition, AgFirst owns additional buildings in Columbia, South Carolina. CoBank owns an office building in Wichita, Kansas. Certain Banks leased other offices throughout the country and, in the case of CoBank, internationally. The Associations owned or leased various offices in locations throughout the United States and the Commonwealth of Puerto Rico. The Funding Corporation leased office space in Jersey City, New Jersey.

As authorized by the Farm Credit Act, the Farm Credit Administration occupies buildings and uses land owned and leased by the Farm Credit System Building Association, an entity jointly owned by the Banks. The headquarters for the Farm Credit Administration is located in McLean, Virginia.

FEDERAL REGULATION AND SUPERVISION OF THE FARM CREDIT SYSTEM

The following summaries of certain provisions of the Farm Credit Act, the Farm Credit Administration regulations and the Farm Credit System Insurance Corporation (Insurance Corporation) regulations should not be viewed as complete and are qualified in their entirety by reference to the provisions of the Farm Credit Act and these regulations.

Farm Credit Administration

As a federally chartered network of lending institutions and related service organizations that performs a public policy function, the System is subject to Congressional legislation and oversight. The Farm Credit Administration, an independent federal regulatory agency, has jurisdiction over System institutions. A three-member full-time board appointed by the President of the United States with the advice and consent of the Senate manages the Farm Credit Administration.

The Farm Credit Administration examines each System institution not less than once during each 18-month period. The examinations may include analyses of credit and collateral quality, capitalization, earnings, interest rate risk, liquidity, the effectiveness of management, and the application of policies in carrying out the Farm Credit Act, in adhering to the Farm Credit Administration regulations, and in serving eligible borrowers.

Further, the Farm Credit Act authorizes the Farm Credit Administration to take specified enforcement actions to ensure the safe and sound operations of System institutions and their compliance with the Farm Credit Act and Farm Credit Administration regulations. These enforcement powers include the power to:

- issue cease and desist orders,
- suspend or remove a director or an officer of a System institution, and
- impose specified civil money penalties for certain violations of the Farm Credit Act, Farm Credit Administration regulations or certain orders of the Farm Credit Administration.

In addition, Farm Credit Administration regulations provide that if the Farm Credit Administration determines, after consultation with the Funding

Corporation, that a financial, economic, agricultural or national defense crisis exists that could impede the normal access of the Banks to the capital markets, the Farm Credit Administration Board shall, in its sole discretion, adopt a resolution that:

- increases the amount of eligible investments that a Bank is authorized to hold, or,
- modifies or waives the liquidity reserve requirement.

Farm Credit Administration Regulations

The Farm Credit Act authorizes, and in some instances requires, the Farm Credit Administration to issue regulations governing various operations of System institutions and subjects certain actions by System institutions to the approval of the Farm Credit Administration. These regulations and approval requirements include the following:

Issuances of Systemwide Debt Securities

Under the Farm Credit Act, determinations by the Funding Corporation as to the amounts, maturities, rates of interest, terms, and conditions of participation by the Banks in each issuance of Systemwide Debt Securities are subject to Farm Credit Administration approval.

Lending Objective

In accordance with the Farm Credit Administration regulations, the lending objective of System institutions is to provide full credit, to the extent of creditworthiness, to borrowers whose primary business is farming, ranching, or producing or harvesting aquatic products; conservative credit to part-time farmers and to rural homeowners; and more restricted credit for other credit requirements as needed to ensure a sound credit package or to accommodate a borrower's needs as long as the total credit results in being primarily an agricultural loan. System institutions are specifically prohibited from extending credit where investment in agricultural assets is primarily for speculative purposes.

Consistent with our mission of serving rural America, we also make loans to agricultural cooperatives, to finance rural communication, energy and water infrastructures, to support agricultural exports and to finance other eligible entities.

Borrower Protections

The Farm Credit Act or the Farm Credit Administration regulations provide the following protections to most System institution borrowers:

- prior to loan closing, System institutions must provide borrowers with extensive disclosure-related information and copies of appraisals, if any,
- System institutions must provide borrowers with access to a Credit Review Committee hearing on an adverse action taken on a loan application or a request for loan restructuring, if requested,
- borrowers have the right of first refusal to lease or repurchase any real estate acquired from them by a System lender, and
- System institutions must protect the nonpublic personal information of their borrowers.

Bank Collateral Requirements

As a condition of a Bank's participation in the issuance of Systemwide Debt Securities, the Bank must have, and at all times thereafter maintain, free from any lien or other pledge, specified eligible assets (referred to in the Farm Credit Act as "collateral") at least equal in value to the total amount of outstanding debt securities of the Bank that are subject to the collateral requirement. These securities include Systemwide Debt Securities for which the Bank is primarily liable and investment bonds or other debt securities that the Bank has issued individually, except for subordinated debt. The collateral must consist of notes and other obligations representing loans or real or personal property acquired in connection with loans made under the authority of the Farm Credit Act (valued in accordance with Farm Credit Administration regulations and directives), obligations of the United States or any agency thereof direct or fully guaranteed, other Farm Credit Administration-approved Bank assets, including eligible marketable securities, or cash. These collateral requirements do not provide holders of Systemwide Debt Securities with a security interest in any assets of the Banks. The Banks may in the future issue Systemwide Debt Securities that are secured by specific assets.

Farm Credit Administration regulations require the Banks to maintain a net collateral ratio of at least 103% (as discussed in "Capital Adequacy" below).

However, as a result of having subordinated debt outstanding, all Banks, except AgFirst, are currently required by the Farm Credit Administration to maintain a minimum net collateral ratio of 104%. For three years beginning January 1, 2012, as a condition of the merger with U.S. AgBank, CoBank is required to notify the Farm Credit Administration if its ratio falls below 105% and submit to them a written plan to restore and maintain a level of at least 105%. (For additional information regarding this merger, see Note 12 to the accompanying combined financial statements.)

The net collateral ratio is net collateral (primarily loans and investments) divided by total liabilities less subordinated debt, subject to certain limits. The net collateral ratio is much more restrictive than the debt issuance collateral requirement. Therefore, if a minimum net collateral ratio is met, the debt issuance collateral requirement is automatically met.

Capital Adequacy

Farm Credit Administration regulations require that the Banks and Associations achieve and maintain a permanent capital level of at least 7% of risk-adjusted assets. Risk-adjusted assets mean the total dollar amount of the System institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. In addition to the collateral requirements discussed above, these regulations require that all Banks and Associations achieve and maintain a total surplus level of at least 7% of risk-adjusted assets and a core surplus level of at least 3.5% of risk-adjusted assets. For three years beginning January 1, 2012, as a condition of the merger with U.S. AgBank, CoBank must notify the Farm Credit Administration if its core surplus ratio excluding common stock falls below a threshold level, and submit a written plan to restore and maintain the ratio to at least that level. The core surplus ratio excluding common stock was above the threshold level as of the date of the merger and through December 31, 2013.

Also, each System institution is required to adopt a written capital adequacy plan. The plan must include capital targets that are necessary to achieve the institution's capital adequacy goals as well as maintain the minimum permanent capital and surplus standards.

Accounting Requirements

Farm Credit Administration regulations require that each System institution prepare all financial statements in accordance with accounting principles generally accepted in the United States. The financial statements must be audited by qualified independent auditors on an annual basis.

Internal Controls

Farm Credit Administration regulations require that each System institution adopt an internal control policy that provides adequate direction to the institution in establishing effective control over and accountability for operations, programs, and resources.

Disclosure Obligations

The Banks, the Associations and the Funding Corporation must prepare and file with the Farm Credit Administration quarterly and annual reports that comply with Farm Credit Administration regulations:

- Each Bank and Association must prepare and publish its annual report on its website and submit a copy to the Farm Credit Administration within 75 days of the end of its fiscal year. In addition, each Bank and Association must prepare and provide to its shareholders an annual report within 90 days of the end of its fiscal year. The annual report must include, among other things, a description of the System institution's business, properties, capital structure, risk exposures, loan portfolio and financial performance. Each Bank and Association must prepare a quarterly report within 40 days after the end of each fiscal quarter. The quarterly reports update and supplement the last annual report, as necessary.
- The Funding Corporation must prepare and disseminate a System annual information statement for holders of Systemwide Debt Securities and other users of the annual information statement within 75 days of the end of each fiscal year and file a copy with the Farm Credit Administration. The annual information statement must include, among other things, a description of the System's business, properties, capital structure, risk exposures, loan portfolio and financial performance. The Funding Corporation must also prepare a quarterly information statement within 45 days after the end of each fiscal quarter. The quarterly information statements update and supplement the System's latest annual information statement, as necessary.
- The Banks and the Funding Corporation are responsible for disclosure of information concerning the System to investors in Systemwide Debt Securities. The Banks are required to provide specified information to the Funding Corporation so that it can prepare the System information statements. Further, the Funding Corporation is required to establish a system of internal controls sufficient to reasonably ensure that any information it releases to investors or the general public is true and accurate, and that there are no omissions of material information.
- The appropriate officers and board members from each Bank, Association and the Funding Corporation must certify that the information contained in the quarterly and annual reports or information statements they prepare and file with the Farm Credit Administration is true, accurate and complete to the best of their knowledge and belief.

Withdrawal from the System

The Farm Credit Act permits a Bank or an Association to withdraw from the System to become chartered by a federal or state authority as a bank, savings association or other financial institution if certain restrictive requirements are met, including:

- adequate provision for the payment of all of the institution's obligations to other System entities,
- if a Bank, adequate provision for the repayment of its Systemwide Debt Securities and related interest,
- approval of the Farm Credit Administration Board,
- approval by the institution's stockholders, and
- payment by the institution to the Insurance Fund of an amount by which its total capital exceeds 6% of its assets.

Appointment of Conservator or Receiver

The Farm Credit Administration also has the exclusive authority to appoint a conservator or receiver for any System institution under circumstances specified in the Farm Credit Act and has promulgated regulations governing receiverships and conservatorships. The Farm Credit Act provides that the Insurance Corporation will serve as receiver or conservator of any System institution placed in receivership or conservatorship by the Farm Credit Administration and authorizes the Insurance Corporation to issue certain rules and regulations relating to its statutory authorities.

Farm Credit System Insurance Corporation

The Insurance Corporation is an independent U.S. government-controlled corporation and is not under the control of any System institution. The Insurance Corporation's primary purpose is to insure the timely payment of principal and interest on Systemwide Debt Securities. It also carries out various other responsibilities. A board of directors consisting of the Farm Credit Administration Board directs the Insurance Corporation. The chairman of the Insurance Corporation's board of directors must be someone other than the current chairman of the Farm Credit Administration Board.

Uses of the Farm Credit Insurance Fund

The Insurance Corporation is required to expend funds in the Insurance Fund, which can only be used for the benefit of the System, to:

- insure the timely payment of principal and interest on Systemwide Debt Securities, and
- ensure the retirement of protected borrower stock at par value (\$1 million as of December 31, 2013).

Further, subject to the provisions of the Farm Credit Act, the Insurance Corporation, in its sole discretion, is also authorized to expend funds in the Insurance Fund to pay its operating expenses, to assist a financially stressed Bank or Association, and to assist qualified merging institutions. The Insurance Corporation cannot provide this discretionary assistance to an institution unless the means of providing this assistance is the least costly of all possible alternatives available to the Insurance Corporation.

The Insurance Corporation may also, in its sole discretion, make loans on the security of, or may

purchase, and liquidate or sell, any part of the assets of any Bank or Association that is placed in receivership because of the inability of the institution to pay the principal or interest on any of its notes, bonds, debentures, or other obligations in a timely manner.

Funding for the Farm Credit Insurance Fund

The Insurance Corporation's primary asset is the Insurance Fund and the primary sources of funds for the Insurance Fund are:

- the premiums paid by the Banks, and
- earnings on assets in the Insurance Fund.

The premiums are based on each Bank's pro rata share of adjusted outstanding insured obligations, as reduced by loans and investments guaranteed by federal or state governments, with 20 basis points being the statutory maximum the Banks may be assessed. Up to an additional 10 basis points may be assessed on nonaccrual loans or investments that are other-than-temporarily impaired. The Insurance Corporation conducts a semi-annual review of insurance premium levels and adjusts the premium levels based on certain criteria. Furthermore, the Insurance Corporation, in its sole discretion, may reduce the annual premiums due from each Bank. Each Bank is authorized to assess its affiliated Associations and other financing institutions in order to pay the premiums.

Premiums are collected to maintain the Insurance Fund at the "secure base amount," which is defined in the Farm Credit Act as 2% of the aggregate outstanding insured obligations (adjusted to reflect the System's reduced risk on loans and investments guaranteed by federal or state governments) or another percentage of the aggregate outstanding insured obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. The Insurance Corporation has adopted a Policy Statement addressing the periodic determination of the secure base amount that is currently set at the 2% level.

When the Insurance Fund is at or above the secure base amount, the Insurance Corporation is required to reduce premiums, as necessary, to maintain the Insurance Fund at this level. In addition, the Insurance Corporation is required to establish Allocated Insurance Reserves Accounts for each Bank and an Allocated Insurance Reserves Account for former Farm Credit System Financial Assistance Corporation stockholders under certain circum-

stances. The Insurance Corporation is statutorily required to allocate excess Insurance Fund balances above the secure base amount into these accounts. These reserve accounts remain part of the Insurance Fund, and, therefore, may be used for statutorily authorized Insurance Corporation purposes. The Insurance Corporation may also distribute all or a portion of these reserve accounts to the Banks.

For additional information with respect to the Insurance Fund, see “Description of Systemwide Debt Securities — Repayment Protections” and Note 7 to the accompanying combined financial statements.

DESCRIPTION OF SYSTEMWIDE DEBT SECURITIES

General

The System obtains funds for its lending operations primarily from the sale of Systemwide Debt Securities. Each issuance of Systemwide Debt Securities must be approved by the Farm Credit Administration and each Bank's participation is subject to: (1) the availability of specified eligible assets (referred to in the Farm Credit Act as "collateral" as previously described), (2) compliance with the conditions of participation as prescribed in the Second Amended and Restated Market Access Agreement, and (3) determinations by the Funding Corporation of the amounts, maturities, rates of interest, and terms of each issuance. Systemwide Debt Securities are issued pursuant to authorizing resolutions adopted by the boards of directors of each Bank and under the authority of the Farm Credit Act and the Farm Credit Administration regulations. The following summary descriptions of Systemwide Debt Securities should not be viewed as complete and are qualified in their entirety by reference to the offering circulars pertaining to the particular types of debt securities, the provisions of the Farm Credit Act and the Farm Credit Administration regulations.

Systemwide Debt Securities are the general unsecured joint and several obligations of the Banks. Systemwide Debt Securities are not obligations of and are not guaranteed by the United States government. In addition, Systemwide Debt Securities are not the direct obligations of the Associations and, as a result, the capital of the Associations may not be available to support principal or interest payments on Systemwide Debt Securities. Systemwide Debt Securities are not required to be registered and have not been registered under the Securities Act of 1933. In addition, the Banks are not required to file and do not file periodic reports under the Securities Exchange Act of 1934. Systemwide Debt Securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, these authorities have not confirmed the accuracy or determined the adequacy of any offering material. For additional financial information with respect to the Banks, see Note 22 to the accompanying combined financial statements.

Each issuance of Systemwide Debt Securities ranks equally, in accordance with the Farm Credit Administration regulations, with the System's 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 types of Systemwide Debt Securities listed on page 1 of this annual information statement. For a discussion of the various risks, tax and other considerations, and terms and conditions related to each of these types of securities, see the discussions in the offering circulars listed on page 1 of this annual information statement, each of which may be amended or supplemented from time to time.

Use of Proceeds

Net proceeds from sales of Systemwide Debt Securities are used by the Banks to fund their loan and investment portfolios (which include loans to their affiliated Associations), to fund operations, to meet maturing debt obligations, and for other corporate purposes. The Banks anticipate that additional financing, including financing through various types of debt securities, will be required from time to time. The amount and nature of the financings depend on a number of factors, including the volume of the Banks' maturing debt obligations, the volume of loans made by and repaid to System institutions, and general market conditions.

Repayment Protections

General

While the repayment of Systemwide Debt Securities is the direct joint and several obligation of the Banks, there are several sources of funds in the System for the payment of interest and principal due on the securities. The underlying source of funds for the repayment of Systemwide Debt Securities is the System's borrowers, with each borrower having certain minimum levels of net worth and, in most cases, collateral posted in connection with loans made to the borrower. These borrowers make payments on their loans to the lending Bank or Association. The lending Associations in turn make payments on their wholesale loans to their affiliated lending Bank. Both the Banks, which ultimately repay Systemwide Debt Securities, and the Associations have capital as further protection and sources of support for the repay-

ment of their outstanding debt. Each Bank's ability to participate in a particular issue of Systemwide Debt Securities is regulated and monitored by the Farm Credit Administration. Furthermore, the Banks and the Funding Corporation have entered into the Second Amended and Restated Market Access Agreement that sets forth certain conditions of participation for the Banks, as described below.

Under each Bank's bylaws, the Bank is authorized under certain circumstances to require its affiliated Associations and certain other equity holders to purchase additional Bank equities. In most cases, the Banks are limited as to the amounts of these purchases that may be required, generally with reference to a percentage of the Association's or other equity holder's direct loan from the Bank. However, the Banks also generally possess indirect access to certain financial resources of their affiliated Associations through loan-pricing provisions and through Bank-influenced District operating and financing policies.

If a Bank participating in an issue of Systemwide Debt Securities were unable to repay its portion of that security, the Insurance Fund would be required to make that payment. In the event the assets in the Insurance Fund were exhausted, the provisions of joint and several liability of all the Banks would be triggered, which means the financial resources of the other Banks would be called upon to repay the defaulting Bank's portion of the debt issuance.

Net Collateral Ratio

Farm Credit Administration regulations require each Bank to maintain a minimum net collateral ratio. See "Federal Regulation and Supervision of the Farm Credit System — Farm Credit Administration Regulations — Bank Collateral Requirements" above.

Capital Adequacy

Farm Credit Administration regulations require that each Bank and Association achieve and maintain permanent capital and certain surplus to assets ratios. In addition, the Banks are required to maintain a minimum net collateral to liabilities ratio, as well as develop a capital adequacy plan, each as described above in "Federal Regulation and Supervision of the Farm Credit System — Farm Credit Administration Regulations — Capital Adequacy."

Agreements Among Certain System Institutions

In order to provide for mutual protection among the Banks with respect to their debt obligations, the Banks have voluntarily entered into integrated agreements that contain certain financial covenants. These integrated agreements are the Second Amended and Restated Market Access Agreement and the Amended and Restated Contractual Interbank Performance Agreement. A copy of the Second Amended and Restated Market Access Agreement and a summary of the Amended and Restated Contractual Interbank Performance Agreement are available on the Funding Corporation's website located at www.farmcreditfunding.com.

Second Amended and Restated Market Access Agreement (MAA) — The Banks and the Funding Corporation have entered into the MAA. The MAA is designed to provide for the identification and resolution of individual Bank financial problems in a timely manner. The MAA also discharges the Funding Corporation's statutory responsibility for determining conditions for each Bank's participation in each issuance of Systemwide Debt Securities. The MAA establishes criteria and procedures for the Banks that provide operational oversight and control over a Bank's access to System funding if the creditworthiness of the Bank declines below certain agreed-upon levels.

If a Bank fails to meet the performance criteria, it will be placed into one of three categories. Each category gives the other System Banks progressively more control over a Bank that has declining financial performance under the MAA performance criteria. A "Category I" Bank is subject to additional monitoring and reporting requirements; a "Category II" Bank's ability to participate in issuances of Systemwide Debt Securities may be limited to refinancing maturing debt obligations; and a "Category III" Bank may not be permitted to participate in issuances of Systemwide Debt Securities. No limitations on the participation in the issuances of Systemwide Debt Securities are associated with being in "Category I." A Bank exits these categories by returning to compliance with the agreed-upon performance criteria.

Under the MAA, once a Bank is placed in "Category I," a committee of representatives from the Banks and the Funding Corporation (Committee) is formed within seven days after receiving notice of non-compliance by a Bank. Within 30 days of receiving a notice, the Bank in "Category I" is required to provide to the Committee certain information includ-

ing: (1) a detailed explanation of the causes of the Bank being in “Category I,” (2) an action plan to improve the Bank’s financial situation so that it is no longer in “Category I,” (3) a timetable for achieving that result, and (4) certain financial information, such as a business plan and external auditor reports. In addition, periodic updates are provided to the Committee regarding certain Bank financial information and credit quality indicators as well as certain regulatory information.

For additional discussion of the criteria and standards under the MAA, and the resulting categories and restrictions if the standards are not met, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk Management — Structural Risk Management.”

Amended and Restated Contractual Inter-bank Performance Agreement (CIPA) — The Banks and the Funding Corporation have also entered into the CIPA. Under provisions of the CIPA, a quarterly CIPA score is calculated that measures the financial condition and performance of each District using various ratios that take into account the District’s and Bank’s capital, asset quality, earnings, interest-rate risk and liquidity. The rolling average of the last four quarterly CIPA scores is then compared against the agreed-upon standard of financial condition and performance in the CIPA that each District must achieve and maintain.

Farm Credit Insurance Fund

The Insurance Corporation insures the timely payment of principal and interest on Systemwide Debt Securities. The Insurance Corporation maintains the Insurance Fund for this purpose and for certain other purposes. In the event a Bank is unable to timely pay principal or interest on any insured debt obligation for which that Bank is primarily liable, the Insurance Corporation must expend amounts in the Insurance Fund to the extent available to insure the timely payment of principal and interest on the debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the Banks on the debt obligation cannot be invoked until the Insurance Fund is 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. The insurance provided through use of the Insurance Fund is not an obligation of and is not a guarantee by the U.S. government.

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

Joint and Several Liability

The Banks are jointly and severally liable for the payment of principal and interest on Systemwide Debt Securities. If a Bank is unable to pay the principal or interest on a Systemwide Debt Security and if the amounts in the Insurance Fund have been exhausted, the Farm Credit Administration is required to make calls on all non-defaulting Banks to satisfy the liability. These calls would be in the proportion that each non-defaulting Bank’s “available collateral” (“available collateral” is collateral in excess of the aggregate of the Bank’s “collateralized” obligations) bears to the aggregate available collateral of all non-defaulting Banks. If these calls were not sufficient to satisfy the liability, then a further call would be made in proportion to each non-defaulting Bank’s remaining assets. In 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.

Status in Liquidation

Farm Credit Administration regulations provide that in the event a Bank is placed in liquidation, holders of Systemwide Debt Securities have claims against the Bank’s assets, whether or not the holders file individual claims. The claims of these holders are junior to claims related to costs incurred by the receiver in connection with the administration of the receivership, claims for taxes, claims of secured creditors, and claims of holders of bonds, including

investment bonds, issued by the Bank individually, to the extent the bonds are collateralized in accordance with the requirements of the Farm Credit Act. Further, claims of holders of Systemwide Debt Securities are senior to all claims of general creditors. If particular Systemwide Debt Securities were offered on a secured basis, the holders of these obligations would have the priority accorded secured creditors of the liquidating Bank. To date, the Banks have not issued secured Systemwide Debt Securities.

Contingency Funding Program

The Banks have established a Contingency Funding Program to provide for contingency financing mechanisms and procedures to address potential

disruptions in the System's communications, operations and payments systems and to cover events that threaten continuous market access by the Banks or the Funding Corporation's normal operations. Under this Program, the Funding Corporation has the option to finance all Systemwide Debt Securities through the issuance of Systemwide discount notes either directly to institutional investors or through the selling group. The Funding Corporation, on behalf of the Banks, may also incur other obligations, such as Federal funds purchased, that would be the joint and several obligations of the Banks and would be insured by the Insurance Corporation to the extent funds are available in the Insurance Fund.

RISK FACTORS

In the course of conducting its business operations, the System is exposed to a variety of risks, some of which are inherent in the financial services industry and others of which are more specific to its own business. The following discussion summarizes some of the more important risks that the System faces. This discussion is not exhaustive and there may be other risks that the System faces that are not described below. The risks described below, if realized, could have a significant negative effect on the System's business, financial condition, and results of operations, and, among other things, could result in the Banks' inability to pay principal and interest on Systemwide Debt Securities on a timely basis.

The System's business is directly affected by the agricultural, rural and general economies.

The System's financial condition is directly impacted by factors affecting the agricultural, rural and general U.S. and global economies, since these factors impact the demand for loans and financial services offered by the System and the ability of System borrowers to make payments on loans. These factors may include:

- weather-related, disease, and other adverse climatic or biological conditions, including droughts and floods, that impact the agricultural productivity and income of System borrowers,
- volatile prices of agricultural commodities,
- changes in production expenses, particularly feed, fuel and fertilizer,
- changes in domestic and global demand for U.S. agricultural products,
- changes in farmland and rural real estate values,
- irrigation water availability and cost, and environmental standards,
- availability and cost of agricultural workers,
- political, legal, regulatory, financial markets and economic conditions and developments in the United States and abroad that can affect such things as the price of commodities or products used or sold by System borrowers, including the volatility thereof, as well as changes in the relative value of the U.S. dollar,

- changes in the general U.S. economy that can affect the availability of off-farm sources of income and prices of real estate, and
- the development of alternative uses and markets for agricultural commodities, or the cessation thereof including ethanol and other biofuel production, and the resulting impact on the prices of commodities sold or used by System borrowers.

Therefore, recessions or downturns or other factors negatively impacting the agricultural, rural and general U.S. and global economies could impair the ability of System borrowers to repay loans. This, in turn, could increase the System's nonperforming assets, decrease the value of the System's loan portfolio, reduce the System's loan origination volume, and decrease the value of collateral securing some of the System's loans, which could have a significant adverse impact on the System's financial condition and results of operations.

Our business may be adversely affected by the cost and availability of funding in the debt markets.

Our ability to fund our operations, meet our financial obligations and generate income depends on our ability to issue Systemwide Debt Securities in the debt markets on a regular basis with select maturities and structures and at attractive rates. Our ability to access the debt markets may be limited and our funding costs may increase due to circumstances that we may be unable to control, such as a general disruption in the U.S. and global financial markets, negative views about government-sponsored enterprises or the financial services industry, the willingness of domestic and foreign investors to purchase our debt or a downgrade in our credit ratings.

In addition to issuances of Systemwide Debt Securities, System institutions have accessed other third party capital to support adequate regulatory capital levels and loan growth. Issuances include both preferred stock and subordinated debt. These third party capital sources have supplemented the System's issuances of Systemwide Debt Securities and enhanced the System's capital position. To the extent that these third party capital sources are not available or the cost of issuing such capital is too high, the System's overall growth and capital position may be reduced.

The System's financial condition and results of operations would be adversely affected if funding becomes more expensive or our ability to access the debt market becomes limited.

Uncertainty about the future of government-sponsored enterprises could have an adverse impact on the System's ability to issue debt at favorable rates and terms.

The System's government-sponsored enterprise status has been an important factor in its ability to continually access the debt capital markets. In addition, the System's funding costs historically have been below that of similar non-government-sponsored entities. However, as a direct result of the financial difficulties experienced by the housing related government-sponsored enterprises, with both Fannie Mae and Freddie Mac having been placed into conservatorship by the U.S. government, housing related government-sponsored enterprise status and reform has been and will continue to be a topic of debate by Congress and the U.S. Administration. While the status and reform debate has not to date specifically related to the System, a potential risk exists that the System, as a government-sponsored enterprise, may directly or indirectly be impacted by the decisions made as Congress addresses these and other government-sponsored enterprises. Any change in the System's status as a government-sponsored enterprise or the general perception by investors of government-sponsored enterprise status could have a significant adverse impact on the System's ability to issue debt at favorable rates and terms.

We face significant competition in connection with the issuance of Systemwide Debt Securities.

We compete for low-cost debt funding with the U.S. Treasury, other government-sponsored enterprises, including Fannie Mae, Freddie Mac and the Federal Home Loan Banks, and other highly rated institutions and companies. Competition for debt funding from these entities can vary with changes in economic, financial market and regulatory environments. In addition, any change in the perceptions of government-sponsored enterprise status may intensify competition with other highly rated institutions and companies in connection with the issuance of Systemwide Debt Securities. Increased competition for low-cost debt funding of highly rated institutions may result in a higher cost to finance our business, which could negatively affect our financial

results. An inability to issue Systemwide Debt Securities at favorable rates in amounts sufficient to fund our business activities and meet our obligations could have an adverse effect on our liquidity, financial condition and results of operations.

A decrease in our credit rating or the U.S. government's credit rating could have an adverse effect on our ability to issue Systemwide Debt Securities on reasonable terms and could trigger additional collateral requirements.

The System is subject to periodic review by credit rating agencies. Any event that could have an adverse impact on the System's financial condition or results of operations may cause the rating agencies to downgrade, place on negative watch or change their outlook on the System's credit ratings. Also, changes in the credit ratings or credit ratings outlook of the U.S. government may influence changes in the System's credit ratings and credit ratings outlook given its status as a government-sponsored enterprise.

Any downgrades in credit ratings and outlook could result in higher funding costs or disruptions in the System's access to the capital markets. To the extent that the System cannot access funding when needed on acceptable terms or is unable to effectively manage its cost of funds, its financial condition and results of operations could be negatively affected.

Volatility in the agricultural commodities market and in the cost of farm inputs can result in higher risk profiles for certain System borrowers.

Volatility in commodities prices, coupled with fluctuations in production expenses (including interest rates), may have an adverse impact on the cash flow and profitability of certain System borrowers, which, in turn, may negatively affect their ability to repay their loans. While certain borrowers are negatively impacted by these conditions, other System borrowers may benefit. In particular, increased prices for grains will result in higher risk profiles for livestock producers, processors and marketers of grains and oilseeds, and borrowers that purchase corn or other grains for use in their products. However, grain farmers may benefit from higher prices. Volatility in the agricultural commodities market and the cost of farm inputs may adversely impact the credit quality of the System's loan portfolio and, as a result, negatively affect the System's operating results.

Agriculture has experienced a sustained period of favorable economic conditions. However, in an environment of less favorable economic conditions in agriculture, and without sufficient government support programs, the System's financial performance and credit quality measures likely would be impacted negatively.

In general, the overall U.S. farm economy has experienced a sustained period of favorable conditions that has benefitted from generally strong demand for U.S. agricultural products. The System's financial results have been favorably impacted during this period of time. However, production agriculture remains a cyclical business that is heavily influenced by the demand for U.S. agricultural products and by commodity prices. Factors that could affect demand and prices for commodities include a change in the U.S. government's support programs for agriculture and the ethanol industry, deteriorating economic conditions internationally or an increase in the U.S. dollar's value, any of which would reduce agricultural exports. In an environment of less favorable economic conditions in agriculture, and changes to direct government support programs, the System's financial performance and credit quality measures could be negatively impacted.

As regulated entities, the Banks are subject to certain capital requirements that may limit the operations and potential growth of the System.

The Banks are subject to the supervision of, and regulation by, the Farm Credit Administration, including with respect to complying with certain capital requirements. The Farm Credit Administration periodically updates and revises these requirements, including to take into account new capital requirements adopted by the U.S. banking regulators. In this regard, the U.S. banking regulators have recently approved new capital requirements imposed under the Basel Accord (Basel III) for U.S. banks. The Farm Credit Administration has indicated its intention to undertake rulemaking to revise its capital requirements so that they are consistent with Basel III, to the extent appropriate for the cooperative structure of the System. Compliance with these new capital requirements, if adopted, may limit the System's operations that require the intensive use of capital and could adversely affect its ability to expand or maintain present business levels.

Changes in the laws or regulations that govern the System could have a material impact on the System or its operations.

System institutions are created and extensively governed by federal statutes and regulated by the Farm Credit Administration. Any change in the laws or regulations that govern the System's business, affect government-sponsored enterprises or affect financial institutions in general, could have a material impact on the System and its operations. Laws and regulations may change from time to time, and the interpretations of the relevant laws and regulations also are subject to change.

Potential changes in laws and regulations that could have a material impact on the System include: increased collateral and margin requirements for derivative transactions that would, if applicable to the System, increase the cost of hedging its balance sheet risk and revisions to the System's capital requirements so that they are consistent with Basel III.

Government policies and regulations affecting the agricultural sector and related industries could adversely affect the System's financial condition and results of operations.

Agricultural production and trade flows can be impacted by government policies and regulations. Governmental policies affecting the agricultural industry, such as taxes, tariffs, duties, subsidies and import and export restrictions on agricultural commodities and commodity products, can influence industry profitability, the planting of certain crops, or grazing of certain types of livestock, versus other uses of agricultural resources, whether unprocessed or processed commodity products are traded and the volume and types of imports and exports. In addition, international trade disputes can adversely affect agricultural commodity trade flows by limiting or disrupting trade between countries or regions. Future government policies could adversely affect the supply, demand for and prices of commodities and agricultural products, restrict the ability of the System's borrowers to do business in existing and target markets and could cause a deterioration in their financial condition and results of operations, which could in turn adversely affect the System's financial condition and results of operations.

Changes in U.S. fiscal or spending policies may impair the ability of certain System borrowers to repay their loans to us, which in turn could adversely impact us.

Certain System borrowers benefit from U.S. government support for the agricultural sector, including USDA-sponsored crop insurance programs. Congressional efforts to decrease the U.S. budget deficit likely will result in continued pressure to reduce federal spending in the near term, including funds made available for farm programs. Adverse changes in the agricultural spending policies or budget priorities of the U.S. government in light of the U.S. budget deficit or otherwise may affect the financial condition of some of the System's borrowers and impair their ability to repay their loans to us. The inability of borrowers to repay their loans to us could increase our nonperforming assets, decrease the value of our loan portfolio, reduce our loan origination volume and otherwise harm our business.

An unfavorable change in U.S. tax laws or an adverse interpretation of existing tax laws could negatively impact the System's financial results.

Certain System institutions are statutorily exempt from federal taxes. Other System institutions operate as non-exempt cooperatives. As such, they are eligible, under Subchapter T of the Internal Revenue Code, to deduct or exclude from taxable income amounts determined to be qualified patronage dividends. A change in U.S. tax law or an adverse interpretation of existing tax laws in a manner that reduces or eliminates these tax benefits or that is different from the System's application of such laws would negatively impact the System's results of operations.

A failure in our operational systems or infrastructure, or those of third parties, could impair our liquidity, disrupt our business, damage our reputation and cause losses.

Shortcomings or failures in our internal processes, people or systems could lead to impairment of our liquidity, financial loss, disruption of our business, liability to customers, legislative or regulatory intervention or reputational damage. For example, our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Our computer systems, software and networks may be vulnerable to unauthorized access, computer

viruses or other malicious code and other events that could have a security impact. If one or more of such events occur, this potentially could jeopardize confidential and other information, including nonpublic personal information and sensitive business data, processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations or the operations of our customers or counterparties, which could result in significant losses or reputational damage. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are not fully insured.

The System faces risks from unpredictable catastrophic events.

We are exposed to the risk that a catastrophic event, such as a terrorist event or natural disaster, could result in a significant business disruption and an inability to fund the System or process transactions through normal business processes. Any measures we take to mitigate this risk may not be sufficient to respond to the full range of catastrophic events that may occur. The impact of such events on the overall economy may also adversely affect our financial condition and results of operations.

The Banks and Associations are subject to credit risk.

The Banks and Associations are subject to credit risk in the course of their lending, investing and hedging activities. Credit risk is the risk that arises from the unwillingness or inability of borrowers, debt issuers or counterparties, including guarantors (such as Farmer Mac) and third-party providers of other credit enhancements (such as bond insurers), to meet their contractual obligations to us.

Some of our counterparties may become subject to serious liquidity problems affecting, either temporarily or permanently, their businesses, which may adversely affect their ability to meet their obligations to us. Challenging market conditions could increase the likelihood that we will have disputes with our counterparties concerning their obligations to us, especially with respect to counterparties that have experienced financial strain or have large exposures to us. A default by a counterparty with significant obligations to us could adversely affect our ability to conduct our operations efficiently, which in turn

could adversely affect our results of operations or our financial condition.

In addition, defaults by one or more financial institutions which is party to a derivative or other financial instrument transaction could lead to market-wide disruptions, which could lead to further defaults that could adversely affect the Banks. It may be difficult for the Banks to find derivative and other financial instrument transaction counterparties in such a market.

The Banks and Associations are subject to liquidity risk with respect to their investments.

The Banks and Associations are subject to liquidity risk in the course of their investing activities, particularly with respect to their investments in mortgage-backed securities and asset-backed securities. While the vast majority of these are securities issued and guaranteed by the U.S. government or other government-sponsored enterprises, over the past few years, the non-agency mortgage-backed securities and home equity asset-backed securities markets have experienced significantly reduced liquidity and credit deterioration and investments in these securities have been subject to impairment losses. In this regard, the Banks have recorded impairment losses on certain of these investments. Moreover, if the market for the Banks' and Associations' investments becomes less liquid, the underlying credit fundamentals deteriorate or the investments decline in value, it may make it more difficult for such investments to be sold if the need arises. In addition, because of the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the Banks' and Associations' investments may differ significantly from the values that would have been used had a ready market existed for the investments. Ultimately, these factors could lead to further write-downs in the value of investments and impairment of assets that, if significant, could have adverse effects on our business, financial condition and liquidity.

The earnings of the Banks and Associations are significantly affected by the monetary policies of the Board of Governors of the Federal Reserve System.

The Board of Governors of the Federal Reserve System regulates the supply of money and credit in the United States. Its policies influence the Banks'

and the Associations' cost of funds for lending and investing and the return they earn on their loans and investments, both of which impact their net interest margins, and can materially affect the value of the loans and investments they hold. Federal Reserve Board policies also can affect System borrowers, potentially increasing the risk that they may fail to repay their loans. Changes in Federal Reserve Board policies are beyond the System's control and are difficult to predict or anticipate.

The financial services industry is highly competitive.

The System operates in a competitive marketplace in which there is competition from banks and non-bank lenders. In order to remain a viable competitor in the U.S. farm credit market, System institutions must provide effective loan products, undertake significant marketing efforts, use competitive pricing programs and maintain operating efficiency. As a result, the competitive market could result in reduced interest rate spreads and loan originations, and in some cases, less favorable loan structures and terms for the System.

The Banks and Associations are subject to interest rate risk.

The Banks and Associations, in the course of their borrowing, lending and investment activities, are subject to interest rate risk. Interest rate risk is the risk that changes in interest rates may adversely affect the institution's operating results and financial condition. This risk arises from differences in the timing between the contractual maturities, cash flows and the repricing characteristics of the institution's assets and the financing obtained to fund those assets. The Banks are responsible for developing institution-specific asset/liability management policies and strategies to manage interest rate risk and monitoring them on a regular basis. Interest rate risk can produce variability in earnings and ultimately the long-term capital position of the System.

Each Bank uses derivative financial instruments as a tool to hedge against interest rate and liquidity risks and to lower the overall cost of funds.

Each Bank uses derivative financial instruments and must determine the nature and quantity of hedging transactions. The effectiveness of the hedging transactions depends upon management's ability to determine the appropriate hedging position, taking

into consideration the Bank's assets, liabilities and prevailing and anticipated market conditions. In addition, the usefulness of the Bank's hedging strategy depends on the availability in the market of cost-effective hedging instruments and the ability to enter into hedging transactions with high quality counterparties. If a Bank is unable to manage its hedging position properly it will negatively impact the Bank's financial condition and results of operations.

Uncertainty relating to the LIBOR calculation process may affect the value of our LIBOR-indexed, floating-rate Systemwide Debt Securities, subordinated debt and preferred stock.

Concerns have been publicized that some of the member banks surveyed by the British Bankers' Association (BBA), in connection with the calculation of the London Interbank Offered Rate (LIBOR) across a range of maturities and currencies, may have been under-reporting or otherwise manipulating the inter-bank lending rate applicable to them. Regulators and law enforcement agencies from a number of governments are conducting civil and criminal investigations into whether the BBA member banks may have been underreporting or otherwise manipulating or attempting to manipulate LIBOR. A number of BBA member banks have entered into settlements with their regulators and law enforcement agencies with respect to alleged manipulation of LIBOR, and reviews of the framework for the setting of LIBOR by regulators and governmental authorities in various jurisdictions are ongoing. In this regard, following a selection process conducted by an independent advisory committee, Intercontinental Exchange Benchmark Administration Ltd. was appointed as the new administrator for LIBOR.

Actions by the LIBOR administrator, regulators or law enforcement agencies may result in changes to the manner in which LIBOR is determined. Uncertainty as to the nature of such potential changes may affect the market for LIBOR-based securities, including our LIBOR-indexed, floating-rate Systemwide Debt Securities, subordinated debt and preferred stock. In addition, any further changes or reforms to the determination or supervision of LIBOR may result in a sudden or prolonged increase or decrease in reported LIBOR, which could impact the market for LIBOR-based securities or the value of our LIBOR-indexed, floating-rate Systemwide Debt Securities, subordinated debt and preferred stock, and any payments linked to LIBOR thereunder.

Prepayment risks in mortgage assets could affect the System's earnings.

The System funds real estate mortgage loans and purchases mortgage-backed securities whose cash flows are impacted by changes in interest rates. Changes in interest rates can significantly impact the prepayment patterns of these assets and thus ultimately affect the System's earnings. The System strives to manage or reduce this risk by "match-fund" structuring its Systemwide Debt Securities to match the maturities and repricing of its loans and investments and entering into interest-rate derivative transactions, and through the rebalancing of cash-flow mismatches of assets and liabilities. The System's inability to structure Systemwide Debt Securities to finance longer-term assets may increase the prepayment risks described herein for the System.

Each Bank and Association depends on the accuracy and completeness of information about its customers and counterparties.

In deciding whether to extend credit or enter into transactions with customers and counterparties, the Banks and Associations may rely on information furnished to them by or on behalf of customers and counterparties, including financial statements and other financial information. The Banks and Associations also may rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. If the financial or other information provided to them is incorrect, the Banks and Associations could suffer credit losses or other consequences.

The Banks and Associations may lend only to qualified borrowers in the agricultural and rural sectors and certain related entities and are subject to geographic lending restrictions.

Unlike commercial banks and other financial institutions that lend to both the agricultural sector and other sectors of the economy, the Banks and Associations are restricted solely to making loans and providing financial services to qualified, eligible borrowers in the agricultural and rural sectors and to certain related entities. In addition, certain Banks and Associations are subject to particular geographic lending restrictions. As a result, the Banks and Associations have more limited flexibility in attempting to diversify their loan portfolios as compared to many commercial banks and other financial institutions. Concentration of risk in industries, sectors, geog-

raphies and individual borrowers may limit the ability to offset adverse performance in one sector against positive performance in another sector like most diversified financial institutions.

The System's accounting policies and methods are key to how it reports its financial condition and results of operations, and they may require System institutions' managements to make estimates about matters that are inherently uncertain.

The System's accounting policies, methods and estimates are fundamental to how it records and reports its financial condition and results of operations. System institutions' managements must exercise judgment in selecting and applying many of these accounting policies, methodologies, and estimates so that they not only comply with generally accepted accounting principles and reflect best practices but also reflect managements' judgments as to the most appropriate manner in which to record and report the financial condition and results of operations. Inappropriate policies, methods and estimates, or the misapplication of accounting policies, methods or estimates could adversely affect the financial condition or results of operations of the System.

From time to time, the Financial Accounting Standards Board changes the financial accounting standards that govern the preparation of our financial statements. These changes are beyond our control, can be difficult to predict and could negatively impact how we report our financial condition and results of operations. We could be required to apply a new or revised standard retrospectively, which may result in the revision of prior period financial statements by material amounts. The implementation of new or revised accounting standards also could adversely affect a Bank's capital position and subject it to increased oversight by the Farm Credit Administration or limit its ability to participate in the issuance of Systemwide Debt Securities. See "Business — Federal Regulation and Supervision of the Farm Credit System — Bank Collateral Requirements" and "— Capital Adequacy" and Description of Systemwide Debt Securities — Agreements Among Certain System Institutions."

The determination of the amount of allowance for loan losses and impairments taken on our assets is highly subjective and these estimates could materially impact our results of operations or financial condition.

The determination of the amount of loss allowances and asset impairments varies by asset type and is based upon the periodic evaluation and assessment of known and inherent risks associated with the respective asset class by System institutions' managements. Such evaluations and assessments are revised as conditions change and new information becomes available. The managements of System institutions update their evaluations regularly and reflect changes in allowances and impairments in operations as such evaluations are revised. There can be no assurance that the managements of System institutions have accurately assessed the level of impairments taken and allowances reflected in the System's financial statements. Furthermore, additional impairments may need to be taken or allowances provided in the future. Historical trends may not be indicative of future impairments or allowances.

Our risk management framework may not be effective in mitigating risk and reducing the potential for significant losses.

Our risk management framework is designed to manage risk and minimize loss to us. We seek to identify, measure, monitor, report and control our exposure to the types of risk to which we are subject, including credit, market, liquidity, operational and reputational risks, among others. While we employ a broad and diversified set of risk monitoring and mitigation techniques, those techniques are inherently limited because they cannot anticipate the existence or future development of currently unanticipated or unknown risks. For example, recent economic conditions, heightened legislative and regulatory scrutiny of the financial services industry and increases in the overall complexity of our operations, among other developments, have resulted in the creation of a variety of previously unanticipated or unknown risks, highlighting the intrinsic limitations of our risk monitoring and mitigation techniques. As such, we may incur future losses due to the development of such previously unanticipated or unknown risks.

A failure or circumvention of our controls and procedures could have an adverse effect on our business, results of operations and financial condition.

The System regularly reviews and updates its internal controls, disclosure controls and procedures, and corporate governance policies and procedures. However, no control system, no matter how well designed and operated, can provide absolute assurance that the objectives of the control systems are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of

fraud or errors can be detected. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. Any failure or circumvention of the System's controls and procedures or failure to comply with regulations related to controls and procedures could have an adverse effect on the System's business, results of operations and financial condition.

OTHER BUSINESS MATTERS

Related Party Transactions

In the ordinary course of business, the Banks and Associations may enter into loan transactions with their officers and directors and non-System organizations with which such persons may be associated. These loans are subject to special approval requirements contained in Farm Credit Administration regulations and are, in the view of the System institutions' management, made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers. As of December 31, 2013 and 2012, all related party loans were made in accordance with established policies and the same terms as those prevailing at the time for comparable transactions, except for one loan to a company affiliated with a System institution director, which was \$2.7 million and \$3.2 million at December 31, 2013 and 2012. The interest rate on this loan was marginally lower than the rate on similar loans to unrelated borrowers.

Total loans outstanding to related parties were \$2.2 billion at December 31, 2013 and \$1.9 billion at December 31, 2012. During 2013 and 2012, \$3.6 billion and \$5.1 billion of new loans were made to such

persons and repayments totaled \$3.3 billion and \$5.0 billion. In the opinions of Bank and Association managements, substantially all of such loans outstanding at December 31, 2013 and 2012 did not involve more than a normal risk of collectability.

Legal Proceedings

At December 31, 2013, various lawsuits were pending or threatened against System institutions. In the opinion of management, based on information currently available and taking into account the advice of legal counsel, the ultimate liability, if any, of pending legal actions will not have a material adverse impact on the System's combined results of operations or financial condition.

Changes in and Disagreements with Auditors of the Combined Financial Statements of the Farm Credit System

During the fiscal year ended December 31, 2013 and through the date of this annual information statement, there have been no changes in or disagreements with the independent auditors of the combined financial statements of the System.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis provides a narrative on the System's financial performance and condition that should be read in conjunction with the accompanying financial statements. It includes the following sections:

- Basis of Presentation
- Forward-Looking Information
- Critical Accounting Policies
- 2013 Overview
- Agricultural Outlook
- System Organizational and Structural Matters
- Results of Operations
- Fourth Quarter 2013 Results of Operations
- Risk Management
- Regulatory Matters
- Recently Adopted or Issued Accounting Pronouncements

Basis of Presentation

The System is a federally chartered network of interdependent, borrower-owned lending institutions (Banks and Associations) and affiliated service organizations. Through our three Farm Credit Banks, one Agricultural Credit Bank and 78 Associations (as of January 1, 2014), we provide credit and related services nationwide to farmers, ranchers, producers or harvesters of aquatic products, their cooperatives and farm-related businesses. We also make loans to finance the processing and marketing activities of these borrowers and make loans or provide credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. In addition, we make loans to rural homeowners, rural utilities and other eligible borrowers.

The combined financial statements and related financial information contained in this annual information statement present the combined assets, liabilities, capital, income and expenses of the Banks, the Associations, the Federal Farm Credit Banks Funding Corporation and the Farm Credit Insurance Fund and reflect the investments in and allocated earnings of certain service organizations owned by the Banks or Associations. All significant intra-System transactions and balances have been elimi-

nated in combination. (See Note 1 to the accompanying combined financial statements for additional information on organization, operations and principles of combination and the Supplemental Combining Information on pages F-75 through F-82.) This annual information statement has been prepared under the oversight of the System Audit Committee.

Our financial statements are presented on a combined basis due to the financial and operational interdependence of the System entities as discussed in the "Business" section of this annual information statement. While this annual information statement reports on the combined financial condition and results of operations of the Banks, Associations and other System entities specified above, only the Banks are jointly and severally liable for the payments on Systemwide Debt Securities. Each Bank is primarily liable for the payment of principal and interest on Systemwide Debt Securities issued to fund its operations. (See Notes 13 and 22 to the accompanying combined financial statements for information about the capital of the Banks and the Supplemental Combining Information on pages F-75 through F-77 for information related to the financial condition of the combined Banks.) Because the Associations are not directly liable for the payment of principal and interest on Systemwide Debt Securities, their capital may not be available to support those payments. Under the Farm Credit Act, the timely payment of principal and interest on Systemwide Debt Securities is insured by the Farm Credit System Insurance Corporation to the extent funds are available in the Insurance Fund. (See Note 7 to the accompanying combined financial statements.)

Forward-Looking Information

Certain sections of this annual information statement 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

our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our 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 utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in U.S. government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government, other government-sponsored enterprises and other financial institutions; and
- actions taken by the Federal Reserve System in implementing monetary policy.

Critical Accounting Policies

The System's financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial condition because some accounting policies require us to make complex or subjective judgments and estimates that may affect the reported amounts of certain assets or liabilities. We consider these policies as critical because managements of System institutions have to make judgments about matters that are inherently uncertain. For a complete discussion of the System's significant accounting policies, see Note 2 to the accompanying combined financial statements. The following is a summary of certain of our most significant critical accounting policies.

- Allowance for loan losses — The allowance for loan losses is each Bank and Association management's best estimate of the amount of probable losses existing and inherent in its loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. Each

Bank and Association determines its allowance for loan losses based on periodic evaluation of its loan portfolio, which generally considers recent historical charge-off experience adjusted for relevant factors. These factors include types of loans, credit quality, specific industry conditions, collateral value, weather-related conditions, general economic and political conditions, and changes in the character, composition, and performance of the portfolio, among other factors.

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

Management of each Bank and Association also applies judgment to adjust various loss factors, taking into consideration model imprecision, external factors and economic events that have not yet been reflected in the loss factors.

Banks and Associations may establish a reserve for unfunded commitments that provides for potential losses related to unfunded commitments and is maintained at a level that is considered the best estimate of the amount required to absorb probable losses related to these unfunded commitments. The reserve is determined using the same methodology as used for the allowance for loan losses taking into account the probability of funding the commitment. The reserve for unfunded commitments is recorded as a liability in the Combined Statement of Condition.

Changes in the factors considered by the management of each Bank and Association in the evaluation of losses in its loan portfolio and unfunded commitments could result in a change in the allowance for loan losses or reserve for unfunded commitments and could have a direct impact on the provision for loan losses and the results of operations.

- **Valuation methodologies** — Managements of the Banks and Associations use market prices when estimating fair values for certain assets and liabilities for which an observable liquid market exists. However, they apply various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Examples of these items include impaired loans and investments, pension and other postretirement benefit obligations, and certain derivative and other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the System's results of operations.
- **Pensions** — The Banks and substantially all Associations sponsor defined benefit retirement plans, although most plans are closed to new participants. These plans are non-contributory and benefits are based on salary and years of service. In addition, the Banks and Associations sponsor defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense is determined by using Aon Hewitt Associates LLC actuarial valuations based on certain assumptions, including expected long-term rates of return on plan assets and discount rates. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of our future benefit obligations. We determined the 2013, 2012 and 2011 discount rates by reference to Aon Hewitt AA Only Above Median Yield Curve.

2013 Overview

General

The System's loan portfolio increased 4.8% to \$201.060 billion at December 31, 2013, as compared with \$191.904 billion at December 31, 2012. The

increase in 2013 was primarily attributable to increased demand for real estate mortgage loans, production and intermediate-term loans and processing and marketing loans. Real estate mortgage loans increased primarily due to continued strong demand for cropland in the Midwest. Production and intermediate-term loans increased primarily due to increases in equipment financing. In addition, processing and marketing loans increased primarily due to increased marketing efforts and increased loan participations with non-System entities.

The System's combined net income was \$4.640 billion for 2013, \$4.118 billion for 2012 and \$3.940 billion for 2011. The increase in 2013 net income primarily resulted from a loan loss reversal of \$31 million, as compared with a provision for loan losses of \$313 million for 2012, and from increases in net interest income of \$197 million and noninterest income of \$119 million, partially offset by an increase in noninterest expense of \$139 million. For 2013, the increase in net interest income resulted primarily from a higher level of average earning assets, driven largely by increased loan volume. Average earning assets grew \$14.193 billion to \$240.235 billion for 2013, as compared with the prior year.

Net interest income in excess of operating expenses increased \$8 million to \$4.239 billion for 2013, as compared with \$4.231 billion for 2012.

The System's total amount of nonperforming assets was \$2.238 billion at December 31, 2013, as compared with \$2.932 billion at December 31, 2012, representing 1.11% and 1.53% of total loans and other property owned outstanding for the corresponding periods. During 2013, the System's capital to assets ratio increased to 16.3% at December 31, 2013, as compared with 15.7% at December 31, 2012, primarily as a result of an increase in retained earnings.

Funding

The System continues to have reliable access to the debt capital markets to support its mission of providing credit to farmers, ranchers and other eligible borrowers. During 2013, investor demand for Systemwide Debt Securities remained favorable across all products. Given the prevailing low interest rate environment, the Banks continued to refinance callable bonds when advantageous in order to lower their cost of funds.

The System is a government-sponsored enterprise that has benefitted from broad access to domestic and global capital markets. This access has provided us with a dependable source of competitively priced debt which is critical for supporting our mission of providing credit to agriculture and rural America.

Drought Conditions

The extensive 2012 growing season drought in the U.S., particularly severe in the Midwest, significantly reduced crop yields and resulted in historically high crop prices and input costs. Multi-peril crop insurance (MPCI) generally mitigated the economic impact of the drought for most crop producers. In addition, many crop producers have strengthened their financial positions over the past several years and with high utilization of MPCI, the 2012 drought had a very limited financial impact. Through the first half of 2013, the high prices for corn, soybeans and other feed grains had been placing pressure on livestock, poultry, ethanol and dairy producers who rely on these inputs. However, as a result of strong corn, soybean and wheat production in 2013, and its impact on domestic and world supplies of these commodities, prices have declined significantly, especially for corn. These lower commodity prices are expected to have a negative impact on crop producers. Conversely, these lower prices generally will be positive for producers and processors who purchase these commodities as inputs in the production of livestock, poultry, dairy products, and ethanol.

As of the end of 2013, approximately 31% of the U.S. was experiencing moderate to exceptional drought conditions, concentrated in the western half of the country and in California in particular. This represents an improvement from the end of 2012, where approximately 61% of the U.S. was experiencing moderate to exceptional drought conditions. Persistent drought conditions may lead to increased prices and decreased supplies for agricultural products produced in affected areas, including livestock, dairy products, fruits, nuts and vegetables produced in California. Prolonged drought conditions could result in credit stress for these producers.

Agricultural Outlook

USDA Information

We utilized the following USDA analysis to provide a general understanding of the U.S. agricultural economic outlook; however, this outlook does not take

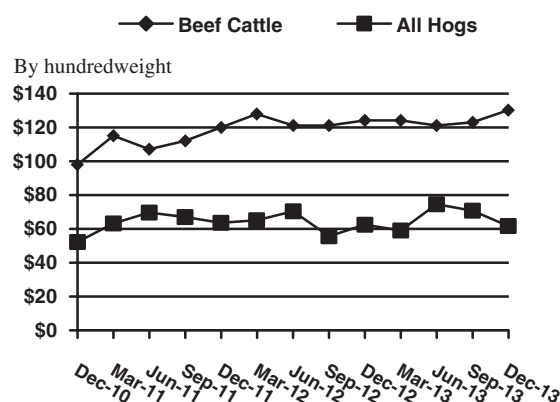
into account all aspects of our business. References to USDA information in this section refer to the U.S. agricultural market data and not System data.

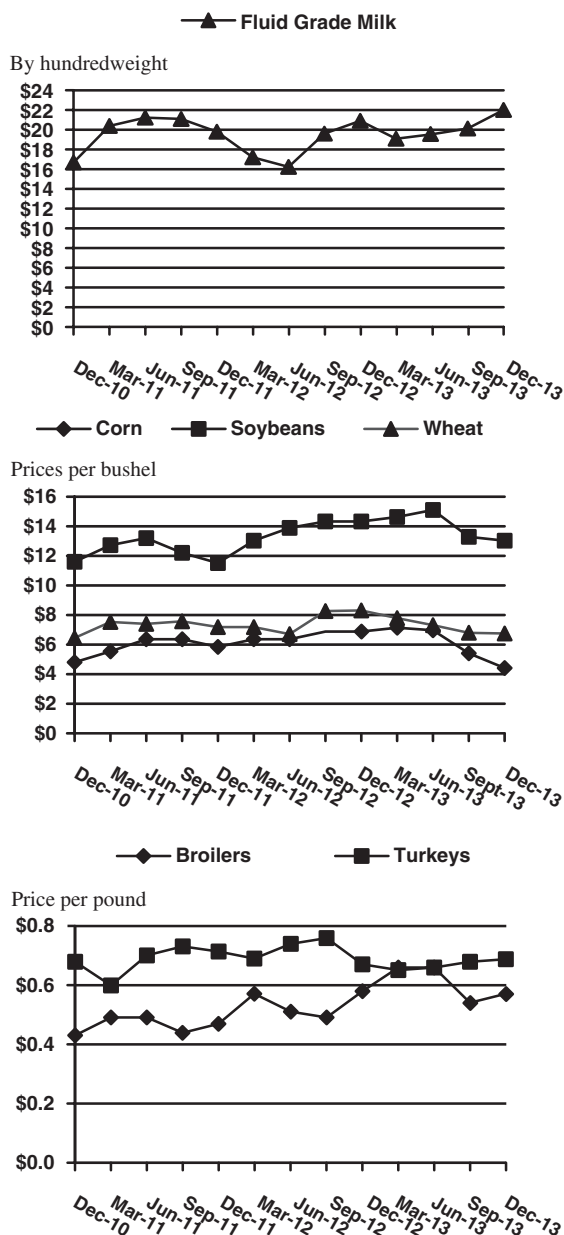
The USDA forecast (February 11, 2014) estimates farmers' net cash income (a measure of the cash income after payment of business expenses) for 2013 at \$130.1 billion, down \$4.3 billion from 2012 and up \$39.2 billion from its 10-year average of \$90.9 billion. The decline in net cash income in 2013 was primarily due to a decrease in crop receipts of \$7.4 billion, and a \$10.2 increase in cash expenses, principally offset by increases in livestock receipts of \$10.6 billion, farm-related income of \$2.1 billion, and direct government payments of \$600 million.

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

Looking ahead to 2014, the USDA projects crop receipts will decrease \$26.7 billion, with an almost \$11 billion decline in corn receipts and a decline in soybean receipts of more than \$6 billion. Continued strong corn production is expected as U.S. farm operations rebound from the 2012 drought. As a result, the USDA expects the price of corn to decline significantly. Livestock receipts are predicted to increase in 2014 primarily due to increased dairy receipts.

The following charts set forth the commodity prices utilizing the average monthly price for the last month of each quarter by hundredweight for beef cattle, hogs and milk, per bushel for corn, soybeans and wheat and by pound for poultry on certain dates during the period from December 31, 2010 to December 31, 2013:





The USDA's income outlook varies depending on farm size and commodity specialties. In 2013, the USDA revised its farm classification or typology to account for commodity price increases and shifts in production to larger farms. The USDA classifies all farms into the following categories:

Small family farms (gross cash farm income (GCFI) less than \$350,000):

Retirement farms – small farms whose operators report they are retired, although they continue to farm on a small scale

Off-farm occupation – small farms whose operators report a primary occupation other than farming

Farming-occupation farms – small farms whose operators report farming as their primary occupation.

Midsize family farms (GCFI between \$350,000 and \$999,999)

Large-scale family farms (GCFI of \$1,000,000 or more)

Nonfamily farms – farms where the principal operator or individuals related to the operator do not own a majority of the business

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

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

Two measures of the financial health of the agricultural sector used by the USDA are the farm sector's debt-to-asset and debt-to-equity ratios. These ratios are expected to continue to decline as they have over the past five years, falling to 10.54% and 11.78%, respectively. These decreases would result in the lowest value for both measures since 1954. The historically low levels of debt relative to assets and equity reaffirm the farm sector's strong financial position despite the slowdown in asset growth. As noted by USDA, the farm sector is better insulated from the risks associated with commodity production, changing macroeconomic conditions, as well as fluctuations in farm asset values.

As estimated by the USDA in February 2014, the System's market share of farm business debt (defined as debt incurred by those involved in on-farm agricultural production) grew to 40.7% at

December 31, 2012 (the latest available data), as compared with 39.5% at December 31, 2011.

Other Information

Agriculture, in general, has experienced a sustained period of favorable economic conditions due to stronger commodity prices, higher farmland values, and, to a lesser extent, government support programs.

System institutions continue to focus on sound underwriting standards that emphasize loan repayment capacity in addition to conservative assessments of collateral used to secure loans. In addition, System institutions have generally taken other measures to adjust underwriting standards to reduce risk on farmland loans, including but not limited to:

- Setting lower loan-to-value limits (generally less than 65% of loan-to-value),
- Establishing caps on debt per acre based on soil quality and geographic area,
- Shortening loan terms,
- Requiring guarantees, and
- Cross-collateralizing a loan with property that has limited debt encumbrance.

To date, the System's financial results have remained favorable as a result of the favorable agricultural conditions. Production agriculture, however, remains a cyclical business that is heavily influenced by commodity prices and various other factors. Conditions in the general and agricultural economies remain volatile given the state of the U.S. and global economy. In an environment of less favorable conditions in agriculture, including extensive and extended drought conditions, and without sufficient government support programs, including USDA-sponsored crop insurance programs, the System's

financial performance and credit quality measures would likely be negatively impacted. Any negative impact from these less favorable conditions should be partially mitigated by geographic and commodity diversification across the System and the influence of off-farm income sources supporting agricultural-related debt. However, due to the geographic territories served by Banks and Associations, most institutions have higher geographic, borrower and commodity concentrations than does the System as a whole. In addition, agricultural borrowers who are more reliant on off-farm income sources may be more adversely impacted by a weakened general economy.

System Organizational and Structural Matters

The following table summarizes the structural changes of the System over the past five years:

	Banks	Associations	Total
Entities at January 1, 2009	5	90	95
Net changes through January 1, 2013	(1)	(8)	(9)
Entities at January 1, 2013	4	82	86
Net changes through January 1, 2014	—	(4)	(4)
Entities at January 1, 2014	4	78	82

Over the past several years, the number of Associations has declined as a result of mergers with other Associations.

On January 1, 2012, U.S. AgBank merged with and into CoBank, the successor Bank. The merger was accounted for under the acquisition method of accounting.

(For additional information regarding mergers, see Notes 12 and 23 to the accompanying combined financial statements.)

Results of Operations

Earnings Analysis

Changes in the key components impacting the System's results of operations over the past three years are summarized below:

	2013 vs. 2012	2012 vs. 2011
	(in millions)	
Increase (decrease) in net income due to:		
Interest income	\$ 53	\$(306)
Interest expense	144	524
Net interest income	197	218
Loan loss reversal/provision for loan losses	344	117
Noninterest income	119	(66)
Noninterest expense	(139)	(138)
Provision for income taxes	1	47
Net change in net income	<u>\$ 522</u>	<u>\$ 178</u>

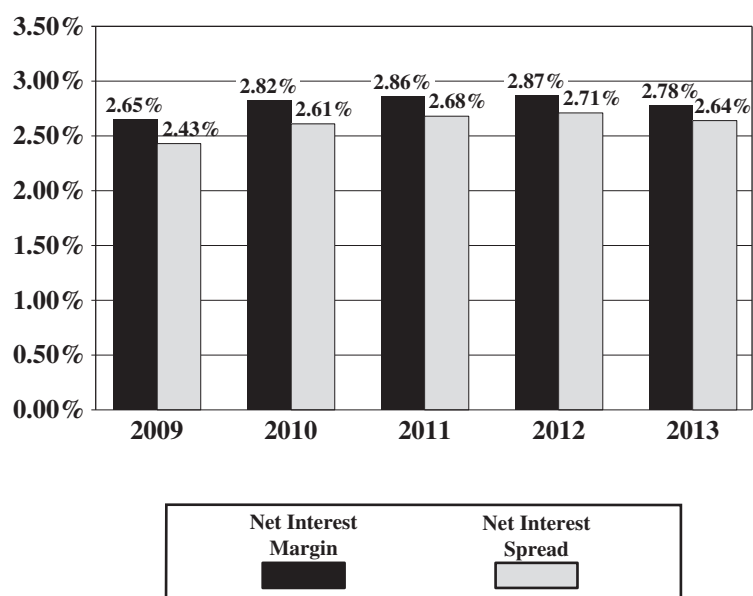
Net Interest Income

Net interest income was \$6.674 billion in 2013, \$6.477 billion in 2012 and \$6.259 billion in 2011. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the System and is impacted by volume, yields on assets and cost of debt. The effects of changes in volume and interest

rates on net interest income over the past three years are presented in the following table. The table distinguishes between the changes in interest income and interest expense related to average outstanding balances and the levels of average interest rates. Accordingly, the benefit derived from funding earning assets with interest-free funds (capital) is reflected solely as a volume increase.

	2013 vs. 2012			2012 vs. 2011		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
	(in millions)					
Interest income:						
Loans	\$440	\$(313)	\$ 127	\$335	\$(605)	\$(270)
Investments	60	(134)	(74)	—	(36)	(36)
Total interest income	500	(447)	53	335	(641)	(306)
Interest expense	108	(252)	(144)	54	(578)	(524)
Changes in net interest income	<u>\$392</u>	<u>\$(195)</u>	<u>\$ 197</u>	<u>\$281</u>	<u>\$ (63)</u>	<u>\$ 218</u>

The following chart illustrates the System's net interest margin and net interest spread trends for the past five years:



The following table presents interest rate spreads, components of interest rate spreads, the details of the changes in interest rates earned and paid, and the impact of those changes on interest rate spreads for the past three years:

	2013			2012			2011		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate	Average Balance	Interest	Rate
	(\$ in millions)								
Assets									
Real estate mortgage loans	\$ 89,225	\$4,060	4.55%	\$ 81,927	\$3,896	4.76%	\$ 77,545	\$4,087	5.27%
Production and intermediate-term loans	41,331	1,622	3.92	39,881	1,638	4.11	37,721	1,690	4.48
Agribusiness loans	27,280	989	3.63	28,131	1,026	3.65	29,814	1,131	3.79
Energy and water/waste water loans	15,130	621	4.10	13,085	572	4.37	11,491	520	4.53
Rural residential real estate loans	6,360	282	4.43	5,943	286	4.81	5,573	289	5.19
Agricultural export finance loans	4,723	45	0.95	4,372	52	1.19	3,918	38	0.97
Communication loans	4,099	152	3.71	4,158	166	3.99	3,635	145	3.99
Lease receivables	2,474	102	4.12	2,243	100	4.46	2,017	108	5.35
Loans to other financial institutions	697	8	1.15	627	9	1.44	560	9	1.61
Nonaccrual loans	2,128	80	3.76	2,556	89	3.48	3,181	87	2.73
Total loans	193,447	7,961	4.12	182,923	7,834	4.28	175,455	8,104	4.62
Federal funds sold, investments and other	46,788	670	1.43	43,119	744	1.73	43,118	780	1.81
Total earning assets	240,235	8,631	3.59	226,042	8,578	3.79	218,573	8,884	4.06
Allowance for loan losses	(1,317)			(1,268)			(1,412)		
Other noninterest-earning assets	11,186			11,949			13,018		
Total assets	\$250,104			\$236,723			\$230,179		
Liabilities and Capital									
Systemwide bonds and medium-term notes . . .	\$183,875	\$1,835	1.00%	\$175,506	\$1,969	1.12%	\$169,383	\$2,463	1.45%
Systemwide discount notes	15,966	23	0.14	14,959	25	0.17	17,680	40	0.23
Subordinated debt	1,555	96	6.17	1,645	104	6.32	1,650	104	6.30
Other interest-bearing liabilities	3,574	3	0.08	2,500	3	0.12	1,815	18	0.99
Total interest-bearing liabilities	204,970	1,957	0.95	194,610	2,101	1.08	190,528	2,625	1.38
Noninterest-bearing liabilities	4,543			4,531			4,514		
Capital	40,591			37,582			35,137		
Total liabilities and capital	\$250,104			\$236,723			\$230,179		
Net interest spread(1)			2.64			2.71			2.68
Impact of noninterest-bearing sources			0.14			0.16			0.18
Net interest income and margin(2)		\$6,674	2.78%		\$6,477	2.87%		\$6,259	2.86%

(1) Net interest spread is the difference between the rate earned on total earning assets and the rate paid on total interest-bearing liabilities.

(2) Net interest margin is net interest income divided by average earning assets.

Earning assets, which are primarily financed through the issuance of Systemwide Debt Securities, consisted of loans (accrual and nonaccrual), Federal funds sold and investments. In addition to these interest-bearing funds, earning assets also were funded by capital. Variations in average volume and the spreads earned on interest-bearing funds and capital determine changes in net interest income.

As illustrated in the preceding tables, the increase in net interest income in 2013, as compared with 2012 resulted primarily from an increase in the level of average earning assets. Average earning assets grew \$14.193 billion or 6.3% to \$240.235 billion for 2013, as compared with the prior year.

The net interest margin decreased nine basis points to 2.78% for 2013, as compared with 2.87% for 2012. The decline in the net interest margin resulted from a decrease in the net interest spread of seven basis points to 2.64% for 2013, as compared with 2.71% for 2012. The net interest margin was also negatively impacted by a two basis point decline in income earned on earning assets funded by non-interest bearing sources (principally capital), as yields on average earning assets declined due to lower interest rates.

During 2013, the Banks called debt totaling \$24.3 billion, as compared with \$62.7 billion for 2012 and were able to lower their cost of funds relative to the interest rate earned on their assets, which did not repay or reprice as quickly. Although the net interest spread was positively impacted by the Banks' ability to refinance debt, the decrease in the net interest spread for 2013 reflected the lesser amount of debt being called, as compared with the prior year. As interest rates change and assets prepay or reprice in a manner more consistent with historical experience, the positive impact from calling debt on the net interest spread that the System has experienced over the past several years will continue to decline.

The decline in the net interest spread for 2013, as compared with 2012 was also attributable to competitive pressures and to an increase in the average loan volume in lower spread lines of business. The net interest spread for 2013 and 2012 included the positive impact from CoBank's net accretion of asset and liability fair value adjustments related to its January 1, 2012 merger with U.S. AgBank. Net accretion was \$83 million and \$90 million for 2013 and 2012.

Interest income recognized on cash-basis non-accrual loans was \$80 million for 2013, \$89 million for 2012 and \$87 million for 2011. Interest income is recognized on cash-basis nonaccrual loans only as interest payments are received and certain other conditions are met. Nonaccrual loans are returned to accrual status after a period of sustained payment performance provided they are current as to principal and interest, any previously charged off amounts have been collected, and the collectibility of the remaining amounts of principal and interest is no longer in doubt.

The increase in net interest income in 2012, as compared with 2011 resulted primarily from an increase in the level of average earning assets. Average earning assets grew \$7.469 billion or 3.4% to \$226.042 billion for 2012. The net interest margin

increased one basis point to 2.87% for 2012, as compared with 2.86% for 2011. Positively impacting the net interest margin was an increase in the net interest spread of three basis points to 2.71% for 2012, as compared with net interest spread of 2.68% for 2011. The increase in the net interest spread was primarily attributable to the Banks' ability to refinance outstanding debt at favorable interest rates in the low interest rate environment.

Loan Loss Reversal/Provision for Loan Losses

Each Bank and Association makes its own determination whether an increase in its allowance for loan losses through a provision for loan losses or a decrease in its allowance for loan losses through a loan loss reversal is warranted based on its assessment of the credit risk in its loan portfolio.

The System recognized a loan loss reversal of \$31 million for 2013, as compared with provisions for loan losses of \$313 million in 2012 and \$430 million in 2011. The loan loss reversal for 2013 consisted of \$113 million of loan loss reversals recorded by certain System institutions, partially offset by \$82 million of provisions for loan losses recorded by other System institutions. The loan loss reversals were reflective of the improvement in overall credit quality of the loan portfolio. The provisions for loan losses recognized in 2013 were primarily due to credit challenges experienced by certain borrowers in our agricultural portfolio due to continued volatility of commodity prices and the slow recovery of the general U.S. economy during most of the year.

The provisions for loan losses for both 2012 and 2011 were primarily due to credit deterioration in those agricultural sectors impacted by volatility in commodity and other input prices, such as livestock, dairy and ethanol, as well as those borrowers impacted by the overall downturn in the general U.S. economy and housing industry, such as forestry and nurseries. In addition, the provision for loan losses recognized in 2012 was impacted by specific credit issues for a small number of communication and rural energy customers. The provision for loan losses recognized in 2011 was also impacted by credit deterioration in the ethanol sector and reflected credit stress in the poultry sector due to high feed costs and sustained low overall product pricing resulting from supply and demand dynamics in the industry.

Noninterest Income

Noninterest income for each of the three years in the period ended December 31, 2013 is summarized in the following table:

	For the Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Loan-related fee income	\$241	\$ 229	\$ 260
Fees for financially related services	206	213	205
Mineral income	106	97	70
Operating lease income	41	37	41
Income earned on Insurance Fund assets	29	47	73
Total other-than-temporary impairment losses	(13)	(62)	(139)
Portion of other-than-temporary impairment recognized in other comprehensive income	2	15	70
Net other-than-temporary impairment losses included in earnings	(11)	(47)	(69)
Gains on sales of investments and other assets, net	12	7	11
Losses on extinguishment of debt	(72)	(155)	(82)
Net gains on derivative and other transactions	16	25	17
Other noninterest income	53	49	42
Total noninterest income	<u>\$621</u>	<u>\$ 502</u>	<u>\$ 568</u>

Noninterest income increased \$119 million or 23.7% in 2013 to \$621 million, as compared with 2012. The increase was primarily due to decreases in losses on extinguishment of debt of \$83 million and net other-than-temporary impairment losses on investments of \$36 million. The decrease in losses on extinguishment of debt resulted from a lesser amount of debt being called and repurchased, including subordinated debt, in 2013, as compared with 2012. Additionally, noninterest income increased due to increases in loan-related fee income of \$12 million and mineral income of \$9 million. Partially offsetting these improvements in noninterest income were decreases in net gains on derivative and other transactions of \$9 million and fees for financially related services of \$7 million, and lower income earned on Insurance Fund assets, which decreased \$18 million due to lower interest rates earned on these assets.

Net other-than-temporary impairment losses on investments were \$11 million in 2013 and resulted from credit losses on certain securities that have been negatively impacted by underlying credit issues with respect to housing-related mortgages that support these securities (See “Federal Funds and Available-

for-Sale Securities” beginning on page 71 for further discussion regarding the impairment of investments). The losses reflect the credit-related portion of the impairment in income, while the non-credit loss component of the impairment totaling \$2 million is reflected in unrealized (losses) gains on other-than-temporary impairment investments.

Noninterest income decreased \$66 million or 11.6% in 2012 to \$502 million, as compared with 2011. The decrease was primarily due to a \$73 million increase in losses on extinguishment of debt as a result of debt being called and repurchased and from one Bank’s repurchase of a portion of its subordinated debt. Also contributing to the decrease were decreases in loan-related fee income of \$31 million due, in part, to fewer transactions that earned fees, and income earned on Insurance Fund assets of \$26 million. The decrease in noninterest income was partially offset by an increase in mineral income of \$27 million due to increases in lease bonus and royalty income and to a decrease in net other-than-temporary impairment losses of \$22 million. The net other-than-temporary impairment losses of \$47 million in 2012 reflected the credit-related portion of the impairment in income, while the non-credit loss component of the impairment totaling \$15 million is reflected in unrealized (losses) gains on other-than-temporary impairment investments.

Noninterest Expense

Noninterest expense for each of the three years in the period ended December 31, 2013 is summarized below:

	For the Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Salaries and employee benefits	\$1,602	\$1,458	\$1,349
Occupancy and equipment expense	183	171	169
Purchased services	135	119	112
Other operating expense	515	498	453
Total operating expense	2,435	2,246	2,083
Net losses on other property owned	28	79	83
Merger/restructuring expense	2	1	22
Total noninterest expense	<u>\$2,465</u>	<u>\$2,326</u>	<u>\$2,188</u>

Noninterest expense increased \$139 million or 6.0% to \$2,465 billion for 2013, as compared with 2012, primarily due to increases in salaries and employee benefits, purchased services and other operating expense. Salary expense increased \$109

million or 10.4% to \$1.155 billion primarily due to annual merit and performance-based compensation increases and, to a lesser extent, higher staffing levels at certain System institutions. The increased staffing levels were generally needed to support business initiatives and growth. The System employed 13,336 full-time equivalents at December 31, 2013, as compared with 12,970 full-time equivalents at December 31, 2012, a 2.8% increase.

Employee benefits increased \$35 million or 8.5% to \$447 million for 2013, as compared with 2012, as various employee benefits, such as defined contribution plan expenses, payroll taxes and health insurance costs, increased in line with increased salaries and staffing levels. Additionally, pension expense increased due, in part, to the decrease in the discount rate used to calculate net periodic benefit cost and increased amortization of losses on plan assets. Pension expense in 2012 included a \$14 million one-time pension charge related to the merger of CoBank and U.S. AgBank effective January 1, 2012.

Other operating expense increased \$17 million or 3.4% to \$515 million for 2013, as compared with 2012 primarily due to increases in various administrative expenses. Partially offsetting the increase in noninterest expense was a decrease in net losses on other property owned of \$51 million.

Noninterest expense increased \$138 million or 6.3% to \$2.326 billion for 2012, as compared with 2011, primarily due to increases in salaries and employee benefits and other operating expense. Salary expense increased \$58 million or 5.9% to \$1.046 billion primarily due to annual merit and performance-based compensation increases, and to a lesser extent, higher staffing levels at certain System institutions. The System employed 12,970 full-time equivalents at December 31, 2012, as compared with 12,492 full-time equivalents at December 31, 2011, a 3.8% increase. Employee benefits increased \$51 million or 14.1% to \$412 million as pension expense increased due, in part, to the increased amortization of losses on plan assets. Also included in the increase in pension expense was the \$14 million one-time pension charge related to the merger of CoBank and U.S. AgBank effective January 1, 2012. Excluding the one-time charge, employee benefits for 2012 would have increased 10.2%. Various employee benefits, such as defined contribution plan expenses, payroll taxes and health insurance costs, increased in line with increased salaries and staffing levels.

Other operating expense increased \$45 million or 9.9% to \$498 million for 2012, as compared with 2011 primarily due to increases in various administrative expenses. The merger/restructuring costs recognized in 2011 resulted primarily from the merger of two Banks that was consummated on January 1, 2012.

Operating expense (salaries and employee benefits, occupancy and equipment expense, purchased services and other operating expense) statistics for each of the three years in the period ended December 31, 2013 are set forth below:

	For the Year Ended December 31,		
	2013	2012	2011
	(\$ in millions)		
Excess of net interest income over operating expense	\$4,239	\$4,231	\$4,176
Operating expense as a percentage of net interest income	36.5%	34.7%	33.3%
Operating expense as a percentage of net interest income and noninterest income	33.4	32.2	30.5
Operating expense as a percentage of average loans	1.26	1.23	1.19
Operating expense as a percentage of average earning assets	1.01	0.99	0.95

Provision for Income Taxes

As discussed in Note 2 to the accompanying combined financial statements, the System is comprised of both taxable and non-taxable entities. Taxable entities are eligible to operate as cooperatives for tax purposes and thus may elect to deduct from taxable income certain amounts allocated to borrowers as patronage refunds in the form of cash, stock or allocated surplus.

The System recorded provisions for income taxes of \$221 million in 2013, \$222 million in 2012 and \$269 million in 2011. The effective tax rate decreased to 4.5% for 2013 from 5.1% for 2012. The decrease in the effective tax rate was primarily due to decreased taxable earnings at certain taxable System institutions and from a greater amount of patronage declared during 2013.

Fourth Quarter 2013 Results of Operations

Combined net income increased \$181 million to \$1.141 billion for the fourth quarter of 2013, as compared with \$960 million for the fourth quarter of 2012. The increase in net income between the fourth-quarter periods primarily resulted from a loan loss

reversal of \$40 million in 2013, as compared with a provision for loan losses of \$125 million in 2012, and from increases in noninterest income of \$68 million and net interest income of \$35 million, partially offset by increases in noninterest expense of \$55 million and the provision for income taxes of \$32 million.

Net interest income was \$1.693 billion in the fourth quarter of 2013, as compared with \$1.658 billion for the prior year period. The increase in net interest income resulted primarily from a higher level of average earning assets. Average earning assets grew \$14.125 billion to \$246.022 billion for the fourth quarter of 2013, as compared with \$231.897 billion for the fourth quarter of 2012. The net interest margin declined to 2.75% for the fourth quarter of 2013, as compared with 2.86% for the same period of the prior year. The decline in the net interest margin resulted from a decrease in the net interest spread of 11 basis points to 2.61% for the quarter ended December 31, 2013, as compared with 2.72% for the same period of 2012. The decrease in the net interest spread resulted primarily due to a lesser amount of debt being called, as compared with the same period of the prior year and competitive pressures.

The loan loss reversal for the fourth quarter of 2013 was primarily due to improved credit quality in the System's loan portfolio. The provision for loan losses recorded in the fourth quarter of 2012 reflected credit deterioration primarily in those agricultural sectors that had been impacted by the volatility in commodity prices in part as a result of the 2012 drought, as well as those sectors affected by the overall weakness of the U.S. economy. The provision for loan losses for the fourth quarter of 2012 also reflected specific credit challenges for a small number of communication and rural energy customers.

Noninterest income was \$177 million for the fourth quarter of 2013, as compared with \$109 million for the fourth quarter of 2012. The increase was due to decreases in losses on the extinguishment of debt of \$53 million and net other-than-temporary impairment losses on investments of \$20 million, partially offset by a decrease in fees for financially related services of \$8 million. Losses on other-than-temporarily impaired investments of \$4 million were recognized in income during the fourth quarter of 2013, as compared with a \$24 million impairment loss for the same period of the prior year.

Noninterest expense was \$716 million for the fourth quarter of 2013, as compared with \$661 mil-

lion for the fourth quarter of 2012. This increase was primarily due to increases in salaries and employee benefits of \$49 million due to annual merit and performance-based compensation increases and, to a lesser extent, higher staffing levels at certain System institutions.

The provision for income taxes was \$53 million for the fourth quarter of 2013 and \$21 million for the fourth quarter of 2012. The effective tax rate increased to 4.4% for the fourth quarter of 2013, as compared with 2.1% for the fourth quarter of 2012. The increase in the effective tax rate was primarily due to higher net earnings at certain taxable System institutions resulting from loan loss reversals taken during the fourth quarter of 2013, as compared with provisions for loan losses during the same period of 2012, and decreased losses on extinguishment of debt.

Risk Management

Overview

The System is in the business of making agricultural and other loans that requires us to take certain risks in exchange for compensation for the risks undertaken. Management of risks inherent in our business is essential for our current and long-term financial performance. Each System institution's goal is to mitigate risk, where appropriate, and to properly and effectively identify, measure, price, monitor and report risks in our business activities.

The major types of risk to which we have exposure are:

- structural risk — risk inherent in our business and related to our structure (an interdependent network of lending institutions),
- credit risk — risk of loss arising from an obligor's failure to meet the terms of its contract or failure to perform as agreed,
- interest rate risk — risk that changes in interest rates may adversely affect our operating results and financial condition,
- liquidity risk — risk arising from our inability to meet obligations when they come due without incurring unacceptable losses, including our ability to access the debt market,
- operational risk — risk resulting from inadequate or failed internal processes or systems, errors by employees, fraud or external events,

- reputational risk — risk of loss resulting from events, real or perceived, that shape the image of the System or any of its entities, including the impact of investors' perceptions about agriculture, the reliability of System financial information, or the overt actions of any System institution, and
- political risk — risk of loss of support for the System and agriculture by the federal and state governments.

Structural Risk Management

Structural risk results from the fact that the System is comprised of Banks and Associations that are cooperatively owned, directly or indirectly, by their borrowers. While System institutions are financially and operationally interdependent, they are not commonly owned. Each System institution is responsible for its own risk management and there are no formal processes or procedures in place to mandate Systemwide risk mitigation actions, including, but not limited to, reducing concentration, interest rate and counterparty credit risk across the System. This structure at times requires action by consensus or contractual agreement. Further, there is structural risk in that only the Banks are jointly and severally liable for the payment of principal and interest on Systemwide Debt Securities. Although capital at the Association level reduces a Bank's credit exposure with respect to its wholesale loans to its affiliated Associations, this capital may not be available to support the payment of principal and interest on Systemwide Debt Securities.

In order to monitor and mitigate the joint and several liability risk, we utilize two integrated intra-System financial performance agreements — the Amended and Restated Contractual Interbank Performance Agreement, or CIPA, and the Second Amended and Restated Market Access Agreement, or MAA. Under provisions of the CIPA, a score (CIPA score) is calculated quarterly to measure the financial condition and performance of each District (a Bank and its affiliated Associations) using various ratios that take into account the District's and Bank's capital, asset quality, earnings, interest-rate risk and liquidity. The CIPA score is then compared against the agreed-upon standard of financial condition and performance that each District must achieve and maintain. The measurement standard established under the CIPA is intended to provide an early-warning mechanism to assist in monitoring the financial condition of each

District. The performance standard under the CIPA is based on the average CIPA score over a four-quarter period.

Periodically, the ratios in the CIPA model are reviewed to take into consideration current performance standards in the financial services industry. A review will be conducted during 2014.

The MAA is designed to provide for the timely identification and resolution of individual Bank financial issues and establishes performance criteria and procedures for the Banks that provide operational oversight and control over a Bank's access to System funding. The performance criteria set forth in the MAA are as follows:

- the defined CIPA scores,
- the net collateral ratio of a Bank, and
- the permanent capital ratio of a Bank.

The Bank net collateral ratio is net collateral (primarily loans and investments) divided by total liabilities less subordinated debt, subject to certain limits, and the Bank permanent capital ratio is primarily the Bank's common stock, preferred stock and subordinated debt, subject to certain limits, and surplus divided by risk-adjusted assets.

If a Bank fails to meet the above performance criteria, it will be placed into one of three categories. Each category gives the other System Banks and the Funding Corporation (collectively, MAA Committee) progressively more control over a Bank that has declining financial performance under the MAA performance criteria. A "Category I" Bank is subject to additional monitoring and reporting requirements; a "Category II" Bank's ability to participate in issuances of Systemwide Debt Securities may, subject to the discretion of the MAA Committee, be limited to refinancing maturing debt obligations; and a "Category III" Bank may, subject to the discretion of the MAA Committee, not be permitted to participate in issuances of Systemwide Debt Securities. Decisions by the MAA Committee to permit, limit or prohibit a "Category II" or "Category III" Bank to participate in the issuance of Systemwide Debt Securities are subject to oversight and override by the Farm Credit Administration. No economic penalties are associated with being in "Category I." A Bank exits these categories by returning to compliance with the agreed-upon performance criteria.

The criteria for the net collateral ratio and the permanent capital ratio are as follows:

	Net Collateral Ratio	Permanent Capital Ratio
Category I	<104%*	<8.0%
Category II	<103%	<7.0%
Category III	<102%	<5.0%

* As set forth in the MAA, a Bank may be subject to a higher net collateral ratio set by the Farm Credit Administration.

(See Note 22 for each Bank's net collateral and permanent capital ratios.)

As required by the MAA, the Banks and the Funding Corporation undertake a periodic formal review of the MAA to consider whether any amendments are appropriate. Such review will be conducted during 2014.

During the three years ended December 31, 2013, all Banks met the agreed-upon standards for the net collateral and permanent capital ratios required by the MAA. As of December 31, 2013, all Banks met the agreed-upon standard of financial condition and performance required by the CIPA. During the three years ended December 31, 2013, the Banks met the defined CIPA score required by the MAA.

Credit Risk Management

Credit risk arises from the potential inability of an obligor to meet its payment obligation and exists in our outstanding loans, letters of credit, unfunded loan commitments, investment portfolios and derivative counterparty credit exposures. We manage credit risk associated with our retail lending activities through an analysis of the credit risk profile of an individual borrower. Each Bank and Association has its own set of underwriting standards and lending policies, approved by its board of directors, that provides direction to its loan officers. Underwriting standards include, among other things, an evaluation of:

- character — borrower integrity and credit history,
- capacity — repayment capacity of the borrower based on cash flows from operations or other sources of income,
- collateral — protects the lender in the event of default and represents a potential secondary source of loan repayment,

- capital — ability of the operation to survive unanticipated risks, and
- conditions — intended use of the loan funds.

The retail credit risk management process begins with an analysis of the borrower's credit history, repayment capacity and financial position, which includes an analysis of credit scores for smaller loans. Repayment capacity focuses on the borrower's ability to repay the loan based on cash flows from operations or other sources of income, including off-farm income. Real estate mortgage loans must be secured by first liens on the real estate (collateral). As required by Farm Credit Administration regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85% of the original appraised value of the property taken as security or up to 97% of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loans of more than \$250,000 with exemptions allowed pursuant to FCA regulation.

System institutions use 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 opinion as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months. The economic loss represents the principal balance plus interest at the date of default less the present value of subsequent cash flows, including the collection or charge-off of the loan. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses and risks in a particular relationship.

The model's 14-point risk rating scale provides for nine acceptable categories, one other assets especially mentioned category, two substandard

categories, one doubtful category and one loss category. These categories are defined as follows:

- acceptable — assets are expected to be fully collectible and represent the highest quality,
- other assets especially mentioned (OAEM) — assets are currently collectible but exhibit some potential weakness,
- substandard — assets exhibit some serious weakness in repayment capacity, equity, or collateral pledged on the loan,
- doubtful — assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable, and
- loss — assets are considered uncollectible.

Each of the probability of default categories carries a distinct percentage of default probability. The probability of default between one and nine of the acceptable categories 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 “nine” of the acceptable category to OAEM 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.

The loss given default is separated into four categories that are defined as follows:

- A/B — no principal loss is expected; anticipated economic loss of 0%-15%
- C/D — anticipated principal loss of 0% to 15%; anticipated economic loss of 15%-25%
- E — anticipated principal loss of 15% to 40%; anticipated economic loss of 25%-50%
- F — anticipated principal loss of greater than 40%; anticipated economic loss of greater than 50%

The credit risk rating methodology is a key component of each Bank’s and Association’s allowance for loan losses evaluation, and is generally incorporated into the institution’s loan underwriting standards and internal lending limits.

In addition, borrower and commodity concentration lending and leasing limits have been established by each individual System institution to manage credit exposure. The regulatory lending and

leasing limit to a single borrower or lessee is 15% of the institution’s capital but System institutions’ boards of directors have generally established more restrictive lending limits. This limit applies to Associations with long-term and short- and intermediate-term lending authorities, and to the Bank’s (other than CoBank) loan participations.

The Banks manage credit risk arising from their wholesale loans (revolving lines of credit) to their affiliated Associations as well as credit risk arising from the Banks’ retail loans to borrowers. An Association’s ability to repay its loan from its affiliated Bank is dependent on repayment of loans made to the Association’s borrowers. Monitoring of the credit risk by the related Bank of an Association’s loan portfolio, together with appropriate credit administration and servicing, reduces credit risk on the wholesale loans. Monitoring may include various mechanisms, including testing the reliability of an Association’s credit classifications, periodic meetings with the Association’s management and board of directors, formalized risk assessments, and prior approval by the Bank of transactions that exceed the Association’s delegated lending authority (which is determined by the Bank). In addition, some Banks utilize risk-based pricing programs that price funds differentially to Associations based on risk profiles. Each Bank utilizes a “General Financing Agreement” setting forth the terms and conditions of each loan to its affiliated Associations to achieve its goal of managing credit risk. This agreement generally includes:

- typical commercial lending provisions, including advance rates based on quality of pledged assets and financial performance covenants,
- a pledge of substantially all Association assets as collateral for the loan,
- a risk-based score that is based on the Association’s profitability, credit quality, risk coverage, capital adequacy and quality of credit administration,
- a requirement that retail loans originated by the Association over an established dollar amount be approved by the Bank and all loans to Association board members receive prior approval by the Bank, and
- a requirement that the Association adopt underwriting standards consistent with the Bank’s underwriting guidelines and maintain an internal audit function, which reviews its lending operations.

By selling loans or interests in loans to other institutions within the System or outside the System, a Bank or Association can manage its growth and capital, as well as limit its credit exposure to a borrower or geographic, industry or commodity concentration. By buying loans or interests in loans from another System institution or from outside the System, a Bank or Association can improve diversification.

Portfolio credit risk is also evaluated with the goal of managing the concentration of credit risk. Concentration risk is reviewed and measured by each institution by industry, product, geography and customer limits. The concentrations at the System level are illustrated in the “Loan Portfolio Diversification” section that follows.

Loan Portfolio

The System’s loan portfolio consists only of retail loans. Bank loans to affiliated Associations have been eliminated in the combined financial statements. Loans outstanding for each of the past five years consisted of:

	December 31,				
	2013	2012	2011	2010	2009
	(in millions)				
Real estate mortgage loans	\$ 94,194	\$ 88,263	\$ 80,658	\$ 78,021	\$ 75,352
Production and intermediate-term loans	45,412	43,861	41,276	40,584	39,610
Agribusiness loans:					
Loans to cooperatives	11,560	12,769	11,893	16,181	10,525
Processing and marketing loans	12,729	11,483	10,339	11,145	10,996
Farm-related business loans	2,953	2,838	2,502	2,255	2,105
Energy and water/waste water loans	15,473	14,525	11,769	11,456	10,676
Rural residential real estate loans	6,557	6,210	5,832	5,475	4,977
Agricultural export finance	4,588	4,674	3,834	4,036	3,956
Communication loans	4,142	4,177	3,837	3,635	3,886
Lease receivables	2,706	2,415	2,139	2,021	2,160
Loans to other financing institutions	746	689	585	542	587
Total loans	<u>\$201,060</u>	<u>\$191,904</u>	<u>\$174,664</u>	<u>\$175,351</u>	<u>\$164,830</u>

Loans by type as a percentage of total loans for each of the past five years were:

	December 31,				
	2013	2012	2011	2010	2009
Real estate mortgage loans	46.8%	46.0%	46.2%	44.5%	45.7%
Production and intermediate-term loans	22.6	22.8	23.7	23.1	24.0
Agribusiness loans:					
Loans to cooperatives	5.7	6.6	6.8	9.2	6.4
Processing and marketing loans	6.3	6.0	5.9	6.4	6.7
Farm-related business loans	1.5	1.5	1.4	1.3	1.3
Energy and water/waste water loans	7.7	7.6	6.7	6.5	6.5
Rural residential real estate loans	3.3	3.2	3.4	3.1	3.0
Agricultural export finance	2.3	2.4	2.2	2.3	2.4
Communication loans	2.1	2.2	2.2	2.1	2.3
Lease receivables	1.3	1.3	1.2	1.2	1.3
Loans to other financing institutions	0.4	0.4	0.3	0.3	0.4
Total loans	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The year-to-year change in loan volume was an increase of 4.8% in 2013 and 9.9% in 2012, as compared with a slight decrease of 0.4% in 2011 and loan growth of 6.4% in 2010. The increase in 2013 was primarily attributable to increases in real estate mortgage, production and intermediate-term, processing and marketing and energy loans. Real estate mortgage loans increased \$5.931 billion or 6.7% primarily due to strong demand for cropland in the Midwest.

At December 31, 2013, production and intermediate-term loans increased \$1.551 billion or 3.5%, as compared with December 31, 2012, primarily due to increases in equipment financing.

Loans to cooperatives decreased \$1.209 billion or 9.5%, as compared with December 31, 2012, primarily as a result of lower levels of seasonal demand for financing from farm supply and grain marketing cooperatives due largely to historically low grain inventory levels, lower agricultural commodity prices and farmers' and cooperatives' strong cash positions.

Processing and marketing loans increased \$1.246 billion or 10.9% resulting from increased marketing efforts and increased loan participations with non-System entities.

Energy and water/waste water loans increased \$948 million or 6.5% from year-end 2012 to \$15.473 billion at December 31, 2013 due to increased lending activity in the power supply sector and continued market penetration in the electric distribution sector.

At December 31, 2013, agricultural export finance transactions continued to reflect a concentration in federal government-sponsored trade

financing programs. Overall, 57% and 75% of the agricultural export finance transactions at December 31, 2013 and 2012 were guaranteed through the USDA's Commodity Credit Corporation.

The increase in loan volume for 2012 was primarily attributable to increased demand for real estate mortgage loans relating to strong demand for cropland in the Midwest and increased land transactions due to uncertainty regarding tax law changes at year end. In addition, contributing to the increase in loan volume was an increase in seasonal loans to agribusiness cooperatives largely in the farm supply and grain marketing sectors resulting from an increase in commodity prices driven by declines in grain supplies due to drought conditions in the Midwest portion of the U.S. The decrease in loan volume for 2011 was primarily attributable to the decline in agribusiness loans resulting from lower demand for seasonal financing in late 2011 as prices for certain agricultural commodities declined and grain producers delayed delivery to the cooperatives, which reduced financing requirements of our cooperative customers. Also contributing to the decline in loan volume was the strong financial positions of certain agricultural producers, particularly grain farmers, who have benefitted from the favorable agricultural conditions experienced over the past several years.

Real estate mortgage loans represent the largest component of the System's loan portfolio. The following table provides credit risk information aggregating System institutions' assessments of the probability of default and loss given default on our real-estate mortgage loans outstanding (excluding accrued interest) of \$94.194 billion at December 31, 2013.

Risk Ratings	Uniform Loan Classification System	Loss Given Default				
		A/B 0-15%	C/D 15-25%	Economic Loss*		Total
				E	F	
				25-50%	>50%	
(in millions)						
1 through 3.	Acceptable	\$ 99	\$ 4			\$ 103
4	Acceptable	6,631	1,605	\$ 80	\$ 16	8,332
5	Acceptable	13,095	3,772	156	71	17,094
6	Acceptable	16,894	5,201	279	85	22,459
7	Acceptable	15,866	5,310	454	71	21,701
8	Acceptable	9,409	3,420	309	99	13,237
9	Acceptable	4,897	1,877	305	74	7,153
10	OAEM	1,116	452	82	77	1,727
11	Substandard (viable)	821	415	104	85	1,425
12	Substandard (non-viable)	377	212	164	194	947
13	Doubtful		1	5	10	16
14	Loss					
	Total	\$69,205	\$22,269	\$1,938	\$782	\$94,194

* Economic loss is the principal balance plus interest at the date of default less the present value of subsequent cash flows, including the collection or charge-off of the loan. See page 49 for a discussion of loss given default categories.

Loan Portfolio Diversification

We make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities. Our loan portfolio at the System level is diversified by commodities financed and geographic locations served, as illustrated in the following two tables. Due to the geographic territories served by Banks and Associations, most institutions have higher geographic, borrower and commodity concentrations than does the System as a whole.

Commodity and industry categories are based on the Standard Industrial Classification System published by the federal government. This system is used to assign commodity or industry categories based on the primary business of the customer. Primary business is assigned if the commodity or industry accounts for 50% or more of the total value of sales for its products; however, generally a large percentage of agricultural operations include more than one commodity. Otherwise, the category assigned will be considered as other.

	December 31, 2013		December 31, 2012	
	Amount	Percentage	Amount	Percentage
	(\$ in millions)			
Cash grains (includes corn, wheat and soybeans)	\$ 37,560	18.68%	\$ 34,639	18.05%
Cattle	18,513	9.21	17,702	9.22
Energy and water/waste water	15,473	7.70	14,525	7.57
Dairy farms	15,214	7.57	14,792	7.71
Rural home loans, farm landlords and part-time farms	14,031	6.98	12,862	6.70
Forestry	12,150	6.04	10,170	5.30
Food products (includes meat, dairy and bakery products)	12,138	6.04	10,970	5.72
Field crops (includes sugar beets, potatoes and vegetables)	11,010	5.48	10,033	5.23
Tree fruits, nuts and grapes	9,355	4.65	8,558	4.46
General farms, primarily crop	7,911	3.93	7,143	3.72
Farm supplies and marketing	6,841	3.40	8,332	4.34
Agricultural services and fish	5,551	2.76	5,297	2.76
Poultry and eggs	5,183	2.58	5,408	2.82
Hogs	4,715	2.34	4,441	2.31
Agricultural export finance	4,588	2.28	4,674	2.44
Communication	4,142	2.06	4,177	2.18
General farms, primarily livestock	3,961	1.97	3,943	2.05
Horticulture	2,544	1.27	2,696	1.40
Cotton	2,084	1.04	2,160	1.13
Other livestock	1,706	0.85	1,705	0.89
Biofuels, primarily ethanol	1,109	0.55	1,660	0.87
Other	5,281	2.62	6,017	3.13
	<u>\$201,060</u>	<u>100.00%</u>	<u>\$191,904</u>	<u>100.00%</u>

The System makes credit available in all 50 states, the Commonwealth of Puerto Rico, and U.S. territories under conditions set forth in the Farm Credit Act. The following table presents the geographic distribution of the System's loan portfolio for states that represented 1% or more of the System's total loan volume during one or more of the past three years:

State	2013	2012	2011
California	9.86%	9.68%	9.40%
Texas	6.38	6.50	6.63
Iowa	5.60	5.82	5.93
Illinois	5.47	4.92	4.95
Minnesota	4.51	4.61	4.61
Nebraska	3.96	4.17	4.05
Ohio	3.82	3.94	3.92
Indiana	3.16	3.22	3.19
Wisconsin	3.05	3.01	3.06
Missouri	2.74	2.80	2.70
Michigan	2.73	2.67	2.68
Kansas	2.69	2.66	2.62
South Dakota	2.49	2.42	2.28
Washington	2.35	2.34	2.22
North Carolina	2.32	2.36	2.43
North Dakota	2.31	2.29	2.08
Georgia	2.21	2.18	2.38
Tennessee	2.20	2.29	2.39
New York	2.15	2.13	2.04
Florida	1.99	1.90	2.10
Kentucky	1.98	2.04	2.05
Colorado	1.95	1.88	2.03
Arkansas	1.85	1.85	1.99
Virginia	1.83	1.64	1.73
Oregon	1.81	1.79	1.94
Idaho	1.47	1.52	1.55
Pennsylvania	1.46	1.53	1.50
Alabama	1.26	1.28	1.36
Oklahoma	1.22	1.22	1.20
Mississippi	1.18	1.19	1.20
Maryland	0.97	1.05	1.22
New Mexico	0.91	0.92	1.00
Other	10.12	10.18	9.57
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

The table below sets forth the loans by dollar size:

Range	December 31, 2013		December 31, 2012	
	Amount Outstanding	Number of Loans	Amount Outstanding	Number of Loans
(\$ in thousands)	(\$ in millions)			
\$1 — \$250	\$ 49,666	849,100	\$ 49,544	833,547
\$251 — \$500	25,216	69,837	24,217	66,246
\$501 — \$1,000	23,127	32,267	21,684	30,400
\$1,001 — \$5,000	45,637	22,482	42,832	20,961
\$5,001 — \$25,000	28,438	3,442	26,038	3,404
\$25,001 — \$100,000	9,786	241	10,444	259
\$100,001 — \$250,000	9,479	64	10,675	69
Over \$250,000	9,711	23	6,470	18
Total	<u>\$201,060</u>	<u>977,456</u>	<u>\$191,904</u>	<u>954,904</u>

Note: Loans greater than \$100 million are aggregated by borrower.

Small loans (less than \$250 thousand) accounted for 87% of System customers and 25% of System loan volume at December 31, 2013, as compared with 87% and 26% at December 31, 2012. Credit risk on small loans, in many instances, is reduced by off-farm income sources. Loans up to \$250 thousand may be evaluated using validated automated credit scorecards (which are mathematical models that provide a quantitative measurement of a borrower's creditworthiness). Credit scorecards are also widely used by the System for other types of smaller loans, including production and intermediate-term, real estate mortgage and rural residential real estate loans. For credit-scored loans greater than \$250 thousand, additional underwriting procedures are performed.

The table sets forth scored loans for the past two years:

	December 31,	
	2013	2012
	(\$ in millions)	
Number of credit-scored loans	517,331	517,234
Amount of credit-scored loans	\$ 26,531	\$ 23,204
Delinquent (30 days or more past due)		
credit scored loans as a % of credit scored loans	0.72%	0.96%
Delinquent loans for overall portfolio as a % of accruing loans	0.23%	0.28%

The ten largest borrowers accounted for \$5.762 billion or 2.87% of the System's total outstanding loans at December 31, 2013, as compared with \$4.155 billion or 2.17% at December 31, 2012. The concentration of large loans to relatively few borrowers continued to be a significant factor in assessing the credit risk associated with loans. Although System institutions monitor credit risk individually, the System has established a quarterly process to

report System large loan exposures (outstanding loan amounts plus any unfunded loan commitments). A System risk management committee reviews and monitors large loan exposures to existing individual customers. Beginning in the second quarter of 2013, the System committee increased the threshold for monitoring large loan exposures to \$1.0 billion from \$750 million. The increase in the exposure level reflects the growth in the System's risk-bearing capacity. Since it is possible that one or more System institutions may simultaneously make credit available to a customer that may, in the aggregate, exceed \$1.0 billion, the process provides for quarterly data to be compiled on existing large loan exposures with notice provided to the Banks and Associations of the largest loan exposures, including all loan exposures to a borrower greater than 75% of the \$1.0 billion level or \$750 million. While this process captures information regarding large loan exposures, any decision to reduce these exposures resides with the individual System institutions. At December 31, 2013, three exposures (including unfunded commitments) exceeded \$750 million but were below the \$1.0 billion level. At December 31, 2012, 13 exposures (including unfunded commitments) exceeded 75% of the \$750 million level, or \$563 million, but were below the \$750 million level.

Credit risk on agricultural export finance transactions remained relatively low, because approximately 57% and 75% of these loans were guaranteed under federal government programs as of December 31, 2013 and 2012. Additionally, we have reduced the credit risk of some real estate mortgage loans by entering into agreements that provide long-term standby commitments to purchase System loans and other credit guarantees. The amount of loans under credit guarantees was \$4.750 billion at December 31, 2013, of which \$2.108 billion was provided by Farmer Mac, as compared with total credit guarantees of \$4.589 billion at December 31, 2012, of which \$1.853 billion was provided by Farmer Mac. Fees for credit guarantees totaled \$21 million in 2013, \$20 million in 2012 and \$20 million in 2011, and are included in other operating expenses.

Agricultural Sectors Experiencing Credit Stress

Certain agricultural sectors have experienced credit stress during the past few years and were generally impacted by some combination of lower prices for their products and increased input costs. The forestry and horticulture sectors also experienced credit

quality deterioration during the past few years as a result of the overall continued weakness in the U.S. economy and the housing market. However, as noted in the following tables, there has been improvement in the credit quality of most of the sectors previously experiencing credit stress.

The following table provides additional information on the agricultural sectors that have experienced credit stress during the past few years:

December 31, 2013	Loans Outstanding	Nonaccrual Loans Included in Loans Outstanding	Net Loan Charge-offs (Recoveries)
		(in millions)	
Cattle	\$18,513	\$ 177	\$ 13
Dairy farms	15,214	337	(60)
Forestry	12,150	141	15
Poultry and eggs	5,183	86	9
Horticulture	2,544	203	33
Biofuels, primarily ethanol ...	1,109	30	18
Total	<u>\$54,713</u>	<u>\$ 974</u>	<u>\$ 28</u>
December 31, 2012			
Cattle	\$17,702	\$ 242	\$ 16
Dairy farms	14,792	357	60
Forestry	10,170	198	15
Poultry and eggs	5,408	71	2
Horticulture	2,696	284	69
Biofuels, primarily ethanol ...	1,660	95	12
Total	<u>\$52,428</u>	<u>\$1,247</u>	<u>\$174</u>

Loan Portfolio Maturity Distribution

The following table presents the contractual maturity distribution of loans, excluding real estate mortgage and rural residential real estate loans, at December 31, 2013:

	Due in 1 Year or Less	Due After 1 Year Through 5 Years	Due After 5 Years	Total
				(in millions)
Production and intermediate-term loans	\$17,308	\$19,496	\$ 8,608	\$ 45,412
Loans to cooperatives	3,471	4,732	3,357	11,560
Processing and marketing loans	5,001	4,053	3,675	12,729
Farm-related business loans	874	890	1,189	2,953
Energy and water/waste water loans	2,581	2,618	10,274	15,473
Agricultural export finance	3,213	1,355	20	4,588
Communication loans	1,232	1,467	1,443	4,142
Lease receivables	389	1,400	917	2,706
Loans to other financing institutions	349	341	56	746
Total	<u>\$34,418</u>	<u>\$36,352</u>	<u>\$29,539</u>	<u>\$100,309</u>

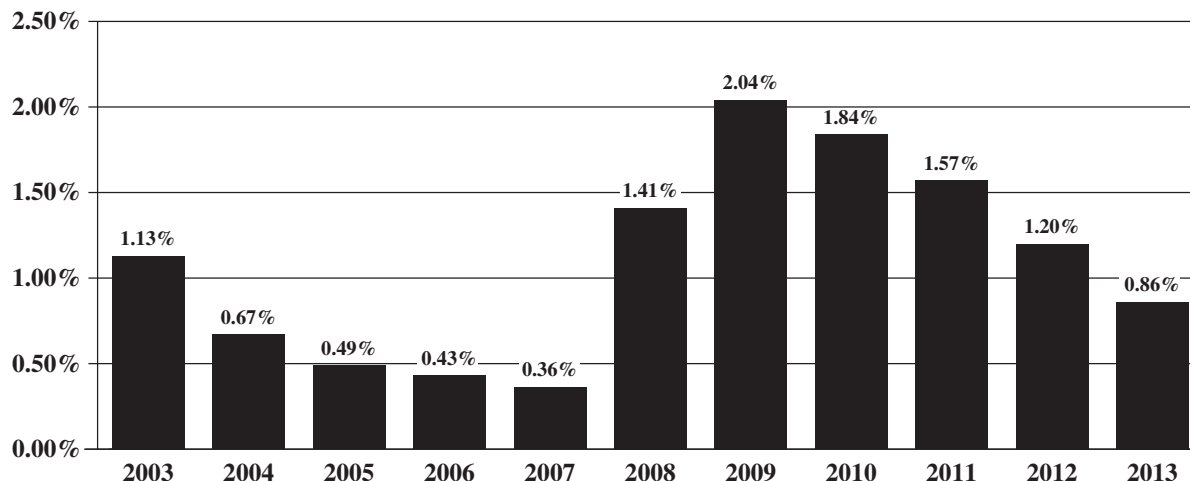
Note: Real estate mortgage and rural residential real estate loans have been excluded from the table above given the long-term maturities of such loans, including maturities of up to 40 years in certain cases.

Nonperforming Assets

Nonperforming assets by loan type for each of the past five years consisted of the following:

	December 31,				
	2013	2012	2011	2010	2009
	(in millions)				
Nonaccrual loans:					
Real estate mortgage	\$ 930	\$1,234	\$1,448	\$1,662	\$1,248
Production and intermediate-term	538	666	883	1,017	1,303
Agribusiness	77	206	227	350	595
Energy and water/waste water	26	26	9	6	31
Rural residential real estate	65	76	95	78	59
Communication	94	86	60	83	116
Lease receivables	6	6	16	33	17
Total nonaccrual loans	<u>1,736</u>	<u>2,300</u>	<u>2,738</u>	<u>3,229</u>	<u>3,369</u>
Accruing restructured loans:					
Real estate mortgage	176	157	112	47	37
Production and intermediate-term	95	94	56	21	27
Agribusiness	8	14	41	46	
Energy and water/waste water	3	3	3		
Rural residential real estate	4	3	2		
Total accruing restructured loans	<u>286</u>	<u>271</u>	<u>214</u>	<u>114</u>	<u>64</u>
Accruing loans 90 days or more past due:					
Real estate mortgage	9	20	15	20	45
Production and intermediate-term	6	14	20	14	24
Agribusiness	1		4	1	18
Rural residential real estate	2	3	6	7	10
Communication					2
Lease receivables				1	3
Total accruing loans 90 days or more past due	<u>18</u>	<u>37</u>	<u>45</u>	<u>43</u>	<u>102</u>
Total nonperforming loans	<u>2,040</u>	<u>2,608</u>	<u>2,997</u>	<u>3,386</u>	<u>3,535</u>
Other property owned	<u>198</u>	<u>324</u>	<u>458</u>	<u>454</u>	<u>241</u>
Total nonperforming assets	<u>\$2,238</u>	<u>\$2,932</u>	<u>\$3,455</u>	<u>\$3,840</u>	<u>\$3,776</u>

**Nonaccrual Loans as a % of Total Loans Outstanding
as of December 31,**



Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or when circumstances indicate that collection of principal and interest is in doubt. Nonaccrual loans may be transferred to accrual status if all contractual principal and interest due on the loan is paid and the loan is current, prior charge-offs are recovered, no reasonable doubt remains as to the borrower's willingness and ability to perform in accordance with the loan terms, and the borrower has demonstrated payment performance.

Nonaccrual loans decreased \$564 million to \$1.736 billion at December 31, 2013, primarily due to loan repayments in excess of loans being transferred into nonaccrual status, charge-offs and an improvement in the credit quality of certain loans. Despite the decrease, the current level of nonaccrual loans reflects the continued financial stress in certain sectors of the agricultural economy, as well as weaknesses in the general U.S. and global economies. As noted in the table on page 54, certain sectors that have experienced credit stress accounted for \$974 million or 56% of total nonaccrual loans at December 31, 2013 and 45% of net loan charge-offs, as compared with \$1.247 billion or 54% of the total nonaccrual loans at December 31, 2012 and 74% of the net loan charge-offs for 2012.

Nonaccrual loans as a percentage of total loans outstanding decreased from 1.20% at December 31, 2012 to 0.86% at December 31, 2013. Nonaccrual

loans that were current as to principal and interest were 58.5% of total nonaccrual loans at December 31, 2013, as compared with 53.8% at December 31, 2012. Nonaccrual loans contractually past due with respect to either principal or interest were \$721 million and \$1.062 billion at December 31, 2013 and 2012.

At December 31, 2013, the ten largest nonaccrual loans totaled \$279 million, while at December 31, 2012, the ten largest nonaccrual loans totaled \$381 million.

Accruing restructured loans, including related accrued interest, were \$286 million and \$271 million at December 31, 2013 and 2012. The restructured loans include only the year-end balances of loans (and related accrued interest) on which 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. Concessions vary by program and are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Restructured loans do not include loans on which concessions have been granted but which remain in nonaccrual status. Upon restructuring, our accounting policies generally require a period of loan performance during which time the borrower complies with the restructured terms before a loan is transferred to accruing restructured status.

The following table presents the nonaccrual loan activity during the past three years:

	For the Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Balance at beginning of year	\$ 2,300	\$ 2,738	\$ 3,229
Additions:			
Gross amounts transferred into nonaccrual	935	1,233	1,769
Recoveries	123	76	52
Advances	315	361	488
Reductions:			
Charge-offs	(190)	(323)	(551)
Transfers to other property owned (book value)	(187)	(207)	(358)
Returned to accrual status	(257)	(250)	(240)
Repayments	(1,276)	(1,309)	(1,646)
Other, net	(27)	(19)	(5)
Balance at end of year	<u>\$ 1,736</u>	<u>\$ 2,300</u>	<u>\$ 2,738</u>

The increased volatility in the agricultural commodity market and the impact from increased cost of farm inputs during the past three years have resulted in higher risk profiles for certain of our borrowers that use corn or other grains as inputs, including livestock, poultry and dairy producers. In addition, weakness in the general U.S. economy and the housing market has also impacted certain borrowers, particularly in the forestry and nursery industries. As previously discussed in the “Overview” section, the 2012 growing season drought, particularly in the Midwest section of the U.S., significantly reduced corn and soybean yields

and increased prices. Growing conditions during 2013 were dramatically improved and yielded a record corn crop and strong levels of soybean and wheat production such that commodity prices, especially corn, have receded significantly in the fourth quarter of 2013.

Other property owned, which is held for sale and consists of real and personal property acquired through collection actions, decreased \$126 million during 2013 to \$198 million at December 31, 2013. The properties relate to various sectors, including forestry, livestock and ethanol.

The following table presents other property owned during the past three years:

	For the Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Balance at beginning of year	\$ 324	\$ 458	\$ 454
Additions:			
Gross amounts transferred into other property owned (fair value)	190	216	358
Reductions:			
Other property owned disposed of through cash sales	(239)	(196)	(240)
Other property owned disposed of through financed sales	(40)	(79)	(47)
Other property owned written down	(37)	(75)	(67)
Balance at end of year	<u>\$ 198</u>	<u>\$ 324</u>	<u>\$ 458</u>

The System’s other credit quality indicators also reflected improvement at December 31, 2013, as compared with the prior year. Loans classified under the Farm Credit Administration’s Uniform Loan Classification System as Acceptable or Other Assets Especially Mentioned as a percentage of total loans and accrued interest receivable increased to 97.7% at

December 31, 2013, as compared with 96.8% at December 31, 2012. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans remained at a low level and declined to 0.23% at December 31, 2013, as compared with 0.28% at December 31, 2012.

Allowance for Loan Losses

The allowance for loan losses was \$1.238 billion at December 31, 2013 and \$1.343 billion at December 31, 2012. Net loan charge-offs of \$62 million, \$236 million and \$500 million were recorded during 2013, 2012 and 2011. During 2013 approximately 30% of net loan charge-offs related to horticulture, ethanol, forestry, cattle and dairy, while approximately 70% of net loan charge-offs during 2012 related to horticulture, dairy, cattle, forestry and ethanol.

The allowance for loan losses at each period end was considered by the managements of System institutions to be adequate to absorb probable losses existing in and inherent to their loan portfolios. The allowance for loan losses represents the aggregate of each System entity's individual evaluation of its allowance for loan losses requirements. Although aggregated in the combined financial statements, the allowance for loan losses of each System entity is particular to that institution and is not available to absorb losses realized by other System entities. Managements' evaluations consider factors that include, among other things, loan loss experience, portfolio quality, loan portfolio composition, collateral value, current agricultural production conditions and economic conditions.

Even though certain System borrowers are faced with challenges due to the volatility in commodity prices and input costs and the overall continued weakness in the general U.S. economy and housing industry, their financial positions remain generally strong given the past decade of favorable U.S. farm economic conditions. In this regard, nonaccrual loans current as to principal and interest were 58.5% of

total nonaccrual loans at December 31, 2013. Further, System underwriting standards require strong collateral support for loans. By regulation, all non-guaranteed long-term real estate mortgage loans must have a loan-to-value ratio of 85% or less at origination. Most of the System's real estate mortgage loans at origination had a loan-to-value ratio generally lower than the statutory maximum of 85%.

In determining the allowance for loan losses, System institutions reflect estimated credit losses for specifically identified loans, as well as estimated probable credit losses inherent in the remainder of the portfolio as of the balance sheet date. All nonperforming loans are specifically identified and are evaluated for impairment. At December 31, 2013, \$693 million of the System's \$2.040 billion of nonperforming loans had specific reserves of \$193 million. The remaining \$1.347 billion of nonperforming loans were evaluated and determined not to need a specific reserve.

One of the primary tools utilized by System institutions to determine probable losses inherent in their loan portfolios, which have not been specifically identified and evaluated for impairment, is to determine the credit risk ratings of the loans in their portfolios as indicated by the probability of default assigned to the loans multiplied by the estimated loss given default of the loans. The estimated losses derived from this calculation are aggregated, reviewed and adjusted to best reflect current economic and industry factors. The result of the analysis provides a basis to estimate probable losses and determine reserves adequate to cover these estimated probable losses.

The following table represents the risk rating distribution, as more fully discussed on pages 48 and 49, for the System's outstanding loans of \$201.060 billion at December 31, 2013. Nonperforming loans or impaired loans generally include substandard/non-viable, doubtful and loss loans.

Risk Ratings	Uniform Loan Classification System	Loss Given Default				
		Economic Loss*				Total
		A/B	C/D	E	F	
		0-15%	15-25%	25-50%	>50%	
(in millions)						
1 through 3	Acceptable	\$ 2,942	\$ 742	\$ 290	\$ 650	\$ 4,624
4	Acceptable	10,912	6,096	1,060	1,107	19,175
5	Acceptable	20,015	12,819	2,240	2,168	37,242
6	Acceptable	25,219	16,420	3,297	2,007	46,943
7	Acceptable	21,327	17,334	3,659	953	43,273
8	Acceptable	12,682	11,458	2,817	779	27,736
9	Acceptable	6,850	4,508	1,258	358	12,974
10	OAEM	1,859	1,616	450	179	4,104
11	Substandard (viable)	1,266	1,175	470	288	3,199
12	Substandard (non-viable)	558	367	399	375	1,699
13	Doubtful	1	4	6	80	91
14	Loss					
	Total	\$103,631	\$72,539	\$15,946	\$8,944	\$201,060

* Economic loss is the principal balance plus interest at the date of default less the present value of subsequent cash flows, including the collection or charge-off of the loan.

The following table presents the activity in the allowance for loan losses for the most recent five years:

	For the Year Ended December 31,				
	2013	2012	2011	2010	2009
	(\$ in millions)				
Balance at beginning of year	\$1,343	\$1,290	\$1,447	\$1,359	\$ 936
Charge-offs:					
Real estate mortgage	(59)	(118)	(201)	(236)	(121)
Production and intermediate-term	(81)	(157)	(189)	(221)	(130)
Agribusiness	(40)	(24)	(124)	(118)	(216)
Energy and water/waste water	(1)	(9)	(24)	(63)	(8)
Rural residential real estate	(8)	(10)	(11)	(11)	(9)
Agricultural export finance				(3)	(3)
Communication		(2)	(6)	(18)	(57)
Lease receivables	(1)	(3)	(3)	(3)	(6)
Total charge-offs	(190)	(323)	(558)	(673)	(550)
Recoveries:					
Real estate mortgage	27	29	15	12	7
Production and intermediate-term	80	38	26	35	9
Agribusiness	16	10	11	11	11
Energy and water/waste water			1	4	
Rural residential real estate	1		1		1
Agricultural export finance	1	1	3	2	2
Communication	1	2	1	13	
Lease receivables	2	7			2
Total recoveries	128	87	58	77	32
Net loan charge-offs	(62)	(236)	(500)	(596)	(518)
(Loan loss reversal) provision for loan losses	(31)	313	430	667	925
Adjustment due to Bank and Association mergers*		(8)	(16)	(12)	(9)
Other**	(12)	(16)	(71)	29	25
Balance at end of year	<u>\$1,238</u>	<u>\$1,343</u>	<u>\$1,290</u>	<u>\$1,447</u>	<u>\$1,359</u>
Ratio of net loan charge-offs during the period to average loans outstanding during the period	<u>0.03%</u>	<u>0.13%</u>	<u>0.28%</u>	<u>0.36%</u>	<u>0.32%</u>

* Represents the elimination of the allowance for loan losses in connection with Bank and Association mergers that were accounted for under the acquisition method of accounting. See Note 12 to the accompanying combined financial statements.

** Represents reclassifications between the allowance for loan losses and the reserve for unfunded commitments as a result of advances on or repayments of seasonal lines of credit or other loans.

The allowance for loan losses by loan type for the most recent five years is as follows:

	December 31,									
	2013	%	2012	%	2011	%	2010	%	2009	%
	(\$ in millions)									
Real estate mortgage	\$ 310	25.0%	\$ 307	22.9%	\$ 332	25.8%	\$ 418	28.9%	\$ 347	25.5%
Production and intermediate-term . . .	375	30.3	424	31.6	429	33.3	447	30.9	385	28.3
Agribusiness	292	23.6	359	26.7	333	25.8	395	27.3	455	33.5
Energy and water/waste water	122	9.9	116	8.6	85	6.6	63	4.3	62	4.6
Rural residential real estate	22	1.8	22	1.6	21	1.6	20	1.4	12	0.9
Agricultural export finance	8	0.6	6	0.5	12	0.9	11	0.8	12	0.9
Communication	71	5.7	73	5.4	52	4.0	67	4.6	63	4.6
Lease receivables	37	3.0	35	2.6	25	1.9	25	1.7	22	1.6
Loans to other financing institutions	1	0.1	1	0.1	1	0.1	1	0.1	1	0.1
Total	<u>\$1,238</u>	<u>100.0%</u>	<u>\$1,343</u>	<u>100.0%</u>	<u>\$1,290</u>	<u>100.0%</u>	<u>\$1,447</u>	<u>100.0%</u>	<u>\$1,359</u>	<u>100.0%</u>

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators is shown below:

	December 31,				
	2013	2012	2011	2010	2009
Total loans	0.62%	0.70%	0.74%	0.83%	0.82%
Nonperforming loans	61	51	43	43	38
Nonaccrual loans	71	58	47	45	40

Credit Commitments and Reserve for Unfunded Commitments

The following tables summarize the maturity distribution (expiration) of unfunded credit commitments:

	December 31, 2013				
	Less than 1 Year	1-3 Years	3-5 Years	Over 5 Years	Total
	(in millions)				
Commitments to extend credit	\$34,141	\$18,496	\$16,639	\$5,511	\$74,787
Standby letters of credit	1,543	502	233	185	2,463
Commercial and other letters of credit	477	25			502
Total commitments	<u>\$36,161</u>	<u>\$19,023</u>	<u>\$16,872</u>	<u>\$5,696</u>	<u>\$77,752</u>

	December 31, 2012				
	Less than 1 Year	1-3 Years	3-5 Years	Over 5 Years	Total
	(in millions)				
Commitments to extend credit	\$35,195	\$17,146	\$16,324	\$4,430	\$73,095
Standby letters of credit	1,404	539	157	144	2,244
Commercial and other letters of credit	289	22			311
Total commitments	<u>\$36,888</u>	<u>\$17,707</u>	<u>\$16,481</u>	<u>\$4,574</u>	<u>\$75,650</u>

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. These credit-related financial instruments, other than standby letters of credit, have off-balance-sheet credit risk because their contractual amounts are not reflected on the balance sheet until funded or drawn upon. However, standby letters of credit are reflected on the balance sheet at the fair value of the liability of \$16 million and \$19 million as of December 31, 2013 and 2012. The fair value of these letters of credit is estimated based on the cost to terminate the agreement or fees currently charged for similar agreements. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and the same credit policies are applied by management. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security are of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

At December 31, 2013, the System had a reserve for unfunded commitments of \$206 million, as compared with a reserve of \$194 million at December 31, 2012. The reserve for unfunded commitments is reported as other liabilities in the Combined Statement of Condition.

Interest Rate Risk Management

Interest rate risk is the risk of loss of future earnings or long-term market value of equity that may result from changes in interest rates. This risk can produce variability in System earnings (net interest spread achieved and net interest income earned) and, ultimately, the long-term capital position of the System. The System actively manages the following risks:

- Yield curve risk — results from changes in the level, shape, and implied volatility of the yield curve. Changes in the yield curve often arise due to the market's expectation of future interest rates at different points along the yield curve.
- Repricing risk — results from the timing differences (mismatches) between financial assets and related funding that limit the ability to alter or adjust the rates earned on assets or paid on liabilities in response to changes in market interest rates.

- Option risk — results from “embedded options” that are present in many financial instruments, including the right to prepay loans before the contractual maturity date. Lending practices or loan features that provide the borrower with flexibility frequently introduce a risk exposure for the lender. For example, a fixed-rate loan product may provide a potential borrower with a rate guarantee, an option to lock-in the loan rate for a period of time prior to closing, which protects the borrower from an increase in interest rates between the time loan terms are negotiated and the loan closes. If interest rates increase while the rate guarantee is in effect and if we do not take measures to hedge the rate guarantee, we might realize a lower spread than expected when the loan is funded.

After the loan settles, the borrower may also have the option to repay the loan's principal ahead of schedule. If interest rates have fallen, System institutions may be forced to reinvest principal returned from higher rate loans at a lower rate, which may reduce the interest rate spread unless the underlying debt can be similarly refinanced.

Interest rate caps are another form of embedded options that may be present in certain investments and floating and adjustable rate loans. Interest rate caps typically prevent the investment or loan rate from increasing above a defined limit. In a rising interest rate environment, the spread may be reduced if caps limit upward adjustments to floating investment or loan rates while debt costs continue to increase.

- Basis risk — results from unexpected changes in the relationships among interest rates and interest rate indexes. Basis risk can produce volatility in the spread earned on a loan or an investment relative to its cost of funds. This risk arises when the floating-rate index tied to a loan or investment differs from the index on the Systemwide Debt Security issued to fund the loan or investment.

The goal of the Banks in managing interest rate risk is to maintain long-term value of equity and stable earnings over both the short- and long-term time horizons. In most cases, the wholesale funding provided by a Bank to an Association matches the terms of and embedded options in the Association's retail

loans. This funding approach shifts the majority of the interest rate risk connected with retail loans from the Association to its funding Bank. The Banks are responsible for developing asset/liability management policies and strategies to manage interest rate risk and for monitoring this risk on a regular basis. These policies include guidelines for measuring and evaluating exposures to interest rate risk. In addition, the policies establish limits for interest rate risk and define the role of the board of directors in delegating day-to-day responsibility for interest rate risk management to Bank management. That authority is delegated to an asset/liability management committee, made up of senior Bank managers. The policies define the composition of the committee and its responsibilities. Interest rate risk management is also subject to certain intra-System agreements, including the Amended and Restated Contractual Interbank Performance Agreement and the Second Amended and Restated Market Access Agreement, and regulatory oversight by the Farm Credit Administration.

Historically, one of the primary benefits of our status as a government-sponsored enterprise debt issuer has been that, through the Funding Corporation and its selling group, the System has had daily access to the debt markets and a great deal of flexibility in structuring the maturity and types of debt securities we issued. The ability to quickly access the debt markets helped us minimize the risk that interest rates might change between the time a loan commitment is made and the time it is funded.

Flexibility in structuring debt enabled us to issue Systemwide Debt Securities that offset most of the primary interest rate risk exposures embedded in our loans. For example, by issuing LIBOR-indexed, floating-rate Systemwide Debt Securities we are able to minimize the basis risk exposure presented by our LIBOR-indexed, floating-rate loans. As we discussed above, some of our fixed-rate loans may provide borrowers with the option to prepay their loans. In most interest rate environments we were able to significantly offset the risk created by an embedded prepayment option by funding prepayable fixed-rate loans with callable debt. Callable debt provides us with the option to retire debt early in order to maintain a better match between the duration of our assets and our liabilities. See “Business — Risk Factors” for a discussion of certain of our funding risks.

Approximately 70% our fixed-rate loans provide the borrowers with the option to prepay their loan at any time without fees, and the remainder of the

System’s fixed-rate loans contain provisions requiring prepayment fees to partially or fully compensate the Banks for the cost of retiring the debt, some of which may be non-callable.

The Banks participate in the derivatives markets, which provide additional tools to manage interest rate risk. Our use of derivatives is detailed later in this section.

Interest Rate Risk Measurements

The Banks measure interest rate risk using:

- interest rate gap analysis — compares the amount of interest sensitive assets to interest sensitive liabilities in defined time periods,
- duration gap analysis — measures the difference between the estimated durations of assets and liabilities,
- net interest income sensitivity analysis — projects the impact of changes in the level of interest rates and the shape of the yield curve on net interest income for the next year, and
- market value of equity sensitivity analysis — projects the impact of changes in the level of interest rates and the shape of the yield curve on the market value of assets, liabilities and equity.

These measures are calculated on a monthly basis and the assumptions used in these analyses are monitored routinely and adjusted as necessary. The Banks use sophisticated simulation models to develop interest rate sensitivity estimates. These models are periodically back tested and reviewed by third parties for reasonableness.

Interest Rate Risk Management Results

Interest Rate Gap Analysis

The interest rate gap analysis shown below presents a comparison of interest-sensitive assets and liabilities in defined time segments as of December 31, 2013. The interest rate gap analysis is a static indicator, which does not reflect the dynamics of balance sheet, rate and spread changes and may not necessarily indicate the sensitivity of the net interest margin in a changing rate environment. Within the gap analysis, gaps are also created when an institution uses its capital to fund assets. Capital reduces the amount of debt that otherwise would be required to fund a certain level of assets. The quantity of assets will exceed the quantity of interest-bearing

liabilities in any repricing interval where capital is assumed to provide part of the funding. The gap table

below includes anticipated cash flows on assets and liabilities given the current level of interest rates:

	Repricing Intervals				
	0-6 Months	6 Months to 1 Year	1-5 Years	Over 5 Years	Total
	(\$ in millions)				
Floating-rate loans:					
Indexed/adjustable loans	\$ 32,884	\$ 601	\$ 1,482	\$ 900	\$ 35,867
Administered-rate loans	37,900				37,900
Fixed-rate loans:					
Fixed-rate with prepayment or conversion fees	8,307	2,598	12,586	11,602	35,093
Fixed-rate without prepayment or conversion fees	20,258	10,345	39,376	20,485	90,464
Nonaccrual loans			535	1,201	1,736
Total gross loans	99,349	13,544	53,979	34,188	201,060
Federal funds sold, investments and other	21,254	4,884	17,306	4,242	47,686
Total earning assets	120,603	18,428	71,285	38,430	248,746
Interest-bearing liabilities:					
Callable bonds	2,190	4,738	31,469	18,096	56,493
Noncallable bonds and notes	90,155	15,659	31,451	13,731	150,996
Subordinated debt	500		455	600	1,555
Other interest-bearing liabilities	4,268			29	4,297
Total interest-bearing liabilities	97,113	20,397	63,375	32,456	213,341
Effect of interest rate swaps and other derivatives	11,825	(2,821)	(9,750)	746	
Total interest-bearing liabilities adjusted for swaps and other derivatives	108,938	17,576	53,625	33,202	213,341
Interest rate sensitivity gap (total earning assets less total interest-bearing liabilities adjusted for swaps and other derivatives)	\$ 11,665	\$ 852	\$17,660	\$ 5,228	\$ 35,405
Cumulative gap	\$ 11,665	\$12,517	\$30,177	\$35,405	
Cumulative gap as a percentage of total earning assets	4.69%	5.03%	12.13%	14.23%	

Consistent with the positive gap between the System's earning assets and interest-bearing liabilities as reflected in the table above, the System's interest rate sensitivity position at December 31, 2013 for repricing intervals in the first six months of 2014 may generally be characterized as "asset sensitive," i.e., interest rates earned by the System on earning assets may change or be changed more quickly than interest rates on the interest-bearing liabilities used to fund these assets.

Typically, the net interest margin of an institution that is "asset sensitive" will be unfavorably impacted in a declining interest-rate environment and favorably impacted in a rising interest-rate environment. The System's capital is invested in loans and investment securities that reprice to lower yields when interest rates are falling

and to higher yields when interest rates increase. However, the net interest spread, a component of net interest margin, may react in a different manner due to competitive conditions at the time of repricing. Further, a significant portion of the System's floating-rate loans are management administered-rate loans that, unlike indexed loans, require definitive action at the discretion of the lending Bank or Association to change the interest rates charged and may reflect managements' assessments of whether rate changes are warranted or feasible in view of competitive market conditions. The actual interest rates charged on the administered-rate loans may not mirror the movement of some market interest rates, thereby changing the overall net interest income impact of market fluctuations that would otherwise exist for asset-sensitive institutions.

Additionally, the Banks issue callable debt to accelerate the repricing of debt in a declining interest rate environment and thereby moderate the impact of falling interest rates on net interest income. During 2013, \$24.3 billion of debt was called and at December 31, 2013, \$56.5 billion of callable debt obligations were outstanding. The System's cumulative gap position in the 0-6 months repricing interval decreased from 4.92% at December 31, 2012 to 4.69% at December 31, 2013.

Duration Gap Analysis

Another risk measurement is duration, which we calculate using a simulation model. Duration is the weighted average maturity (typically measured in months or years) of an instrument's cash flows, weighted by the present value of those cash flows. As such, duration provides an estimate of an instrument's sensitivity to small changes in market interest rates. The duration gap is the difference between the estimated durations of assets and liabilities. All else being equal, an institution with a small duration gap has less exposure to interest rate risk than an institution with a large duration gap.

A positive duration gap means there is a greater exposure to rising interest rates because it indicates that the duration of our assets exceeds the duration of our liabilities. A negative duration gap means that there is a greater exposure to declining interest rates because the duration of our assets is less than the duration of our liabilities. At December 31, 2013, the System's aggregate duration gap was a positive 1.6 months, as compared with a positive 0.6 months at December 31, 2012. A duration gap within the range of a positive three months to a negative three months generally indicates a small exposure to changes in interest rates.

Duration gap provides a relatively concise and simple measure of the interest rate risk inherent in the balance sheet, but it is not directly linked to expected future earnings performance. An institution's overall exposure to interest rate risk is a function not only of the duration gap, but also of the financial leverage inherent in the institution's capital structure. For the same duration gap, an institution with more equity or capital will have a lower overall percentage exposure to interest rate risk, stated in terms of the percentage change in the market value of equity, than one with less capital and more leverage.

There are some limitations to duration analysis as balance sheets are dynamic. Durations change over time and as the composition of a portfolio changes.

Sensitivity Analysis

In addition to the static view of interest rate sensitivity shown by the gap analysis and the simple duration gap, each Bank conducts simulations of net interest income and market value of equity. The market value of equity sensitivity analysis incorporates the effects of leverage. The two primary scenarios used for the analysis reflect the impact of interest rate shocks upward and downward (i.e., immediate, parallel changes upward and downward in the yield curve) on projected net interest income and on market value of equity. The Banks also use other types of measures to model exposures to interest rate changes, such as rate ramps (gradual change in rates) and yield curve slope changes.

The upward and downward shocks are generally based on movements of 100 and 200 basis points in interest rates, which are considered significant enough to capture the effects of embedded options and convexity within the assets and liabilities so that underlying risk may be revealed. However, in the current, relatively low interest rate environment, the downward shock is based on one-half of the three-month Treasury bill rate, which was 4 basis points and 3 basis points at December 31, 2013 and 2012. Under these simulations, the System's sensitivity to interest rate changes (sum of District sensitivity analyses) was:

December 31, 2013			
	-4	+100	+200
Change in net interest income	-0.11%	2.34%	3.78%
Change in market value of equity	0.09%	-2.51%	-5.29%
December 31, 2012			
	-3	+100	+200
Change in net interest income	-0.42%	3.06%	4.85%
Change in market value of equity	0.06%	-1.61%	-4.18%

Each Bank's interest rate risk management policy establishes limits for changes in net interest income sensitivity and market value of equity sensitivity. These limits are measured monthly and reported to each Bank's board of directors at least quarterly. The limits set by the Banks' boards of directors for net interest income and market value of equity sensitivity ranged up to a negative 20% for a 200 basis point shock. During 2013 and 2012, no Bank exceeded its policy limits.

Further, each Bank has established a District interest rate risk sensitivity limit not to exceed a 15% reduction in net interest income and market value of equity, given a 200 basis point shock, as measured using the combined results of each Bank and its affiliated Associations. This limit is measured and reported on a quarterly basis. None of the Districts exceeded the District limit during 2013 and 2012. District measurements are presented in Supplemental Financial Information on page F-84.

In addition to the interest rate scenarios required for reporting and regulatory purposes, the Banks also periodically perform additional scenario analyses to study the effects of changes in critical modeling assumptions — for example, the impact of increased/decreased prepayments, changes in the relationship of the System’s funding cost to other benchmark interest rates, additional non-parallel shifts in the yield curve, and changes in market volatility.

One of the primary modeling assumptions affecting the measurement of market value of equity is the prepayment function. The cash flows on some of our fixed-rate agricultural loans and most of our mortgage-related investment securities are sensitive to changes in interest rates because borrowers may have the flexibility to partially or completely repay the loan ahead of schedule. When interest rates decrease, borrowers can often reduce their interest costs by refinancing their fixed-rate loans. The financial incentive for the borrowers to refinance their loans increases as interest rates decline and the potential savings increase.

When interest rates rise, borrowers with fixed-rate loans lack the incentive to prepay their loans. However, prepayments can occur in any rate environment due to real estate sales transactions or early repayment of loans for reasons unrelated to interest rate conditions.

Lenders closely study the relationship between interest rates, the potential savings available from refinancing, and actual loan prepayment activity in order to gain a better understanding of prepayment

behavior and more accurately forecast cash flows for prepayable loans.

We gather and maintain loan information, including prepayment data, for use in developing prepayment models for agricultural loans. These models typically specify a minimum or “baseline” level of expected prepayments that is not affected by the general level of interest rates, along with an interest-sensitive component that projects faster prepayments as the potential refinancing advantage increases. The refinancing advantage is defined as the difference between the loan rate on an outstanding fixed-rate loan and the current loan rate offered for a new fixed-rate loan with a similar maturity. Further, model refinements may reflect differences due to the loan product type and age or “seasoning” of the loan. The Banks’ agricultural loan prepayment models are based on proprietary data and may differ from Bank to Bank and from prepayment models developed for use with residential mortgages.

We also maintain investment portfolios that contain mortgage- and asset-backed investments that may also be subject to prepayment risk. Detailed prepayment data for these assets are readily available and a number of banks and fixed-income consulting firms market product-specific prepayment models for use in asset/liability risk management. The Banks typically subscribe to a commercially available prepayment model appropriate for these securities and integrate the analysis within their regular asset/liability analysis.

Derivative Products

Derivative products are a part of our interest rate risk management activities and supplement our issuance of debt securities in the capital markets. We use derivative financial instruments as hedges against interest rate and liquidity risks and to lower the overall cost of funds. We do not hold or enter into derivative transactions for trading purposes. Our ability to modify the debt securities by using derivative instruments provides us with greater flexibility to manage our interest rate risk.

The primary types of derivative products used and hedging strategies employed are summarized in the following table. For additional information, see Note 17 to the accompanying combined financial statements.

Derivative Products/Hedged Item	Purpose of the Hedge Transaction	Strategic Impact
Receive-fixed, pay-floating interest rate swap hedging callable or non-callable fixed rate debt	To protect against the decline in interest rates on floating-rate assets by exchanging the debt's fixed-rate payment for a floating-rate payment that better reflects the amounts received on the assets.	A common use is to create a substitute for conventional floating-rate funding. The fixed-rate received on the swap largely offsets the fixed-rate paid on the associated debt leaving a net floating payment. The strategy frequently provides cost savings or promotes liquidity by permitting access to longer maturity floating-rate funding than the outright issuance of floating rate debt.
Pay-fixed, receive-floating interest rate swap hedging floating rate debt	To protect against an increase in interest rates by exchanging the debt's floating-rate payment for a fixed-rate payment that matches the cash flows of assets.	The combination of the pay-fixed, receive-floating swap with floating-rate funding results in a net fixed-rate payment. This strategy may provide lower cost fixed-rate funding than outright issuance of fixed-rate debt.
Floating-for-floating swap hedging floating-rate assets and liabilities	Used to manage the basis risk that can result when assets and liabilities are based on different floating-rate indexes or reprice at different times or on different frequencies.	The System's floating-rate loans and floating-rate investments are tied to a number of floating-rate indexes including Farm Credit's short-term debt cost, the prime rate, Federal funds and LIBOR. Ideally, floating-rate loans would be funded by issuing floating-rate funding tied to the same floating-rate index with identical reset terms. However, floating-rate funding is not consistently available to exactly meet these requirements. Floating-for-floating or "basis" swaps are used to bridge this gap.
Interest rate caps hedging floating-rate assets and debt	To replace income lost from floating-rate assets that have reached cap levels or to put a ceiling on interest cost on floating-rate debt.	Some floating-rate loans and investments may specify a maximum interest rate to limit the borrower's exposure to rising interest rates. Interest rate caps are purchased to provide offsetting protection against rising interest rates.
Interest rate floors hedging floating-rate loans	To protect against falling interest rates on floating-rate assets.	A purchased floor option will produce a cash flow when the index rate falls below the strike rate. Cash flow from the floor can be used to offset income lost on floating-rate assets when interest rates decline. Floor options may also be used in combination with interest rate caps to create interest rate collars or otherwise limit or modify floating-rate cash flows in both rising and declining interest rate environment.

The aggregate notional amount of the System's derivative products, most of which consisted of interest rate swaps, decreased \$3.687 billion to \$29.747 billion at December 31, 2013, as compared with \$33.434 billion at December 31, 2012. The decrease was largely due to a lower level of liquidity management derivatives, as a portion of our liquidity objectives were met through the increased issuance of floating-rate term debt instead of the use of

derivatives that convert fixed-rate term debt to floating-rate debt. The aggregate notional amount of these instruments, which is not included in the Combined Statement of Condition, is indicative of the System's activities in derivative financial instruments, but is not an indicator of the level of credit risk associated with these instruments. The exposure to credit risk is a small fraction of the aggregate notional amount as more fully discussed on page 70.

The majority of the swaps used by the Banks were receive-fixed swaps, which are used to improve liquidity or lower their cost of debt by issuing fixed-rate debt and swapping the debt to floating to create synthetic floating-rate debt.

The following table presents notional amounts and weighted average interest rates by expected

(contractual) maturity dates for the System's derivative financial instruments. The fair values of these derivatives were recognized in the Combined Statement of Condition. The table was prepared using the implied forward yield curve at December 31, 2013.

	Maturities of 2013 Derivative Products							Fair Value at December 31, 2013
	2014	2015	2016	2017	2018	2019 and thereafter	Total	
	(\$ in millions)							
Receive-fixed swaps								
Notional value	\$5,967	\$5,110	\$3,076	\$1,576	\$ 698	\$ 105	\$16,532	\$567
Weighted average receive rate	1.93%	1.96%	3.14%	4.36%	1.26%	1.81%	2.37%	
Weighted average pay rate	0.31%	0.51%	0.92%	1.42%	1.71%	3.11%	0.67%	
Pay-fixed and amortizing-pay fixed swaps								
Notional value	\$ 303	\$ 751	\$ 199	\$ 233	\$ 372	\$2,899	\$ 4,757	\$ (9)
Weighted average receive rate	0.31%	0.65%	0.80%	1.30%	2.04%	3.51%	2.52%	
Weighted average pay rate	1.81%	2.81%	1.37%	2.48%	1.90%	2.54%	2.43%	
Floating-for-floating and amortizing floating-for-floating swaps								
Notional value	\$ 200	\$ 350	\$ 200	\$ 400	\$ 200		\$ 1,350	\$ (7)
Weighted average receive rate	0.42%	1.12%	2.25%	3.19%	3.89%		2.21%	
Weighted average pay rate	0.80%	1.27%	2.70%	3.37%	4.20%		2.47%	
Customer derivative products								
Notional value	\$ 263	\$ 576	\$ 194	\$ 233	\$ 337	\$1,985	\$ 3,588	\$ 52
Weighted average receive rate	1.50%	2.26%	1.43%	2.95%	1.58%	2.61%	2.33%	
Weighted average pay rate	0.29%	0.43%	0.80%	1.30%	1.69%	3.13%	2.11%	
Interest rate caps								
Notional value	\$ 417	\$ 515	\$ 265	\$ 598	\$ 300	\$1,154	\$ 3,249	\$ 54
Foreign exchange contracts								
Notional value	\$ 254	\$ 1	\$ 1	\$ 14	\$ 1		\$ 271	\$ (1)
Total notional value	<u>\$7,404</u>	<u>\$7,303</u>	<u>\$3,935</u>	<u>\$3,054</u>	<u>\$1,908</u>	<u>\$6,143</u>	<u>\$29,747</u>	<u>\$656</u>
Total weighted average rates on swaps:								
Receive rate	1.80%	1.80%	2.87%	3.74%	1.83%	3.12%	2.38%	
Pay rate	0.39%	0.80%	1.04%	1.83%	2.06%	2.79%	1.28%	

Approximately 50% of the notional amounts of derivative products outstanding at December 31, 2013 were entered into to create synthetic floating-rate debt for the purpose of reducing the cost of directly issuing floating-rate debt or managing liquidity risk. Most of the remaining derivative products outstanding at December 31, 2013 were entered into for other asset/liability management purposes.

By using derivative instruments, we are exposed to counterparty credit risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Bank's credit risk (exposure) will equal the fair value gain in a derivative. When the fair value of a derivative is positive, the counterparty would owe the Bank on early termination of the

derivative, thus creating a credit risk for the Bank. When the fair value of the derivative is negative, the Bank would owe the counterparty on early termination of the derivative, and, therefore, assumes no credit risk.

To minimize the risk of credit losses from derivatives, the Banks typically enter into master agreements that govern all derivative transactions with a counterparty, which include bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of exposure of one party to the other one are reached. These thresholds may vary for certain Banks depending on the terms of these bilateral collateral agreements, which consider a counterparty's credit

worthiness. The master agreements also contain netting provisions. Each Bank's netting agreement allows it to use the net value of its affected transactions with the same counterparty in the event of a default by the counterparty or early termination of the agreement. Derivatives are reflected on a gross basis in Notes 17 and 18 to the accompanying combined financial statements.

To further minimize the risk of credit losses from derivatives, the Banks transact with counterparties that have an investment grade long-term credit rating from a Nationally Recognized Statistical Rating Organization such as Moody's Investors Service, Standard & Poor's Ratings Services or Fitch Ratings, and also monitor the credit standing of and levels of exposure to individual counterparties.

In addition to entering into over-the-counter (OTC) derivative transactions directly with a counterparty as described above, the Banks may also clear such transactions through a futures commission merchant (FCM) with a clearinghouse or a central counterparty (CCP). When the swap is cleared by the two parties, the single bilateral swap is divided into two separate swaps with the CCP becoming the counterparty to both of the initial parties to the swap. CCPs have several layers of protection against default including margin, member capital contributions, and FCM guarantees of their customers' transactions with the CCP. FCMs also pre-qualify the counterparties to all swaps that are sent to the CCP from a credit perspective, setting limits for each counterparty and collecting initial and variation

margin daily from each counterparty for changes in the value of cleared derivatives. The margin collected from both parties to the swap protects against credit risk in the event a counterparty defaults. The initial and variation margin requirements are set by and held for the benefit of the CCP. Additional initial margin may be required and held by the FCM, due to its guarantees of its customers' trades with the CCP.

The Dodd-Frank Act requires the centralized clearing of certain OTC swaps by swap dealers and major swap participants, as well as certain other market participants, including financial institutions. Currently, instrument types that must be cleared will primarily be interest rate swaps and credit default swaps. Many end users of swaps, including certain banks, credit unions and System institutions with less than \$10 billion in assets, qualify for an exemption from clearing if the swap is used to hedge commercial risk. The U.S. Commodity Futures Trading Commission has also established a clearing exemption for certain swaps entered into by cooperatives. All System institutions qualify for this "Cooperative Exemption," and therefore will be able to elect the clearing exemption for any swap that meets the criteria stipulated in the exemption. This exemption does not cover all swaps that are executed by System institutions, and is generally limited to transactions entered into in connection with loans to members. (See "Financial Regulatory Reform" for additional information.) At December 31, 2013, the notional amount of cleared derivatives was \$225 million.

The exposure on derivatives by counterparty credit rating (Moody's) that would be owed to us due to a default or early termination by our counterparties at December 31, 2013 were:

Derivative Credit Exposure

	Number of Counterparties	Notional Principal	Years to Maturity(1)			Distribution Netting(2)	Credit Exposure	Collateral Held	Exposure, Net of Collateral
			Less than 1 Year	1 to 5 Years	Maturity Over 5 Years				
			(\$ in millions)						
Bilateral derivatives:									
Aa1	1	\$ 495			\$ 4	\$ (1)	\$ 3	\$ 2	\$ 1
Aa2	2	905	\$ 6	\$ 4	2		12	12	
Aa3	4	10,348	39	199	39	(16)	261	258	3
A1	2	7,224	18	137	50	(5)	200	158	42
A2	6	5,913	11	103	12	(12)	114	100	14
A3	1	40							
Baa2	2	1,009		81		(2)	79	72	7
Cleared derivatives(3) ..	<u>1</u>	<u>225</u>	<u></u>	<u></u>	<u>3</u>	<u></u>	<u>3</u>	<u>2</u>	<u>1</u>
Total	19	\$26,159	\$74	\$524	\$110	\$(36)	\$672	\$604	\$68

(1) Represents gain positions on derivative instruments with individual counterparties. Net gains represent the exposure to credit loss estimated by calculating the cost, on a present value basis, to replace all outstanding derivative contracts within a maturity category. Within each maturity category, contracts in a loss position are netted against contracts in a gain position with the same counterparty. If the net position within a maturity category with a particular counterparty is a loss, no amount is reported.

(2) Represents impact of netting of derivatives in a gain position and derivatives in a loss position with the same counterparty across different maturity categories.

(3) Represents derivative transactions cleared with central counterparties, which are not rated.

Note: The remaining notional amount of derivative financial instruments of \$3.588 billion at December 31, 2013 was related to interest rate swaps that one Bank and one Association entered into with certain of their customers. The risk from these transactions is offset by concurrently entering into offsetting derivative transactions with some of the above counterparties.

At December 31, 2013, the credit exposure, net of collateral, was \$68 million. The Banks' counterparties posted \$451 million in cash and \$153 million in securities as collateral with us. One Bank posted collateral of \$10 million.

Liquidity Risk Management

General

Liquidity risk management is necessary to ensure our ability to meet our financial obligations. These obligations include the repayment of Systemwide Debt Securities as they mature, the ability to fund new and existing loan and other funding commitments, and the ability to fund operations in a cost-effective manner. A primary objective of liquidity risk management is to plan for unanticipated changes in the capital markets. The Banks have established a Contingency Funding

Program to provide for contingency financing mechanisms and procedures to address potential disruptions in the System's communications, operations and payments systems, as well as the ability to cover events that threaten continuous market access by the Banks or the Funding Corporation's normal operations. Under this Program, the Funding Corporation has the authority to finance all Systemwide Debt Securities through the issuance of Systemwide discount notes either directly to institutional investors or through the selling group. The Funding Corporation, on behalf of the Banks, may also incur other obligations, such as Federal funds purchased, that would be the joint and several obligations of the Banks and would be insured by the Farm Credit System Insurance Corporation to the extent funds are available in the Insurance Fund.

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

Funding Sources

Our primary source of liquidity is the ability to issue Systemwide Debt Securities, which are the general unsecured joint and several obligations of the Banks. We continually raise funds to support our mission to provide credit and related services to the agricultural and rural sectors, repay maturing Systemwide Debt Securities, and meet other obligations. As a government-sponsored enterprise, we have had access to the global capital markets. This access has traditionally provided us with a dependable source of competitively priced debt that is critical to support our mission of providing funding to the agricultural and rural sectors. The U.S. government does not guarantee, directly or indirectly, the payment of principal or interest on any Systemwide Debt Securities issued by the Banks.

Moody's Investors Service and Fitch Ratings rate our long-term debt as Aaa and AAA, and our short-term debt as P-1 and F1. These are the highest ratings available from these rating agencies. In 2011, Standard & Poor's Ratings Services downgraded the System's long-term debt to AA+ as a result of a downgrade to the U.S. sovereign rating, while leaving the short-term rating unchanged. These rating agencies base their ratings on many quantitative and qualitative factors, including the System's status as a government-sponsored enterprise. Material changes to the factors considered could result in a different debt rating. A rating issued by these rating agencies is not a recommendation to buy, sell, or hold securities. You should evaluate the rating of each rating agency independently. The U.S. government does not guarantee, directly or indirectly, Systemwide Debt Securities.

Cumulative Systemwide Debt Securities maturities for the past two year-ends were:

	December 31,	
	2013	2012
	(in millions)	
Debt maturing within:		
one day	\$ 675	\$ 1,095
one week	1,746	2,307
one quarter	22,780	20,123
six months	40,322	35,813
one year	70,132	64,734

Cash provided by the System's operating activities was \$4.521 billion for 2013, \$4.529 billion for 2012 and \$4.639 billion for 2011 (primarily generated from net interest income in excess of operating expenses) and provided an additional source of liquidity for the System that is not reflected in the individual Bank's calculation of days of liquidity, which is discussed under "Liquidity Standard" below. Further, investments in the Insurance Fund would be used to repay maturing Systemwide Debt Securities to the extent available if no other sources existed to repay the debt. At December 31, 2013 and 2012, the assets in the Insurance Fund totaled \$3.496 billion and \$3.298 billion. (See "Insurance Fund" for additional information.)

Federal Funds and Available-for-Sale Securities

As permitted under Farm Credit Administration regulations, a Bank is authorized to hold Federal funds and available-for-sale investments in an amount not to exceed 35% of a Bank's average loans outstanding for the quarter. For purposes of this calculation, the 30-day average daily balance of Federal funds and investments, carried at amortized cost, is divided by the average daily balance for loans outstanding plus accrued interest for the quarter. We utilize investments for the purposes of maintaining a diverse source of liquidity and managing short-term surplus funds and interest rate risk, and in so doing may enhance profitability. Farm Credit Administration regulations also permit an Association to hold eligible investments with the approval of its affiliated Bank. At December 31, 2013, no Banks exceeded the 35% limit.

Farm Credit Administration regulations define eligible investments by specifying credit rating criteria, final maturity limit, and percentage of investment portfolio limit for each investment type. At the time of purchase, the Banks' investments must be highly rated by at least one Nationally Recognized Statistical Rating Organization, such as Moody's Investors Service, Standard & Poor's Ratings Services or Fitch Ratings. U.S. Treasury securities, U.S. agency securities (except mortgage securities) and

other obligations fully insured or guaranteed by the U.S., its agencies, instrumentalities and corporations are considered eligible investments under the Farm Credit Administration's regulations even if downgraded. Under the regulations, these investments have no final maturity limit, no credit rating requirement by Nationally Recognized Statistical Rating Organizations, investment portfolio limit, or other requirements.

Credit Rating Criteria by Eligible Investment Type

	Moody's	Standard & Poor's	Fitch
Overnight Federal funds	P-1, P-2	A-1+, A-1, A2	F1, F2
Term Federal funds	P-1, P-2	A-1+, A-1, A2	F1, F2
Commercial paper	P-1	A-1+, A-1	F1
Corporate securities	Aaa, Aa1, Aa2, Aa3	AAA, AA+, AA, AA-	AAA, AA
Mortgage-backed securities	Aaa	AAA	AAA
Asset-backed securities	Aaa	AAA	AAA

Eligible investments (carried at fair value) based on credit ratings issued by Moody's Investors Service, Standard & Poor's Ratings Services, or Fitch Ratings were as follows:

December 31, 2013	Eligible Investments			
	AAA/Aaa	A1/P1/F1	Split Rated(1)	Total
			A2/P2/F2 (in millions)	
Federal funds sold and securities purchased under resale agreements		\$ 678	\$400	\$ 1,078
Commercial paper, bankers' acceptances, certificates of deposit and other securities		2,851	\$ 1,341	4,192
U.S. Treasury securities			8,127	8,127
U.S. agency securities			4,731	4,731
Mortgage-backed securities:				
Agency collateralized			19,226	19,226
Agency whole-loan pass through			3,979	3,979
Non-agency	\$ 1		2	3
Private label-FHA/VA			126	126
Asset-backed securities	702		595	1,297
Total	<u>\$703</u>	<u>\$3,529</u>	<u>\$38,127</u>	<u>\$42,759</u>

December 31, 2012

	Eligible Investments		
	AAA/Aaa	A1/P1/F1 Split Rated(1) (in millions)	Total
Federal funds sold and securities purchased under resale agreements		\$ 563	\$ 355
Commercial paper, bankers' acceptances, certificates of deposit and other securities		1,904	1,182
U.S. Treasury securities			5,999
U.S. agency securities			3,975
Mortgage-backed securities:			
Agency collateralized			17,696
Agency whole-loan pass through			5,184
Non-agency	\$ 3		48
Private label-FHA/VA			156
Asset-backed securities	438	6	570
Total	\$441	\$2,473	\$35,165
			\$38,079

(1) Investment that received the highest credit rating from at least one rating organization.

As noted in the tables above, the split rating on investments in U.S. Treasury, U.S. agency and agency mortgage-backed securities is the result of the Standard & Poor's Ratings Services downgrade of the U.S. government's long-term sovereign credit rating from AAA to AA+ in 2011. Both Moody's Investors Service and Fitch Ratings maintain the triple-A ratings for U.S. government and agency securities.

If an investment no longer meets the eligibility criteria referred to above, the investment becomes ineligible for regulatory liquidity calculation purposes. Under Farm Credit Administration regulations, if an investment is eligible when purchased but no longer satisfies the eligibility criteria referred to above, the Bank may continue to hold it subject to the following requirements:

- Bank must notify the Farm Credit Administration within 15 calendar days after such determination,

- Bank must not use the investment to satisfy its liquidity requirement,
- Bank must continue to include the investment in the investment portfolio limit calculation,
- Bank may continue to include the investment as collateral and net collateral at lower of cost or market, and
- Bank must develop a plan to reduce the risk posed by the investment.

The Farm Credit Administration has the authority to require a Bank to divest any investment at any time for failure to comply with its regulation. As of December 31, 2013, the Farm Credit Administration has not required disposition of any of these securities. Bank managements do not believe that events will occur that would require them to dispose of any of these securities.

The following tables set forth ineligible securities (carried at fair value) by credit rating, which represented 3.4% and 4.3% of Federal funds and available-for-sale investments at December 31, 2013 and 2012.

December 31, 2013	Number of securities	Ineligible Investments								Total	Amortized Cost
		AA/Aa	A/A	BBB/Baa	BB/Ba	B/B	CCC/Caa	CC/Ca	D/C		
		(\$ in millions)									
Non-agency mortgage-backed securities	136	\$ 55	\$42	\$52	\$11	\$ 51	\$182	\$18	\$127	\$ 538	\$ 466
Private label-FHA/VA mortgage-backed securities	26	208			67	351	27		64	717	751
Asset-backed securities . . .	56	8	7	2	5	73	87	23	23	228	189
Total	218	\$271	\$49	\$54	\$83	\$475	\$296	\$41	\$214	\$1,483	\$1,406

December 31, 2012	Number of securities	Ineligible Investments								Total	Amortized Cost
		AA/Aa	A/A	BBB/Baa	BB/Ba	B/B	CCC/Caa	CC/Ca	D/C		
		(\$ in millions)									
Non-agency mortgage-backed securities	133	\$ 62	\$57	\$48	\$ 14	\$ 64	\$217	\$ 89	\$ 81	\$ 632	\$ 643
Private label-FHA/VA mortgage-backed securities	26	263			91	423		27	46	850	870
Asset-backed securities . . .	52	6	2	17	5	73	97	20	17	237	225
Total	211	\$331	\$59	\$65	\$110	\$560	\$314	\$136	\$144	\$1,719	\$1,738

Note: Investments are classified based on the indicated rating as the highest rating from at least one rating organization.

The types of mortgage-backed and asset-backed securities that are included in the System's investment portfolio were:

	December 31, 2013			December 31, 2012		
	Amortized Cost	Fair Value	Unrealized Gains/(Losses)	Amortized Cost	Fair Value	Unrealized Gains/(Losses)
	(in millions)					
Mortgage-backed securities:						
Agency collateralized	\$19,298	\$19,226	\$ (72)	\$17,545	\$17,696	\$151
Agency whole-loan pass through . . .	3,843	3,979	136	4,942	5,184	242
Non-agency	530	541	11	694	683	(11)
Private label-FHA/VA	878	843	(35)	1,027	1,006	(21)
Total mortgage-backed securities	\$24,549	\$24,589	\$ 40	\$24,208	\$24,569	\$361
Asset-backed securities:						
Home equity loans	\$ 210	\$ 249	\$ 39	\$ 262	\$ 272	\$ 10
Small business loans	576	583	7	531	544	13
Student loans	8	8		13	13	
Auto and equipment loans	685	685		421	422	1
Total asset-backed securities	\$ 1,479	\$ 1,525	\$ 46	\$ 1,227	\$ 1,251	\$ 24

The fair values for floating-rate and fixed-rate mortgage-backed and asset-backed securities were:

	December 31,	
	2013	2012
	(in millions)	
Floating-rate mortgage-backed securities . . .	\$13,772	\$16,171
Fixed-rate mortgage-backed securities	10,817	8,398
Total mortgage-backed securities	<u>\$24,589</u>	<u>\$24,569</u>
Floating-rate asset-backed securities	\$ 796	\$ 781
Fixed-rate asset-backed securities	729	470
Total asset-backed securities	<u>\$ 1,525</u>	<u>\$ 1,251</u>

Credit and market conditions over the past few years reduced the liquidity and widened credit spreads of non-agency mortgage-backed, private label-FHA/VA mortgage-backed, and asset-backed securities reducing the fair value of this portion of our investment portfolio. A deterioration in the U.S. housing market and increasing levels of defaults and foreclosures on home mortgages would result in future downward adjustments to the fair value of these securities and would likely result in additional losses on other-than-temporarily impaired investments. In view of the recent economic conditions and volatility related to these types of securities, the Banks are actively monitoring the creditworthiness of these securities.

Mission-Related and Other Investments

The Farm Credit Act states that the mission of the System is “to provide for an adequate and flexible flow of money into rural areas.” Congress also recognized the “growing need for credit in rural areas” and declared that the System be designed to accomplish the objective of improving the income and well being of America’s farmers and ranchers. To further the System’s mission to serve rural America, the System has initiated mission-related programs and other mission-related investments approved by the Farm Credit Administration. These investments are not included in the Banks’ liquidity calculations and are not covered by the eligible investment limitation discussed above. However, limitations on mission-related investments are determined by the Farm Credit Administration.

Mortgage-backed securities issued by Farmer Mac are also considered other investments and are excluded from the eligible investment limitation and the Banks’ liquidity calculations. These Farmer Mac securities are backed by loans originated by Associations and previously held by the Associations under

Farmer Mac standby purchase commitments.

Mission-related and other investments outstanding that are classified as held-to-maturity (carried at amortized cost) are as follows:

	December 31, 2013	December 31, 2012
	(in millions)	
Rural home loan securities	\$ 446	\$ 435
Farmer Mac securities	431	496
Small Business Administration securities and other government guaranteed	1,743	2,038
Rural America Bonds and Agricultural Rural Community bonds	190	203
Other	4	3
Total	<u>\$2,814</u>	<u>\$3,175</u>

Mission-related and other investments outstanding that are classified as available-for-sale (carried at fair value) are as follows:

	December 31, 2013	December 31, 2012
	(in millions)	
Rural America Bonds	\$ 41	\$ 53
Farmer Mac securities	427	503
Asset-backed securities	4	5
Total	<u>\$472</u>	<u>\$561</u>

Other-Than-Temporarily Impaired Investments

An investment is considered impaired if its fair value is less than its amortized cost. System institutions perform other-than-temporary impairment assessments on impaired securities based on evaluations of both current and future market and credit conditions. Each Bank or Association has its own model that includes relevant assumptions and inputs such as housing prices, unemployment, delinquencies and loss severity trends. Subsequent changes in market or credit conditions could change these evaluations. An impaired available-for-sale security in an unrealized loss position is considered to be other-than-temporarily impaired if a Bank or Association (1) intends to sell the security, (2) is more likely than not to be required to sell the security before recovering its cost, or (3) does not expect to recover the security’s entire amortized cost basis even if the entity does not intend to sell. If a Bank or Association intends to sell an impaired security or it is more likely than not to be required to sell the security before recovery of its amortized cost basis, then the impairment is other-than-temporary and the

difference between amortized cost and fair value of the impaired security should be recognized currently in earnings. As of December 31, 2013 and 2012, the Banks did not intend to sell available-for-sale securities in unrealized loss positions and it is not more likely than not that they will be required to sell these securities.

A Bank or Association also assesses whether any credit losses exist. Any shortfall between the amortized cost basis of the security and the present value of cash flows expected to be collected from the security is referred to as a “credit loss.” If the Bank or Association determines credit losses do exist, the impairment is other-than-temporary and should be separated into (1) the estimated amount relating to credit loss, and (2) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder recognized in other comprehensive income. The System recognized impairment losses of \$11 million in earnings for 2013. In addition, the System recognized \$2 million of impairment losses in other comprehensive income for 2013.

Liquidity Standard

The Farm Credit Administration regulations on liquidity were updated and these updates became effective in June 2013. The regulations set forth requirements for the Banks to:

- improve their capacity to pay their obligations and fund their operations by maintaining adequate liquidity to withstand various market disruptions and adverse economic or financial conditions;
- strengthen liquidity management;
- enhance the liquidity of assets that they hold in their liquidity reserves;
- maintain a three-tiered liquidity reserve. The first tier of the liquidity reserve must consist of a sufficient amount of cash and cash-like instruments to cover each Bank’s financial obligations for 15 days. The second and third tiers of the liquidity reserve must contain cash and highly liquid instruments that are sufficient to cover the Bank’s obligations for the next 15 and subsequent 60 days, respectively;
- establish an incremental liquidity reserve, in addition to the three tiers set forth immediately above, comprised of cash and eligible investments; and

- strengthen their Contingency Funding Plan.

This regulatory requirement is substantially the same as the System’s jointly developed and previously adopted Common Minimum Liquidity Standard. The new regulatory requirements have replaced the need for the System’s Common Minimum Liquidity Standard.

The number of days of liquidity is calculated by comparing the principal portion of maturing Systemwide Debt Securities and other borrowings of the Banks with the total amount of cash, cash equivalents and investments maintained by that Bank. For purposes of calculating liquidity, liquid assets are subject to discounts that reflect potential exposure to adverse market value changes that might be recognized upon liquidation or sale and include only the eligible investments of the Banks.

At December 31, 2013, each Bank maintained the three tiers of the liquidity reserve and exceeded the regulatory minimum 90 days of liquidity. The System’s liquidity position was 194 days at December 31, 2013, as compared with 185 days at December 31, 2012. (See Note 22 for each Bank’s liquidity position at December 31, 2013 and December 31, 2012.) As a result of the merger with U.S. AgBank, effective January 1, 2012, CoBank must maintain a minimum 130 days of liquidity (40 days greater than the 90-day regulatory minimum). Additionally, through December 31, 2014, if days of liquidity falls below 150 for five consecutive days, CoBank must notify the Farm Credit Administration and submit to them a plan to restore and maintain the 150 days level.

Contractual Obligations

We enter into contractual obligations in the ordinary course of business, including debt issuances for the funding of our business operations. Systemwide Debt Securities are the joint and several obligations of the Banks. Payments of principal and interest to the holders of Systemwide Debt Securities are insured by amounts held in the Insurance Fund as described in Note 7 to the accompanying combined financial statements. The Banks may issue certain other bonds directly to eligible purchasers. These bonds are the obligations solely of the issuing Bank and are not subject to joint and several liability of the other Banks.

In addition, we enter into derivative transactions with counterparties that create contractual obligations. See “Derivative Products” for additional

information. Substantially all proceeds of debt issuances were used to repay maturing debt, as well as to fund growth in loans and investment securities. Issu-

ance, maturity, and retirement activity of Systemwide Debt Securities for the past two years was:

	Systemwide Bonds		Systemwide Medium-Term Notes		Systemwide Discount Notes		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
	(in millions)							
Balance, beginning of year	\$183,076	\$ 170,760	\$ 342	\$380	\$ 14,548	\$ 13,640	\$ 197,966	\$ 184,780
Issuances	78,759	126,348			298,486	244,219	377,245	370,567
Maturities/retirements	(73,133)	(114,032)	(192)	(38)	(294,397)	(243,311)	(367,722)	(357,381)
Balance, end of year	<u>\$188,702</u>	<u>\$ 183,076</u>	<u>\$ 150</u>	<u>\$342</u>	<u>\$ 18,637</u>	<u>\$ 14,548</u>	<u>\$ 207,489</u>	<u>\$ 197,966</u>

Weighted average interest rates and weighted average maturities for 2013 and 2012 were:

	Systemwide Bonds		Systemwide Medium-Term Notes		Systemwide Discount Notes		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
At December 31:								
Average interest rate	1.01%	1.04%	6.08%	5.96%	0.09%	0.17%	0.93%	0.98%
Average remaining maturity	3.3 years	3.1 years	12.0 years	7.0 years	3.2 months	4.0 months	3.0 years	2.9 years
Issuances during the year:								
Average interest rate	0.88%	0.83%			0.06%	0.07%	0.23%	0.33%
Average maturity at issuance	4.0 years	4.2 years			20 days	23 days	10.4 months	17.9 months

The following table presents principal cash flows and related weighted average interest rates by contractual maturity dates for Systemwide Debt Securities.

	Fixed Rate	Average Interest Rate	Floating Rate	Average Interest Rate	Total
	(\$ in millions)				
2014	\$ 39,522	0.45%	\$30,610	0.18%	\$ 70,132
2015	18,614	0.84	29,398	0.19	48,012
2016	13,722	1.06	12,452	0.20	26,174
2017	13,723	1.31	2,232	0.19	15,955
2018	9,326	1.69	943	0.16	10,269
2019 and thereafter	<u>36,762</u>	<u>2.63</u>	<u>185</u>	<u>0.16</u>	<u>36,947</u>
Total	<u>\$131,669</u>	<u>1.35</u>	<u>\$75,820</u>	<u>0.19</u>	<u>\$207,489</u>
Fair value at December 31, 2013	<u>\$129,714</u>		<u>\$76,481</u>		<u>\$206,195</u>

The Farm Credit Act and Farm Credit Administration regulations require, as a condition for a Bank's participation in the issuance of Systemwide Debt Securities, that the Bank maintain specified eligible assets, referred to in the Farm Credit Act as "collateral," at least equal in value to the total amount of the debt securities outstanding for which it is primarily liable. (See "Federal Regulation and Supervision of the Farm Credit System — Bank

Collateral Requirements" for a description of eligible assets.) The collateral requirement does not provide holders of Systemwide Debt Securities with a security interest in any assets of the Banks.

At December 31, 2013, all Banks reported compliance with the collateral requirement. (See "FCA Capital Requirements" and Note 9 to the accompanying combined financial statements.)

Each Bank determines its participation in each issue of Systemwide Debt Securities based on its funding and operating requirements, subject to: (1) the availability of eligible collateral (as described above), (2) compliance with the conditions of participation as prescribed in the Second Amended and Restated Market Access Agreement, (3) determination by the Funding Corporation of the amounts, maturities, rates of interest and terms of each issuance, and (4) Farm Credit Administration approval. As of December 31, 2013, no Bank was limited or precluded from participation in issuances of Systemwide Debt Securities. As required by the Farm Credit Act, Systemwide Debt Securities are issued pursuant to authorizing resolutions adopted by the board of directors of each Bank. Under the Second Amended and Restated Market Access Agreement, each Bank's ability to withdraw its authorizing resolution is restricted and, in certain circumstances, eliminated.

Issuance, maturity, and retirement activity of other bonds issued by Banks individually for the past two years was:

	Other Bonds	
	2013	2012
	(in millions)	
Balance, beginning of year . . .	\$ 2,399	\$ 2,109
Issuances	101,592	55,634
Maturities/retirements	(100,776)	(55,344)
Balance, end of year	<u>\$ 3,215</u>	<u>\$ 2,399</u>

Weighted average interest rates and weighted average maturities of other bonds for 2013 and 2012 were:

	Other Bonds	
	2013	2012
At December 31:		
Average interest rate	0.08%	0.08%
Average remaining maturity	1 day	1 day
Issuances during the year:		
Average interest rate	0.06%	0.06%
Average maturity at issuance	1 day	1 day

Capital Adequacy and the Ability to Repay Systemwide Debt Securities

System Capitalization

The changes in capital for the year ended December 31, 2013 were:

	Capital				
	Combined Banks	Combined Associations	Insurance Fund	Combination Entries	System Combined
	(in millions)				
Balance at December 31, 2012	\$14,166	\$26,478	\$3,298	\$(5,333)	\$38,609
Net income	2,044	3,310	198	(912)	4,640
Change in accumulated other comprehensive loss . . .	(238)	41		414	217
Preferred stock issued	738	587			1,325
Preferred stock retired	(532)	(397)			(929)
Capital stock and participation certificates issued . . .	194	76		(193)	77
Capital stock and participation certificates and surplus retired	(196)	(76)		164	(108)
Protected borrower stock retired		(1)		1	
Patronage and dividends	(976)	(943)		819	(1,100)
Preferred stock dividends	(122)	(8)			(130)
Balance at December 31, 2013	<u>\$15,078</u>	<u>\$29,067</u>	<u>\$3,496</u>	<u>\$(5,040)</u>	<u>\$42,601</u>

Note: System combined capital reflected eliminations of approximately \$4.1 billion and \$4.0 billion of Bank equities held by Associations as of December 31, 2013 and 2012. System combined capital also reflected net eliminations of transactions between System entities. (See Notes 13 and 22 to the accompanying combined financial statements.)

Capital serves to support asset growth and provides protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services. We believe a sound capital position is critical to providing protection to investors in Systemwide Debt Securities and our long-term financial success.

Over the past several years, we have built capital through net income earned and retained. Capital accumulated through earnings has been partially offset by cash distributions to shareholders. Surplus of \$35.060 billion is the most significant component of capital. Surplus as a percentage of capital was 82.3% and 82.7% at December 31, 2013 and 2012. Capital as a percentage of assets increased to 16.3% at December 31, 2013 from 15.7% at December 31, 2012 due principally to an increase in earnings retained. Accumulated other comprehensive loss, net of tax, at December 31, 2013 and 2012 was comprised of the following components:

	December 31,	
	2013	2012
	(in millions)	
Unrealized gains on investments available-for-sale, net	\$ 103	\$ 445
Unrealized (losses) gains on other-than-temporary impairment investments available-for-sale	(23)	17
Unrealized losses on cash flow hedges, net	(6)	(115)
Pension and other benefit plans	(881)	(1,371)
	<u>\$(807)</u>	<u>\$(1,024)</u>

Accumulated other comprehensive loss decreased \$217 million during 2013 to \$807 billion at December 31, 2013. This decrease principally resulted from a decrease in accumulated other comprehensive loss on pension and other benefit plans of \$490 million and a decrease in unrealized losses on cash flow hedges of \$109 million. These were offset, in part, by a decrease in unrealized gains on investments available-for-sale of \$342 million and an unrealized loss on other-than-temporary impairment on investments of \$23 million at year end December 31, 2013 as compared with an unrealized gain on other-than-temporary impairment on investments of \$17 million at year end December 31, 2012. The decrease in unrealized losses on pension and other benefits was primarily due to an increase in the discount rate used to calculate pension obligations and strong pen-

sion asset returns in 2013. The decrease in unrealized gains on investments available-for-sale during 2013 was primarily due to an increase in long-term interest rates lowering the value of existing fixed-rate investment securities.

Interdependency of the Banks and the Associations

Understanding the System's structure and the interdependent nature of the Banks and the Associations is critical in understanding our capital adequacy.

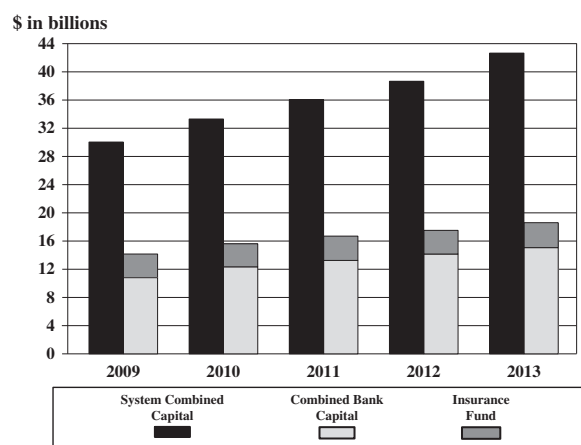
As previously discussed, each Bank is primarily liable for the repayment of Systemwide Debt Securities issued on its behalf, as well as being liable for Systemwide Debt Securities issued on behalf of the other Banks. The Farm Credit Banks, through the issuance of Systemwide Debt Securities, generally finance the wholesale loans to their affiliated Associations who lend the proceeds to their customers. CoBank, as an Agricultural Credit Bank, makes loans to cooperatives, rural utilities, and other eligible borrowers, as well as Associations. Each Bank's ability to repay Systemwide Debt Securities is due, in large part, to each of its Association's ability to repay its loan from the Bank. As a result, the Banks continually monitor the risk-bearing capabilities of each affiliated Association through various mechanisms, including testing the reliability of each Association's credit classifications and prior-approval of certain Association loan transactions. Capital, allowance for loan losses and earnings at the Association level also reduce the credit exposure that each Bank has with respect to the loans between the Bank and its affiliated Associations.

Since an Association's ability to obtain funds from sources other than its affiliated Bank is significantly limited, the financial well-being of the Bank and its ability to continue to provide funds is very important to the Association. In addition to the equity the Associations are required to purchase in connection with their direct loans from their affiliated Bank, under each Bank's bylaws, the Bank is authorized, under certain circumstances, to require its affiliated Associations and certain other equity holders to purchase additional Bank equity subject to certain limits or conditions. Further, the Banks generally possess indirect access to certain financial resources of their affiliated Associations through loan-pricing provisions and through Bank-influenced operating and financing policies for its District. (See Notes 13 and 22 to the accompanying combined financial statements for further discussion of Bank and Association capital.)

Notwithstanding the foregoing, only the Banks, and not the Associations, are jointly and severally liable for the repayment of Systemwide Debt Securities. Other than as described above, and subject to various regulatory and contractual conditions and limitations, the Banks do not have direct access to the capital of their affiliated Associations. In addition, any indirect access that the Banks may have to the capital of the Associations may be limited during stressed conditions in a deteriorating agricultural economic environment. Moreover, capital in one Association is not available to address capital needs of another Association or of a non-affiliated Bank.

Bank Capital and Insurance Fund

System Combined Capital, Combined Bank Capital and Insurance Fund as of December 31,



Combined Bank-only information is considered meaningful because only the Banks are jointly and severally liable for payment of principal and interest on Systemwide Debt Securities. Amounts in the Insurance Fund are included in the System's combined financial statements because, under the Farm Credit Act, these amounts can only be used for the benefit of the System. Before joint and several liability can be invoked, available amounts in the Insurance Fund would be used to

make principal and interest payments on Systemwide Debt Securities. Combined Bank capital and the Insurance Fund increased \$1.110 billion during 2013 to \$18.574 billion at December 31, 2013. Combined Bank capital as a percentage of combined Bank assets remained at 6.5% at December 31, 2013, as compared with December 31, 2012, due to increases in net income earned and retained while the Banks' loan volume saw growth during 2013. The Banks' capital as a percentage of assets ranged from 5.6% to 8.6% at December 31, 2013. (See Note 22 to the accompanying combined financial statements.) The Banks have implemented and continue to evaluate capital and asset management strategies to provide additional capacity and ensure the demands for future asset growth will be met.

Combined Bank-only net income increased \$74 million to \$2.044 billion for 2013, as compared with \$1.970 billion for 2012, largely as a result of a loan loss reversal in 2013, as compared with a provision for loan losses for the prior year. The combined Bank-only net income reflects the earnings from Banks' wholesale loans to Associations, retail loans primarily consisting of CoBank's loans to cooperatives and other eligible borrowers and loans to finance agricultural export transactions, and investments. The Banks' wholesale loans to Associations represent a majority of the assets on the combined Bank-only balance sheet. These loans carry less risk than retail loans because the Associations operate under General Financing Agreements with their affiliated Banks and a regulatory regime that requires Associations to maintain certain minimum capital standards, adequate reserves, and prudent underwriting standards. Based on the lower risk of loans to the Associations, the Banks typically operate with more leverage and lower earnings than would be expected from a retail bank.

One of the mechanisms used by the Banks to evaluate the credit risk of its wholesale loan portfolio is the Farm Credit Administration's Uniform Loan Classification System. The following table reflects the loan classifications of the Associations:

Uniform Loan Classification System

Acceptable	76	\$122,645	77	\$117,847
OAEM	4	1,292	2	469
Substandard (viable)	2	824	3	1,063
Total	<u>82</u>	<u>\$124,761</u>	<u>82</u>	<u>\$119,379</u>

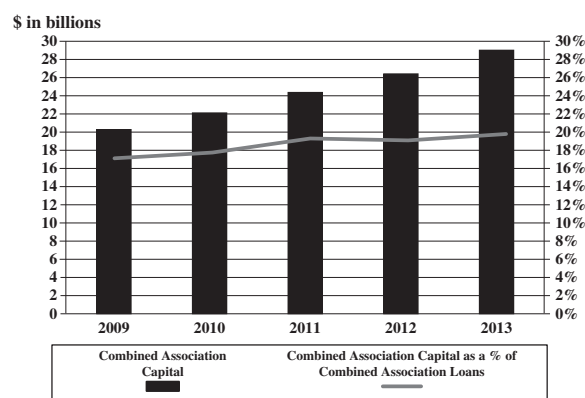
December 31, 2013		December 31, 2012	
Number of Associations	Direct Note	Number of Associations	Direct Note
(\$ in millions)			
76	\$122,645	77	\$117,847
4	1,292	2	469
2	824	3	1,063
<u>82</u>	<u>\$124,761</u>	<u>82</u>	<u>\$119,379</u>

Over the past five years, a substantial portion of income earned at the Bank level has been passed on to the Associations through patronage distributions. Bank capital increased \$4.249 billion since December 31, 2009 and \$912 million since December 31, 2012 to \$15.078 billion at December 31, 2013. The Banks had net income of \$2.044 billion in 2013, retaining \$946 million after patronage and preferred stock dividends.

For combining Bank-only information, see Note 22 to the accompanying combined financial statements.

Association Capital

**Combined Association Capital and
Combined Association Capital as a Percentage
of Combined Association Loans
as of December 31,**



Combined Association capital increased \$8.777 billion since December 31, 2009 and \$2.589 billion since December 31, 2012 to \$29.067 billion at December 31, 2013. The growth in Association capital during 2013 resulted primarily from income earned and retained. Combined Associations recorded \$3.310 billion of net income in 2013, retaining \$2.367 billion after patronage distributions, as compared with \$2.997 billion of net income in 2012 with \$2.112 billion retained after patronage distributions.

Combined Association capital as a percentage of combined Association loans increased to 19.8% at December 31, 2013 from 19.1% at December 31, 2012. Individual Association capital as a percentage of risk-adjusted assets ranged from 13.3% to 35.7%

at December 31, 2013, as compared with 12.2% to 35.5% at December 31, 2012. (See “FCA Capital Requirements” for additional information.)

Economic Capital

The System’s capital management framework is intended to ensure there is sufficient capital to support the underlying risks of its business activities, exceed all regulatory capital requirements, and achieve certain capital adequacy objectives. The Banks have implemented economic capital software, methodologies, and assumptions to quantify the capital requirements related to the Bank’s primary areas of risk. Each Bank periodically quantifies its economic capital requirements, based on the credit risk, interest rate risk, operational risk, and market risk inherent in its operations. Due to the evolving nature of economic capital, we anticipate the methodologies and assumptions will continue to be refined.

Economic capital is a measure of risk and is defined as the amount of capital required to absorb potential unexpected losses resulting from extremely severe events over a one-year time period.

- “Unexpected losses” are the difference between potential extremely severe losses and the expected (average) loss over a one-year time period.
- The amount of economic capital required is based on each Bank’s risk profile and a targeted solvency standard. For economic capital modeling purposes, each Bank has targeted an “AA” solvency standard, which equates to a 99.97% confidence level. This means the likelihood of incurring losses in excess of the required economic capital amount is estimated to be similar to the likelihood of an “AA” rated bond defaulting (0.03% probability).

Below is a brief description of the four types of risk to which the Banks attribute economic capital:

- Credit Risk — The risk that borrowers or counterparties default on their financial obligations.
- Interest Rate Risk — The risk generated from changes in interest rates.
- Operational Risk — The risk of loss resulting from inadequate or failed internal processes or systems, human factors, or changes in the competitive environment.

- **Market and Other Risk** — Exposures related to asset residual values affiliated with leasing activity and other areas of risk.

These risks are measured and aggregated by each Bank to estimate the exposure to potential extremely severe events and any impact to its level or composition of capital.

The Banks utilize economic capital software, including similar conceptual designs and modeling methodologies. Methodologies and assumptions used in measuring economic capital were jointly developed by Bank risk management and financial management personnel, in consultation with industry experts. The Bank modeling considers the economic capital requirements of its affiliated Associations, through the evaluation of the Associations' retail credit risk, operational risk, and interest rate risk. An economic capital shortfall (which is the difference between available capital and required economic capital) at any Association is included in the related Bank's economic capital requirements. The Bank models are calibrated to achieve a standard of default protection equivalent to an "AA" rated institution. At December 31, 2013 and 2012, each Bank's capital position exceeded its calculated economic capital requirements.

Credit Risk Capital

The primary component of the economic capital requirement is credit risk capital. Credit risk arises from the potential inability of an obligor to meet its repayment obligation and exists in our outstanding loans, letters of credit, unfunded loan commitments, investment portfolios, and derivative counterparty credit exposures.

Credit risk capital requirements are based on the risk profile of the borrower or counterparty, repayment sources (including non-farm income), the nature of underlying collateral, and other support, given current events and conditions. Our credit risk ratings process uses a two-dimensional loan rating structure, incorporating a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default, as described in the "Risk Management — Credit Risk Management" section of Management's Discussion and Analysis.

In assigning credit risk capital, the Bank's economic capital models consider retail borrower probability of default, loss given default, and portfolio concentrations. Other principal drivers of credit risk

that differentiate capital allocation include exposure at default, asset maturity, and asset and inter-commodity correlations. The Banks have developed standards for probability of borrower default and loss given default, based on Moody's Investors Service's external benchmarks. Historical USDA data was used to determine asset and inter-commodity correlations.

Interest Rate Risk Capital

Another significant component of the economic capital requirement is interest rate risk capital. Interest rate risk is the risk of loss of future earnings or long-term value that may result from changes in interest rates. The adverse change in interest rates may be in the form of yield curve risk, repricing risk, option risk or basis risk, as described in the "Risk Management — Interest Rate Risk Management" section of Management's Discussion and Analysis.

The amount of capital attributed by the Banks for interest rate risk is based on potential changes in Bank market value of equity, calculated under randomly generated interest rate scenarios. All Banks utilize widely accepted, third party models to quantify their interest rate risk and related risk capital requirements.

Operational Risk Capital

Another component of the economic capital requirement is operational risk capital. Operational risk for the Banks results primarily from event risk or business risk. Event risk is the risk of loss resulting from inadequate or failed internal processes or systems, human factors, and external events, including the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and the risk of fraud by employees or persons outside the System. Business risk is the risk of loss due to changes in the competitive environment or events that damage the franchise or operating economics of the business.

Each Bank's approach to quantifying operational risk capital is based on the capital of non-financial companies with similar business risks. These non-financial companies hold capital primarily for operational risk. Their level of capital and credit rating yields an inferred estimate of the level of capital to be held for operational risk. Capital as a percentage of non-interest expense is the primary methodology used in determining operational risk capital.

Market and Other Risk Capital

For certain Banks, market risk is a component of the economic capital requirement and arises primarily from the volatility in the residual value of leased assets at the maturity of lease contracts. Other areas of risk in which the Banks may have exposure are structural, liquidity, and political risk. Capital is not specifically attributed for these risks. Some of the excess capital of the Banks is held for “Other Risks.”

Capital Adequacy Plans

Each System institution also maintains a capital adequacy plan that addresses its capital targets in relation to its risks. The capital adequacy plan assesses the capital level and composition necessary to assure financial viability and to provide for growth. The plans are updated at least annually and are approved by the institution’s board of directors. At a minimum, the plans consider the following factors in determining optimal capital levels:

- asset quality and the adequacy of the allowance for loan losses to absorb potential losses within the loan portfolio,
- quality and quantity of earnings,
- sufficiency of liquid funds,
- capability of management and the quality of operating policies, procedures, and internal controls,
- needs of an institution’s customer base, and
- other risk-oriented activities, such as funding and interest rate risks, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities and other conditions warranting additional capital.

In addition, each Bank has a regulatory minimum for the net collateral ratio of 103%. However, as a result of subordinated debt offerings, all Banks, except AgFirst, are required to maintain a minimum net collateral ratio of 104%. Because the minimum net collateral ratio generally would be breached before any of the other minimum capital requirements the Banks closely monitor the level of the net collateral ratio.

FCA Capital Requirements

The Farm Credit Administration sets minimum regulatory capital requirements for Banks and Associations. The Farm Credit Administration’s capital regulations require that the Banks and Associations achieve and maintain permanent capital of at least seven percent of risk-adjusted assets. In addition to the net collateral requirement discussed above, Farm Credit Administration regulations require that all System institutions achieve and maintain a total surplus ratio of at least seven percent of risk-adjusted assets and a core surplus ratio of at least three and one-half percent of risk-adjusted assets. At December 31, 2013, all System institutions maintained ratios in excess of these standards as follows:

System Institutions	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio**	Net Collateral Ratio
Banks*	16.7% - 22.9%	15.7% - 22.8%	10.1% - 20.0%	106.4% - 108.7%
Associations	13.3% - 35.7%	12.9% - 35.3%	12.5% - 30.0%	Not Applicable
Regulatory minimum required	7.0%	7.0%	3.5%	103%***

* See Note 22 for each Bank’s permanent capital ratio and net collateral ratio at December 31, 2013 and 2012.

** As a condition of the merger with U.S. AgBank, from January 1, 2012 through December 31, 2014, if CoBank’s core surplus ratio excluding common stock falls below 5.59%, it must notify the Farm Credit Administration and submit a written plan to restore and maintain the ratio to at least that level.

*** In connection with subordinated debt offerings, AgriBank, CoBank and the Farm Credit Bank of Texas are required by the Farm Credit Administration to maintain a minimum net collateral ratio of 104%. At December 31, 2013, AgFirst had no cumulative preferred stock or subordinated debt outstanding. As a condition of the merger with U.S. AgBank, from January 1, 2012 through December 31, 2014, if CoBank’s net collateral ratio falls below 105%, it must notify the Farm Credit Administration and submit to them a written plan to restore and maintain a ratio of at least 105%.

Insurance Fund

An additional layer of protection for Systemwide Debt Security holders is the Insurance Fund that insures the timely payment of principal and interest on these securities. The primary sources of funds for the Insurance Fund are:

- premiums paid by the Banks, the cost of which may be passed on to the Associations, and
- earnings on assets in the Insurance Fund.

The Insurance Corporation's primary purpose is to insure the timely payment of principal and interest on Systemwide Debt Securities. In the event a Bank is unable to timely pay Systemwide Debt Securities for which the Bank is primarily liable, the Insurance Corporation must expend amounts in the Insurance Fund to the extent necessary to insure the timely payment of principal and interest on the debt obligations. However, the Insurance Corporation also has certain discretionary authorities to assist System institutions under specified circumstances, and as a result, there is no assurance that amounts in the Insurance Fund will be available and sufficient to fund the timely payment of principal and interest on Systemwide Debt Securities in the event a Bank is unable to make timely payment.

Due to the restricted use of funds in the Insurance Fund, it has been included as a restricted asset and as restricted capital in the System's combined financial statements. As of December 31, 2013, the assets in the Insurance Fund totaled \$3.496 billion. The aggregate amounts of additions to the Insurance Fund and the related transfers from surplus to restricted capital were \$198 million in 2013, \$128 million in 2012 and \$166 million in 2011. (See Note 7 to the accompanying combined financial statements and the Supplemental Combining Information on pages F-75 through F-77 for combining statements of condition and income that illustrate the impact of including the Insurance Fund in the System's combined financial statements.)

Premiums are due until the assets in the Insurance Fund for which no specific use has been identified or designated reach the "secure base amount." The Farm Credit Act, as amended, requires the secure base amount to be maintained at 2% of aggregate outstanding insured debt (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of aggregate outstanding insured debt as

the Insurance Corporation in its sole discretion determines to be actuarially sound. Insurance premiums are established by the Insurance Corporation with the objective of maintaining the secure base amount at the level required by the Farm Credit Act.

As required by the Farm Credit Act, as amended, if at the end of any calendar year, the aggregate amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, as necessary, to maintain the 2% secure base level. In addition, the Insurance Corporation is required to establish Allocated Insurance Reserves Accounts for each Bank and for former Farm Credit System Financial Assistance Corporation stockholders. At December 31, 2011, the Insurance Fund, including the Allocated Insurance Reserves Accounts, was 2.14% of the aggregate secure base amount. During the second quarter of 2012, the Insurance Corporation board of directors approved and distributed the payment of excess funds of \$222 million.

As determined by the Insurance Corporation, the assets in the Insurance Fund for which no specific use has been identified or designated were 1.94% at December 31, 2013, 1.93% at December 31, 2012 and 2.00% at December 31, 2011 of aggregate insured obligations. No amounts were allocated as of December 31, 2013 and 2012.

In January 2014, the Insurance Corporation reviewed the level of the secure base amount and determined that it would increase its assessment of premiums from 10 basis points to 12 basis points on adjusted insured debt and continue the assessment of an additional 10 basis points on nonaccrual loans and other-than-temporarily impaired investments. For an additional discussion on the Insurance Fund and the Allocated Insurance Reserves Accounts, see Note 7 to the accompanying combined financial statements.

Joint and Several Liability

The provisions of joint and several liability of the Banks with respect to Systemwide Debt Securities would be invoked if the available amounts in the Insurance Fund were exhausted. Once joint and several liability is triggered, 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 Bank's 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. On making a call on non-defaulting Banks with respect to a System-wide 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, and the receiver must expeditiously liquidate the Bank.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events, including the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and the risk of fraud by employees or persons outside the System. Each Bank's and Association's board of directors is required, by regulation, to adopt an internal control policy that provides adequate direction to the institution in establishing effective control over and accountability for operations, programs and resources. The policy must include, at a minimum, the following items:

- direction to management that assigns responsibility for the internal control function to an officer of the institution,
- adoption of internal audit and control procedures,
- direction for the operation of a program to review and assess its assets,
- adoption of loan, loan-related assets and appraisal review standards, including standards for scope of review selection and standards for work papers and supporting documentation,
- adoption of asset quality classification standards,
- adoption of standards for assessing credit administration, including the appraisal of collateral, and
- adoption of standards for the training required to initiate a program.

In general, System institutions address operational risk through the organization's internal framework under the supervision of the internal auditors. Exposure to operational risk is typically identified

with the assistance of senior management and internal audit plans developed with higher risk areas receiving more review.

Reputational Risk Management

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

Political Risk Management

System institutions are instrumentalities of the federal government and are intended to further governmental policy concerning the extension of credit to or for the benefit of agricultural and rural America. The System and its borrowers may be significantly affected by federal legislation that affects the System directly, such as changes to the Farm Credit Act, or indirectly, such as agricultural appropriations bills. Political risk to the System is the risk of loss of support for the System or agriculture by the U.S. government.

We manage political risk by actively supporting The Farm Credit Council, which is a full-service, federated trade association located in Washington, D.C. representing the System before Congress, the Executive Branch, and others. The Council provides the mechanism for "grassroots" involvement in the development of System positions and policies with respect to federal legislation and government actions that impact the System. In addition, each District has a District Farm Credit Council that is a regional trade association dedicated to promoting the interests of cooperative farm lending institutions and their borrowers in the District.

Regulatory Matters

As of December 31, 2013, the Farm Credit Administration had entered into written agreements with eight Associations whose assets in aggregate totaled \$4.803 billion, as compared with seven Associations whose assets in aggregate totaled \$3.983 billion at December 31, 2012. The written agreements require the Associations to take corrective actions with respect to one or more of the following: asset quality, capital, portfolio management, and corporate governance.

In January 2014, the Farm Credit Administration terminated written agreements with two Associations whose assets totaled \$847 million as of December 31, 2013.

Financial Regulatory Reform

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

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

The provisions of the Dodd-Frank Act pertaining to the regulation of derivatives transactions require more of these transactions to be cleared through a third-party central clearinghouse and traded on regulated exchanges or other multilateral platforms, and margin is required for these transactions. Derivative transactions that will not be subject to mandatory trading and clearing requirements may also be subject to minimum margin and capital requirements. As required by the Dodd-Frank Act,

the Commodity Futures Trading Commission considered and exempted System institutions from certain of these new requirements, including mandatory clearing for many of the derivative transactions entered into by System institutions. These new requirements may make derivative transactions more costly and less attractive as risk management tools for System institutions; and thus may impact the System's funding and hedging strategies.

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

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

Farm Bill

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

Recently Adopted or Issued Accounting Pronouncements

In December 2013, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Definition of a Public Business Entity — An Addition to the Master Glossary." The definition will be used in considering the scope of new financial

accounting guidance and determines whether guidance applies or does not apply to public business entities. The definition improves U.S. generally accepted accounting principles by providing a single definition of public business entity for use in future financial accounting and reporting guidance and does not affect existing requirements. Based on the definition, the System would be considered to be a public business entity. There is no actual effective date for the amendment. However, the term public business entity will be used in new accounting guidance as it is issued.

In February 2013, the FASB issued guidance entitled, “Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.” The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The guidance is effective for public entities for annual periods beginning after December 15, 2012 and for non-public entities for annual periods beginning after December 15, 2013. The adoption of this guidance did not impact the System’s

financial condition or its results of operations, but resulted in additional disclosures.

In December 2011, the FASB issued guidance entitled, “Balance Sheet — 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 the rights of offset set forth in 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 did not impact the System’s financial condition or its results of operations, but resulted in additional disclosures.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The System'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 System's combined 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 System's principal executives and principal financial officers, or persons performing similar functions, and effected by the System's boards of directors, managements and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the System's combined financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and 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 System, (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 of the System are being made only in accordance with authorizations of managements and directors of the System, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the System's assets that could have a material effect on the System's combined financial statements.

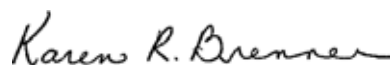
The Funding Corporation's management has completed an assessment of the effectiveness of the System's internal control over financial reporting as of December 31, 2013. In making the assessment, Funding Corporation's management used the framework in *Internal Control — Integrated Framework (1992)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Funding Corporation concluded that as of December 31, 2013, the System's internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Funding Corporation determined that there were no material weaknesses in the System's internal control over financial reporting as of December 31, 2013.

The System's internal control over financial reporting as of December 31, 2013 has been audited by PricewaterhouseCoopers, LLP, an independent auditor, as stated in their accompanying report on pages F-3 and F-4 which expresses an unqualified opinion on the effectiveness of the System's internal control over financial reporting as of December 31, 2013.



Theresa E. McCabe
President and CEO
Funding Corporation



Karen R. Brenner
Managing Director — Financial
Management Division
Funding Corporation

REPORT OF INDEPENDENT AUDITORS

TO THE BOARDS OF DIRECTORS OF THE FARM CREDIT SYSTEM:

We have audited the accompanying combined financial statements of the Farm Credit System (the System), which comprise the combined statements of condition as of December 31, 2013 and 2012, and the related combined statements of income, of comprehensive income, of changes in capital and of cash flows for each of the three years in the period ended December 31, 2013. We also have audited the System's internal control over financial reporting as of December 31, 2013 based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's Responsibility

The System's management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America, for maintaining internal control over financial reporting including the design, implementation, and maintenance of controls relevant to the preparation and fair presentation of the combined financial statements that are free from material misstatement, whether due to error or fraud, and for its assertion about the effectiveness of internal control over financial reporting, included in the Report on Internal Control over Financial Reporting appearing on page F-2 of this Annual Information Statement.

Auditor's Responsibility

Our responsibility is to express an opinion on the combined financial statements and an opinion on the System's internal control over financial reporting based on our integrated audits. We conducted our integrated audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with the auditing and attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the System's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of internal control over financial reporting involves obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our opinions.

Definition and Inherent Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. A company's 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 company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the System at December 31, 2013 and December 31, 2012, and the results of its operations and its cash flows for the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the System maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Other Matter

Our audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The supplemental combining information on pages F-75 through F-82 of this Annual Information Statement is presented for purposes of additional analysis and is not a required part of the combined financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Price Waterhouse Coopers LLP", is written over the printed name.

PRICEWATERHOUSECOOPERS LLP

New York, NY
February 28, 2014

FARM CREDIT SYSTEM
COMBINED STATEMENT OF CONDITION
(in millions)

	December 31,	
	2013	2012
A S S E T S		
Cash	\$ 4,365	\$ 3,394
Federal funds sold and securities purchased under resale agreements	1,078	918
Investments (Note 3)		
Available-for-sale (amortized cost of \$43,073 and \$38,367, respectively)	43,164	38,880
Mission-related and other held-to-maturity (fair value of \$2,813 and \$3,231, respectively)	2,814	3,175
Mission-related and other available-for-sale (amortized cost of \$474 and \$552, respectively)	472	561
Loans (Note 4)	201,060	191,904
Less: allowance for loan losses (Note 4)	(1,238)	(1,343)
Net loans	199,822	190,561
Accrued interest receivable	1,719	1,668
Premises and equipment (Note 5)	895	799
Other property owned	198	324
Other assets (Notes 6, 14, 15, 16, 17 and 18)	2,759	3,086
Restricted assets (Note 7)	3,496	3,298
Total assets	<u>\$260,782</u>	<u>\$246,664</u>
LIABILITIES AND CAPITAL		
Systemwide Debt Securities		
Due within one year:		
Systemwide discount notes	\$ 18,637	\$ 14,548
Systemwide bonds and medium-term notes	51,495	50,186
	70,132	64,734
Due after one year:		
Systemwide bonds and medium-term notes	137,357	133,232
Total Systemwide Debt Securities (Notes 8 and 9)	207,489	197,966
Subordinated debt (Note 10)	1,555	1,555
Other bonds (Note 9)	3,215	2,399
Notes payable and other interest-bearing liabilities	1,082	952
Accrued interest payable	581	564
Other liabilities (Notes 6, 14, 15, 16, 17 and 18)	4,259	4,619
Total liabilities	218,181	208,055
Commitments and contingencies (Notes 4, 16 and 20)		
Capital (Note 13)		
Preferred stock	2,469	2,057
Capital stock and participation certificates	1,645	1,621
Additional paid-in-capital (Note 12)	738	738
Restricted capital (Note 7)	3,496	3,298
Accumulated other comprehensive loss, net of tax (Notes 3, 14 and 17)	(807)	(1,024)
Allocated surplus	2,539	2,245
Unallocated surplus	32,521	29,674
Total capital	42,601	38,609
Total liabilities and capital	<u>\$260,782</u>	<u>\$246,664</u>

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

FARM CREDIT SYSTEM
COMBINED STATEMENT OF INCOME
(in millions)

	For the Year Ended December 31,		
	2013	2012	2011
Interest income			
Investments, Federal funds sold and securities purchased under resale agreements	\$ 670	\$ 744	\$ 780
Loans	7,961	7,834	8,104
Total interest income	8,631	8,578	8,884
Interest expense			
Systemwide bonds and medium-term notes	1,835	1,969	2,463
Systemwide discount notes	23	25	40
Subordinated debt	96	104	104
Other interest-bearing liabilities	3	3	18
Total interest expense	1,957	2,101	2,625
Net interest income	6,674	6,477	6,259
Loan loss reversal (provision for loan losses)	31	(313)	(430)
Net interest income after loan loss reversal/provision for loan losses	6,705	6,164	5,829
Noninterest income			
Loan-related fee income	241	229	260
Fees for financially related services	206	213	205
Mineral income	106	97	70
Operating lease income	41	37	41
Income earned on Insurance Fund assets (Note 7)	29	47	73
Total other-than-temporary impairment losses (Note 3)	(13)	(62)	(139)
Portion of other-than-temporary impairment recognized in other comprehensive income	2	15	70
Net other-than-temporary impairment losses included in earnings	(11)	(47)	(69)
Gains on sales of investments and other assets, net	12	7	11
Losses on extinguishment of debt	(72)	(155)	(82)
Net gains on derivative and other transactions	16	25	17
Other noninterest income	53	49	42
Total noninterest income	621	502	568
Noninterest expense			
Salaries and employee benefits (Note 14)	1,602	1,458	1,349
Occupancy and equipment expense	183	171	169
Purchased services	135	119	112
Other operating expense	515	498	453
Net losses on other property owned	28	79	83
Merger/restructuring expense	2	1	22
Total noninterest expense	2,465	2,326	2,188
Income before income taxes	4,861	4,340	4,209
Provision for income taxes (Note 15)	(221)	(222)	(269)
Net income	\$4,640	\$4,118	\$3,940

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

FARM CREDIT SYSTEM
COMBINED STATEMENT OF COMPREHENSIVE INCOME
(in millions)

	For the Year Ended December 31,		
	2013	2012	2011
Net income	\$4,640	\$4,118	\$3,940
Other comprehensive income (loss):			
Change in unrealized gains on investments available-for-sale not other-than-temporarily impaired, including reclassification adjustments of \$(7), \$5 and \$(1), respectively	(442)	74	277
Change in unrealized gains/losses on other-than-temporarily impaired investments, including reclassification adjustments of \$10, \$42 and \$61, respectively	11	114	(52)
Change in unrealized losses on cash flow hedges, including reclassification adjustments of \$1, \$2 and \$0, respectively	109	7	(96)
Amortization of costs included in net periodic pension benefit cost, including reclassification adjustments of \$115, \$87 and \$62, respectively	502	(133)	(273)
Income tax related to other comprehensive income	37	(15)	(15)
Total other comprehensive income (loss)	217	47	(159)
Comprehensive income	<u>\$4,857</u>	<u>\$4,165</u>	<u>\$3,781</u>

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

FARM CREDIT SYSTEM
COMBINED STATEMENT OF CHANGES IN CAPITAL
(in millions)

	Preferred Stock	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Restricted Capital Farm Credit Insurance Fund	Accumulated Other Comprehensive Income (Loss)	Allocated Surplus	Unallocated Surplus	Total Capital
Balance at December 31, 2010	\$2,125	\$1,542	\$393	\$3,226	\$(1,171)	\$1,953	\$25,183	\$33,251
Comprehensive income					(159)		3,940	3,781
Transfer of Insurance Fund premiums and other income from surplus to restricted capital				166			(166)	
Preferred stock dividends							(154)	(154)
Capital stock and participation certificates issued		84						84
Capital stock and participation certificates retired		(96)						(96)
Equity issued or recharacterized upon Association mergers		3	9					12
Equity retired or recharacterized upon Association mergers		(3)					(32)	(35)
Patronage:								
Cash						(140)	(763)	(903)
Capital stock, participation certificates and surplus allocations		88				295	(383)	
Balance at December 31, 2011	2,125	1,618	402	3,392	(1,330)	2,108	27,625	35,940
Comprehensive income					47		4,118	4,165
Transfer of Insurance Fund premiums and other income from surplus to restricted capital				128			(128)	
Distribution by Insurance Fund to System institutions				(222)			222	
Preferred stock issued by Banks	400						(6)	394
Preferred stock retired by Banks	(488)		37					(451)
Preferred stock issued, net by Associations	20							20
Preferred stock dividends							(138)	(138)
Capital stock and participation certificates issued		75						75
Capital stock and participation certificates retired		(118)						(118)
Preferred stock issued or recharacterized upon Bank merger	225							225
Preferred stock retired or recharacterized upon Bank merger	(225)							(225)
Equity issued or recharacterized upon Association mergers		2	299					301
Equity retired or recharacterized upon Association mergers		(2)					(301)	(303)
Net reduction in surplus due to net fair value adjustments related to the Bank merger							(469)	(469)
Recharacterization of other comprehensive loss due to fair value adjustments related to the Bank merger					259			259
Patronage:								
Cash						(203)	(863)	(1,066)
Capital stock, participation certificates and surplus allocations		46				340	(386)	
Balance at December 31, 2012	2,057	1,621	738	3,298	(1,024)	2,245	29,674	38,609
Comprehensive income					217		4,640	4,857
Transfer of Insurance Fund premiums and other income from surplus to restricted capital				198			(198)	
Preferred stock issued by Banks	750						(12)	738
Preferred stock retired by Banks	(532)							(532)
Preferred stock issued by Associations, net	194						(4)	190
Preferred stock dividends							(130)	(130)
Capital stock and participation certificates issued		77						77
Capital stock and participation certificates retired		(108)						(108)
Patronage:								
Cash						(163)	(937)	(1,100)
Capital stock, participation certificates and surplus allocations		55				457	(512)	
Balance at December 31, 2013	<u>\$2,469</u>	<u>\$1,645</u>	<u>\$738</u>	<u>\$3,496</u>	<u>\$ (807)</u>	<u>\$2,539</u>	<u>\$32,521</u>	<u>\$42,601</u>

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

FARM CREDIT SYSTEM
COMBINED STATEMENT OF CASH FLOWS
(in millions)

	For the Year Ended December 31,		
	2013	2012	2011
Cash flows from operating activities			
Net income	\$ 4,640	\$ 4,118	\$ 3,940
Adjustments to reconcile net income to net cash provided by operating activities:			
(Loan loss reversal) provision for loan losses	(31)	313	430
Depreciation and amortization on premises and equipment	90	86	83
Accretion of fair value adjustments related to the Bank merger	(83)	(90)	
Gains on sales of investments, net and other assets	(12)	(7)	(12)
Losses on impairment of investments available-for-sale	11	47	69
Accretion on mission-related and other investments held-to-maturity		(1)	
Income on Insurance Fund assets, net of operating expenses	(26)	(44)	(69)
(Increase) decrease in accrued interest receivable	(51)	82	131
(Increase) decrease in other assets	(132)	7	(82)
Net writedowns of other property owned	37	75	67
Change in amortized discount on Systemwide discount notes	(4)	1	(5)
Increase (decrease) in accrued interest payable	17	(92)	(177)
Increase in other liabilities	65	34	264
Net cash provided by operating activities	4,521	4,529	4,639
Cash flows from investing activities			
Increase in loans, net	(9,462)	(17,220)	(124)
(Increase) decrease in Federal funds sold and securities purchased under resale agreements, net	(160)	(514)	274
Investments available-for-sale:			
Purchases	(19,090)	(19,555)	(13,271)
Proceeds from maturities and payments	14,328	18,072	12,298
Proceeds from sales	142	11	844
Mission-related and other investments held-to-maturity:			
Purchases	(215)	(26)	(278)
Proceeds from maturities and payments	576	357	313
Mission-related and other investments available-for-sale:			
Purchases		(36)	(7)
Proceeds from maturities and payments	75	101	97
Decrease in tobacco contract receivables, net	149	143	128
Premiums paid to the Insurance Fund	(84)	(99)	(80)
Distribution by Insurance Fund to System institutions		222	
Purchases of premises and equipment, net of disposals	(186)	(172)	(132)
Proceeds from sales of other property owned	239	196	240
Net cash (used in) provided by investing activities	(13,688)	(18,520)	302
Cash flows from financing activities			
Systemwide bonds issued	78,759	126,348	107,802
Systemwide bonds and medium-term notes retired	(72,768)	(114,315)	(106,200)
Systemwide discount notes issued	298,486	244,219	267,234
Systemwide discount notes retired	(294,393)	(243,312)	(272,783)
Subordinated debt retired, net		(95)	
Other bonds issued, net	816	290	1,307
Increase in notes payable and other interest-bearing liabilities, net	130	335	211
Decrease in collateral held from derivative counterparties	(129)	(352)	(169)
Protected borrower stock retired	(1)	(3)	(2)
Mandatorily redeemable preferred stock retired			(225)
Preferred stock issued by Banks	738	394	
Preferred stock retired by Banks	(532)	(488)	
Preferred stock issued by Associations	587	360	340
Preferred stock retired by Associations	(397)	(340)	(340)
Capital stock and participation certificates issued	77	75	84
Capital stock, participation certificates and surplus retired	(246)	(278)	(221)
Preferred stock dividends paid	(127)	(134)	(155)
Cash patronage paid	(862)	(799)	(661)
Net cash provided by (used in) financing activities	10,138	11,905	(3,778)
Net increase (decrease) increase in cash	971	(2,086)	1,163
Cash at beginning of year	3,394	5,480	4,317
Cash at end of year	\$ 4,365	\$ 3,394	\$ 5,480

FARM CREDIT SYSTEM
COMBINED STATEMENT OF CASH FLOWS — (continued)
(in millions)

	For the Year Ended December 31,		
	2013	2012	2011
Supplemental schedule of non-cash investing and financing activities:			
Loans transferred to other property owned	\$ 190	\$ 216	\$ 358
Disposals of other property owned through financed sales	(40)	(79)	(47)
Investments available-for-sale purchased but not yet settled	(49)	(21)	(25)
Investments available-for-sale sold but not yet settled			50
Patronage and dividends distributions payable	1,090	1,010	923
Transfer of mission-related and other held-to-maturity investments to mission-related and other available-for-sale investments		87	59
Transfer of allowance for loan losses (into) from reserve for unfunded commitments	(12)	(16)	(71)
Adjustment of allowance for loan losses related to Bank and Association mergers		(8)	(16)
Transfer of surplus to additional paid-in-capital related to Association mergers		299	9
Transfer of gain to additional paid-in-capital related to the repurchase of preferred stock		37	
Bank merger related fair value adjustments:			
Fair value adjustment to loans related to the Bank merger		(553)	
Fair value adjustment to available-for sale investments related to the Bank merger		37	
Fair value adjustment to mission-related and other investments held-to-maturity related to the Bank merger		(4)	
Net reduction in accumulated other comprehensive loss due to the fair value adjustment of investments related to the Bank merger		242	
Fair value adjustment to Systemwide bonds related to the Bank merger		700	
Fair value adjustment to other assets and other liabilities related to the Bank merger		47	
Supplemental non-cash fair value changes related to hedging activities:			
Decrease in Systemwide bonds and medium-term notes	(425)	(248)	(41)
Decrease in other assets	478	225	11
(Decrease) increase in other liabilities	(55)	21	45
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	1,945	2,192	2,807
Taxes	223	136	149

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

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS
(dollars in millions, except as noted)

**NOTE 1 — ORGANIZATION, OPERATIONS
AND PRINCIPLES OF COMBINATION**

Organization and Operations

The Farm Credit System is a federally chartered network of interdependent, borrower-owned lending institutions (Banks and Associations) and affiliated service organizations. The System was established by Acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The Farm Credit Act provides authority for changes in the organizational structure and operations of the System and its entities.

At December 31, 2013, the System consisted of: (1) three Farm Credit Banks (AgFirst FCB; Agri-Bank, FCB; and FCB of Texas) and their affiliated Associations, (2) one Agricultural Credit Bank (CoBank, ACB) and its affiliated Associations, (3) the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and (4) various service and other organizations.

The Associations are cooperatives owned by their borrowers and the Farm Credit Banks are cooperatives primarily owned by their affiliated Associations. CoBank is a cooperative principally owned by cooperatives, other eligible borrowers and its affiliated Associations. Each Bank and Association manages and controls its own business activities, operations and financial performance. Each Bank and Association has its own board of directors and is not commonly owned or controlled.

A Bank and its affiliated Associations are financially and operationally interdependent as the Bank is statutorily required to serve as an intermediary between the financial markets and the retail lending activities of its affiliated Associations. The Banks are the primary source of funds for the Associations. Associations are not legally authorized to accept deposits and they may not borrow from other financial institutions without the approval of their affiliated Bank. The Banks are not legally authorized to accept deposits and they principally obtain their funds through the issuance of Systemwide Debt Securities. As a result, the loans made by the Associations are substantially funded by the issuance of Systemwide Debt Securities by the Banks. The repayment of Systemwide Debt Securities is depend-

ent upon the ability of borrowers to repay their loans from the Associations. In addition, CoBank makes retail loans and leases directly to cooperatives, rural utilities, and other eligible borrowers, and the Banks purchase retail loan participations from Associations and other lenders, including other System Banks. Therefore, the repayment of Systemwide Debt Securities is also dependent upon the ability of these retail borrowers to repay their loans.

As required by the Farm Credit Act, the System specializes in providing financing and related services to qualified borrowers in the agricultural and rural sectors and to certain related entities. The System makes credit available in all 50 states, the Commonwealth of Puerto Rico, and U.S. territories under conditions set forth in the Farm Credit Act, which provides both geographic and agricultural sector diversification.

The Banks or Associations jointly own several organizations that were created to provide a variety of services for the System. The Funding Corporation provides for the issuance, marketing and handling of Systemwide Debt Securities, using a selling group, and prepares and distributes the Farm Credit System Quarterly and Annual Information Statements. The Farm Credit System Building Association is a partnership of the Banks that owns premises and other fixed assets that are leased to the Farm Credit Administration, the System's regulator.

Farm Credit Leasing Services Corporation (Leasing Services Corporation), a wholly-owned subsidiary of CoBank, ACB, provides a variety of leasing programs primarily for agriculture-related equipment and facilities. Other leasing programs exist in the System through Associations and through alliances with non-System leasing companies.

Most System institutions provide financially related services to their customers, including credit, appraisal, estate planning, record keeping services, tax planning and preparation, and consulting. Also, System institutions serve as agent or broker to provide crop, mortgage life and disability insurance. System institutions may also enter into a contractual arrangement to provide financial support to a captive reinsurance company in a specified dollar amount, which is not material to the System's financial con-

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

dition or results of operations. System institutions would share in the gains and losses of the captive reinsurance company in accordance with the terms of the contract, but are responsible for losses only up to predetermined limits as set forth in the contract.

The Farm Credit Act provided for the establishment of the Farm Credit System Insurance Corporation (Insurance Corporation). As more fully described in Note 7, the Farm Credit Insurance Fund (Insurance Fund) is under the direct control of the Insurance Corporation.

The Farm Credit Administration is delegated authority by Congress to regulate the activities of the Banks, Associations and certain other System institutions. The Farm Credit Administration examines the activities of System institutions to ensure their compliance with the Farm Credit Act, Farm Credit Administration regulations, and safe and sound banking practices. The Farm Credit Administration has statutory enforcement and related authorities with respect to System institutions.

Principles of Combination

The accompanying System combined financial statements include the accounts of the Banks, the affiliated Associations, the Funding Corporation and the Insurance Fund and reflect the investments in, and allocated earnings of, the service organizations owned jointly by the Banks or Associations. The System combined financial statements include the equity investments of the Farm Credit System Building Association. All significant intra-System transactions and balances have been eliminated in combination. Combined financial statements of the System are presented because of the financial and operational interdependence of the Banks and Associations. Notwithstanding the presentation in the accompanying combined financial statements, the joint and several liability for Systemwide Debt Securities is limited to the Banks, as more fully described in Notes 8, 9, 13 and 22.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Reporting Practices

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

Certain amounts in prior years' combined financial statements have been reclassified to conform to the current year presentation.

Recently Issued or Adopted Accounting Pronouncements

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

In February 2013, the FASB issued guidance entitled, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

statement line items affected by the reclassification. The guidance is effective for public entities for annual periods beginning after December 15, 2012 and for non-public entities for annual periods beginning after December 15, 2013. The adoption of this guidance did not impact the System's financial condition or its results of operations, but resulted in additional disclosures.

In December 2011, the FASB issued guidance entitled, "Balance Sheet — 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 the rights of offset set forth in 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 did not impact the System's financial condition or its results of operations, but resulted in additional disclosures.

Cash

Cash, as included in the financial statements, represents cash on hand and deposits at banks.

Investments and Federal Funds

The Banks and Associations, as permitted under Farm Credit Administration regulations, hold investments for the purposes of maintaining a liquidity reserve, managing short-term surplus funds, and managing interest rate risk. These investments are generally classified as available-for-sale and carried at fair value, and unrealized holding gains and losses are netted and reported as a separate component of capital. Changes in the fair value of these invest-

ments are reflected as direct charges or credits to other comprehensive income, unless the investment is deemed to be other than temporarily impaired. Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If an entity intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and the loss is recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and is separated into (1) the estimated amount relating to credit loss, and (2) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income.

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

Gains and losses on the sales of investments available-for-sale are determined using the specific identification method. Premiums and discounts are amortized or accreted into interest income over the term of the respective issues. Neither the Banks nor the Associations hold investments for trading purposes.

All or a portion of the unrealized holding gain or loss of an available-for-sale security that is designated as a hedged item in a fair value hedge must be recognized in earnings during the period of the hedge.

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

Banks and Associations may also hold additional investments in accordance with mission-related and other investment programs approved by the Farm Credit Administration. These programs allow Banks and Associations to make investments that further the System's mission to serve rural America. These investments are not included in the Banks' liquidity calculations and are not covered by the eligible investment limitations specified by the Farm Credit Administration regulations. Mission-related and other investments for which the System institution has the intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts.

Loans, Allowance for Loan Losses and Reserve for Unfunded Commitments

Loans are generally carried at their principal amount outstanding adjusted for charge-offs, deferred loan fees or costs, and valuation adjustments relating to hedging activities. Loan origination fees and direct loan origination costs are netted and capitalized, on a combined System basis, and the net fee or cost is amortized over the average life of the related loan as an adjustment to interest income. Loan prepayment fees are reported in interest income. Interest on loans is accrued and credited to interest income based on the daily principal amount outstanding.

Loans acquired in a business combination are initially recognized at fair value, and therefore, no "carryover" of the allowance for loan losses is permitted. Those loans with evidence of credit quality deterioration at purchase are required to follow the authoritative accounting guidance on "Accounting for Certain Loans or Debt Securities Acquired in a Transfer." This guidance addresses accounting for differences between contractual cash flows and cash flows expected to be collected from the initial investment in loans if those differences are attributable, at least in part, to credit quality. The initial fair values for these types of loans are determined by discounting both principal and interest cash flows expected to be collected using an observable discount rate for similar instruments with adjustments that management believes a market participant would consider in determining fair value. Subsequent decreases to expected principal cash flows will result in a charge to the provision for loan losses and a

corresponding increase to allowance for loan losses. Subsequent increases in expected principal cash flows will result in recovery of any previously recorded allowance for loan losses, to the extent applicable, and a reclassification from nonaccretable difference to accretable yield for any remaining increase. For variable rate loans, expected future cash flows were initially based on the rate in effect at acquisition; expected future cash flows are recalculated as rates change over the lives of the loans.

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

A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the Bank or Association grants a concession to the debtor that it would not otherwise consider.

Impaired loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or when circumstances indicate that collection of principal and interest is in doubt. Additionally, all loans over 180 days past due are placed in nonaccrual status. When a loan is placed in nonaccrual status, accrued interest that is considered uncollectible is reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years). Loans are charged-off at the time they are determined to be uncollectible.

When loans are in nonaccrual status, interest payments received in cash are generally recognized as interest income if the collectibility of the loan principal is fully expected and certain other criteria

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are met. Otherwise, payments received on nonaccrual loans are applied against the recorded investment in the loan asset. Nonaccrual loans may be returned to accrual status when principal and interest are current, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer should first be recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

The Bank and related Associations use a two-dimensional loan rating model based on an 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 probability of default categories carries a distinct percentage of default probability. 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 one and nine 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 "nine" 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.

The credit risk rating methodology is a key component of each Bank's and Association's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting

standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate to provide for probable and estimable losses inherent in the loan portfolios. The allowance for loan losses represents the aggregate of each System entity's individual evaluation of its allowance for loan losses requirements. Although aggregated in the combined financial statements, the allowance for loan losses of each System entity is particular to that institution and is not available to absorb losses realized by other System entities. The allowance is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs.

The allowance is based on a periodic evaluation of the loan portfolio in which numerous factors are considered, including economic conditions, collateral values, borrowers' financial conditions, loan portfolio composition and prior loan loss experience. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the System's loans and their underlying security that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from System institutions' expectations and predictions of those circumstances. Managements consider a number of factors in determining and supporting the levels of System institutions' allowances for loan losses, which include: the System's concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.

The allowance for loan losses includes components for loans individually evaluated for impairment, loans collectively evaluated for impairment and loans acquired with deteriorated credit quality. Generally, for loans individually evaluated the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, if the loan is col-

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lateral dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model.

Certain Banks and Associations have established a reserve for unfunded commitments that provides for potential losses related to unfunded commitments and is maintained at a level that is considered the best estimate of the amount required to absorb estimated probable losses related to these unfunded commitments. The reserve is determined using the same methodology used for the allowance for loan losses. The reserve for unfunded commitments is recorded as a liability in the Combined Statement of Condition.

Premises and Equipment

Premises and equipment are carried at cost, less accumulated depreciation and amortization, which is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expenses and improvements are capitalized.

Other Property Owned

Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at fair value less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in net gains (losses) on other property owned in the Combined Statement of Income.

Other Assets

In connection with past foreclosure and sale proceedings, some Banks and Associations acquired certain mineral interests and equity positions in land from which revenues are received in the form of lease bonuses, rentals and leasing and production

royalties. These intangible assets are recorded at nominal or no value in the Combined Statement of Condition. The Farm Credit Act requires that mineral rights acquired through foreclosure in 1986 and later years be sold to the buyer of the land surface rights.

Employee Benefit Plans

Substantially all employees of System institutions participate in various retirement plans. System institutions generally provide defined benefit or defined contribution retirement plans for their employees. For financial reporting purposes, System institutions use the projected unit credit actuarial method for defined benefit retirement plans.

The Banks and Associations provide certain healthcare and life insurance benefits to eligible retired employees. Employees of System institutions may become eligible for those benefits if they reach normal retirement age while working for the institution. The authoritative accounting guidance requires the accrual of the expected cost of providing postretirement benefits other than pensions (primarily healthcare benefits) to an employee and an employee's beneficiaries and covered dependents during the years that the employee renders service necessary to become eligible for these benefits.

Income Taxes

The Farm Credit Banks, certain Associations, and the income related to the Insurance Fund are exempt from federal and other income taxes as provided in the Farm Credit Act. CoBank, ACB, certain other Associations and service organizations are not exempt from federal and certain other income taxes. Taxable institutions are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue Code. Under specified conditions, these cooperatives can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. System institutions whose patronage distributions are based on book income recognize the tax effect of all temporary differences based on the assumption that these temporary differences are retained by the institution and

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will therefore impact future tax payments. Certain taxable System institutions have provided a valuation allowance for deferred tax assets to the extent that it is more likely than not that the deferred tax assets will not be realized.

Deferred income taxes have not been provided by the taxable Associations on pre-1993 (the adoption date of the FASB guidance on income taxes) earnings from their related Bank when management's intent is to permanently invest these undistributed earnings in the Bank and to indefinitely postpone their conversion to cash, or if distributed by the related Bank, to pass these earnings through to Association borrowers through qualified patronage allocations.

Deferred income taxes have not been provided for the Banks' post-1992 earnings allocated to taxable Associations to the extent that the earnings will be passed through to Association borrowers through qualified patronage allocations. No deferred income taxes have been provided for the Banks' post-1992 unallocated earnings. The Banks currently have no plans to distribute unallocated Bank earnings and do not contemplate circumstances that, if distributions were made, would result in taxes being paid at the Association level.

Derivative Products and Hedging Activity

The Banks are party to derivative financial products, primarily interest rate swaps, which are principally used to manage interest rate risk on assets, liabilities, anticipated transactions and firm commitments. Derivatives are recorded on the combined statement of condition as assets or liabilities, measured at fair value. Derivative contracts may be netted by counterparty pursuant to acceptable master netting arrangements.

Changes in the fair value of a derivative are recorded in current period earnings or accumulated other comprehensive income (loss) depending on the use of the derivative and whether it qualifies for hedge accounting. For fair-value hedge transactions, which hedge changes in the fair value of assets, liabilities, or firm commitments, changes in the fair value of the derivative are reflected in current period earnings and are generally offset by changes in the

hedged item's fair value. For cash-flow hedge transactions, which hedge the variability of future cash flows related to a floating-rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative are deferred and reported in accumulated other comprehensive income (loss). The gains and losses on the derivative that are deferred and reported in accumulated other comprehensive income (loss) are reclassified as earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges is recorded in current period earnings. For derivatives not designated as a hedging instrument, the related change in fair value is recorded in current period earnings.

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

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Fair Value Measurement

The fair value guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets. Also included in Level 1 are assets held in trust funds, which relate to deferred compensation and the supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace. Pension plan assets that are invested in equity securities, including mutual funds, and fixed-income securities that are actively traded are also included in Level 1.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (1) quoted prices for similar assets or liabilities in active markets; (2) quoted prices for identical or similar assets or liabilities in markets that are not active (3) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates and (4) inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. Treasury, other U.S. Government and agency mortgage-backed debt securities, corporate debt securities, and derivative contracts. The market value of collateral assets and liabilities is their face value, plus accrued interest, as these instruments are cash balances; therefore, fair value approximates face value. Pension plan assets that are derived from

observable inputs, including corporate bonds and mortgage-backed securities are reported in Level 2.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, asset-backed securities and certain mortgage-backed securities, highly structured or long-term derivative contracts, certain loans and other property owned. Pension plan assets such as certain mortgage-backed securities that are supported by little or no market data in determining the fair value are included in Level 3.

Merger Accounting

The FASB guidance on business combinations applies to all transactions in which an entity obtains control of one or more businesses. The guidance requires the acquirer to use the acquisition method of accounting and recognize assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at their fair values as of the acquisition date.

For System Banks and Associations, because the stock in each institution is fixed in value, the stock issued pursuant to the merger provides no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, the acquiring institution would identify and estimate the acquisition date fair value of the equity interests (net assets) of the acquired institution instead of the acquisition date fair value of the equity interests transferred as consideration. The fair value of the assets acquired,

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NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
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including specific intangible assets and liabilities assumed, are measured based on various estimates using assumptions that management believes are reasonable utilizing information currently available. The excess value received, by the acquiring institution from the acquired institution, over the par value of capital stock and participation certificates issued in the merger is considered to be additional paid-in capital.

Off-Balance-Sheet Credit Exposures

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

payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

NOTE 3 — INVESTMENTS

Available-for-Sale

The following is a summary of investments held by the Banks for maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk:

December 31, 2013					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	\$ 4,192	\$ 2	\$ (2)	\$ 4,192	0.29%
U.S. Treasury securities	8,123	5	(1)	8,127	0.62
U.S. agency securities	4,730	61	(60)	4,731	1.60
Mortgage-backed securities	24,549	288	(248)	24,589	1.69
Asset-backed securities	1,479	61	(15)	1,525	1.17
Total	<u>\$43,073</u>	<u>\$417</u>	<u>\$(326)</u>	<u>\$43,164</u>	1.32
December 31, 2012					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	\$ 3,085	\$ 1		\$ 3,086	0.39%
U.S. Treasury securities	5,993	6		5,999	0.87
U.S. agency securities	3,854	122	\$ (1)	3,975	1.73
Mortgage-backed securities	24,208	454	(93)	24,569	1.72
Asset-backed securities	1,227	53	(29)	1,251	1.35
Total	<u>\$38,367</u>	<u>\$636</u>	<u>\$(123)</u>	<u>\$38,880</u>	1.47

The System realized gross gains of \$8 million and no gross losses in 2013 and no gross gains or losses in 2012 from sales of investment securities.

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A summary of the fair value and amortized cost of investments available-for-sale at December 31, 2013 by contractual maturity is as follows:

	Due in 1 Year or Less		Due After 1 Year Through 5 Years		Due After 5 Years Through 10 Years		Due After 10 Years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	\$3,879		\$ 313						\$ 4,192	0.29%
U.S. Treasury securities	3,596		4,531						8,127	0.62
U.S. agency securities	2		3,491		\$249		\$ 989		4,731	1.60
Mortgage-backed securities			110		337		24,142		24,589	1.69
Asset-backed securities	1		685		59		780		1,525	1.17
Total fair value	<u>\$7,478</u>	0.38%	<u>\$9,130</u>	1.06%	<u>\$645</u>	1.88%	<u>\$25,911</u>	1.67%	<u>\$43,164</u>	1.32
Total amortized cost	<u>\$7,475</u>		<u>\$9,092</u>		<u>\$644</u>		<u>\$25,862</u>		<u>\$43,073</u>	

Substantially all mortgage-backed securities and most asset-backed securities have contractual maturities in excess of ten years. However, expected and actual maturities for these securities will typically be shorter than contractual maturities because borrowers generally have the right to prepay the underlying obligations with or without prepayment penalties.

The ratings of the eligible investments held for maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk must meet the applicable regulatory guidelines, which require securities to be high quality, and rated triple-A at the time of purchase, except for commercial paper and corporate securities. Commercial paper must have the highest short-term rating and corporate securities one of the two highest ratings at the time of purchase. U.S. Treasury securities, U.S. agency securities (except mortgage securities) and other obligations fully insured or guaranteed by the U.S., its agencies, instrumentalities and corporations are considered eligible investments under the Farm Credit Administrative regulations regardless of credit ratings.

If an investment no longer meets the credit rating criteria, the investment becomes ineligible. Under the Farm Credit Administration regulations in effect

through December 30, 2012, a Bank had to dispose of an investment that became ineligible within six months, unless the Farm Credit Administration approved, in writing, a plan that authorized the Bank to divest the instrument over a longer period of time. During 2012, the Farm Credit Administration did not require any Bank to dispose of an ineligible investment.

In 2012, the Farm Credit Administration promulgated an investment regulation, effective December 31, 2012. Under the revised regulations, if an investment is eligible when purchased but no longer satisfies the eligibility criteria, the Bank may continue to hold the investment, subject to meeting certain requirements.

System institutions perform analyses on these securities based on the expected behavior of the underlying loan collateral, whereby these loan performance scenarios are applied against each security's credit-support structure to monitor credit-enhancement sufficiency to protect the investment. The model output includes projected cash flows, including any shortfalls in the capacity of the underlying collateral to fully return the original investment, plus accrued interest.

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Held-to-Maturity Mission-Related and Other Investments

The Banks and Associations may hold mission-related and other investments. Mission-related programs and other mission-related investments are approved by the Farm Credit Administration. The following is a summary of held-to-maturity mission-related and other investments:

	December 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	\$ 192	\$ 9	\$ (5)	\$ 196	5.80%
Mortgage-backed securities	2,384	41	(51)	2,374	3.00
Asset-backed securities	238	6	(1)	243	2.32
Total	<u>\$2,814</u>	<u>\$56</u>	<u>\$(57)</u>	<u>\$2,813</u>	3.13

	December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	\$ 206	\$21		\$ 227	5.94%
Mortgage-backed securities	2,655	64	\$(33)	2,686	3.11
Asset-backed securities	314	6	(2)	318	1.96
Total	<u>\$3,175</u>	<u>\$91</u>	<u>\$(35)</u>	<u>\$3,231</u>	3.18

A summary of the fair value and amortized cost of mission-related and other investments that are held-to-maturity at December 31, 2013 by contractual maturity is as follows:

	Due in 1 Year or Less		Due After 1 Year Through 5 Years		Due After 5 Years Through 10 Years		Due After 10 Years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities			\$ 38		\$ 20		\$ 134		\$ 192	5.80%
Mortgage-backed securities	\$3		101		344		1,936		2,384	3.00
Asset-backed securities	1		83		122		32		238	2.32
Total amortized cost	<u>\$4</u>	1.87%	<u>\$222</u>	3.61%	<u>\$486</u>	2.69%	<u>\$2,102</u>	3.19%	<u>\$2,814</u>	3.13
Total fair value	<u>\$4</u>		<u>\$227</u>		<u>\$496</u>		<u>\$2,086</u>		<u>\$2,813</u>	

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Available-for-Sale Mission-Related and Other Investments

The following is a summary of available-for-sale mission-related and other investments:

	December 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	\$ 42	\$1	\$(2)	\$ 41	6.04%
Mortgage-backed securities	428	5	(6)	427	2.71
Asset-backed securities	4	—	—	4	4.05
Total	<u>\$474</u>	<u>\$6</u>	<u>\$(8)</u>	<u>\$472</u>	3.01

	December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	\$ 47	\$ 6		\$ 53	5.96%
Mortgage-backed securities	500	6	\$(3)	503	2.55
Asset-backed securities	5	—	—	5	3.78
Total	<u>\$552</u>	<u>\$12</u>	<u>\$(3)</u>	<u>\$561</u>	2.88

A summary of the fair value and amortized cost of mission-related and other investments that are available-for-sale at December 31, 2013 by contractual maturity is as follows:

	Due After 1 Year Through 5 Years		Due After 10 Years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	\$ 1		\$ 40		\$ 41	6.04%
Mortgage-backed securities	97		330		427	2.71
Asset-backed securities	—		4		4	4.05
Total fair value	<u>\$ 98</u>	4.30%	<u>\$374</u>	2.67%	<u>\$472</u>	3.01
Total amortized cost	<u>\$102</u>		<u>\$372</u>		<u>\$474</u>	

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Other-Than-Temporarily Impaired Investments Evaluation

The following tables show the gross unrealized losses and fair value of the System's available-for-sale, and mission-related and other investment securities that have been in a continuous unrealized loss

position. An investment is considered impaired if its fair value is less than its cost. The continuous loss position is based on the date the impairment was first identified.

	Less Than 12 Months		12 Months or More	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2013				
Commercial paper, bankers' acceptances, certificates of deposit and other securities	\$ 1,591	\$ (7)	\$ 31	\$ (2)
U.S. Treasury securities	931	(1)		
U.S. agency securities	3,395	(60)		
Mortgage-backed securities	9,524	(185)	2,966	(120)
Asset-backed securities	732	(2)	223	(14)
Total	<u>\$16,173</u>	<u>\$(255)</u>	<u>\$3,220</u>	<u>\$(136)</u>

	Less Than 12 Months		12 Months or More	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2012				
U.S. agency securities	\$ 218	\$ (1)		
Mortgage-backed securities	2,462	(27)	\$2,591	\$(102)
Asset-backed securities	294	(2)	202	(29)
Total	<u>\$2,974</u>	<u>\$(30)</u>	<u>\$2,793</u>	<u>\$(131)</u>

As more fully discussed in Note 2, the guidance for other-than-temporary impairment contemplates numerous factors in determining whether an impairment is other-than-temporary including: (1) whether or not an entity intends to sell the security, (2) whether it is more likely than not that an entity would be required to sell the security before recovering its costs, or (3) whether or not an entity expects to recover the security's entire amortized cost basis (even if it does not intend to sell).

System institutions perform an evaluation quarterly on a security-by-security basis considering all available information. If a Bank or Association 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 a Bank or Association does not intend to sell securities in an unrealized loss position, other-than-temporary impairment is considered using various factors,

including the length of time and the extent to which the fair value is less than cost, adverse conditions specifically related to the industry, geographic area and the condition of the underlying collateral, payment structure of the security, ratings by rating agencies, the creditworthiness of bond insurers and volatility of the fair value changes. A Bank or Association uses estimated cash flows over the remaining lives of the underlying collateral to assess whether credit losses exist. In estimating cash flows, it considers factors such as expectations of relevant market and economic data, including underlying loan level data for mortgage-backed and asset-backed securities and credit enhancements.

For impaired investments, a Bank or Association estimates the portion of the loss that is attributable to credit losses using a discounted cash flow model on a security-by-security basis. The various models require key assumptions related to the underlying collateral, including default rates, degree and

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timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as interest rate, geographical location of the borrower, borrower characteristics and collateral type. Default rate assumptions are generally estimated using historical loss and performance information to estimate future defaults and

prepayment rate assumptions are based on historical and projected prepayment rates. The Banks obtain the loss severity assumptions from independent third parties or through research using available data on the underlying collateral type from sources including broker/dealers and rating agencies. The following are the assumptions used at:

<u>Assumptions Used</u>	December 31, 2013	
	<u>Mortgage-backed Securities</u>	<u>Asset-backed Securities</u>
Default rate by range	0.0% - 46.4%	0.0% - 61.9%
Prepayment rate by range	1.0% - 26.0%	0.0% - 31.1%
Loss severity by range	4.2% - 92.3%	55.9% - 100.0%

<u>Assumptions Used</u>	December 31, 2012	
	<u>Mortgage-backed Securities</u>	<u>Asset-backed Securities</u>
Default rate by range	0.0% - 32.6%	2.0% - 57.9%
Prepayment rate by range	0.8% - 22.0%	2.0% - 17.6%
Loss severity by range	3.9% - 74.3%	41.7% - 100.0%

The following table presents a rollforward of the credit loss component recognized in earnings on debt securities still owned by System institutions (referred to as “credit impaired” securities). As mentioned above, the credit loss component of the amortized cost represents the difference between the present value of expected future cash flows and the amortized cost basis of the security prior to considering credit losses. Other-than-temporary impairment recognized in earnings for credit-impaired securities is presented as additions in two components depending on whether or not the impairment is being recognized for the first time (initial credit impairment) or is not the first time for the security (subsequent credit impairment). The credit loss component is reduced if System institutions sell, intend to sell, or believe it will be required to sell previously credit-impaired debt securities. In addition, the credit loss component is reduced if System institutions receive or expect to receive cash flows in excess of what we previously expected to receive over the remaining life of the security, the security matures or is fully written down. Changes in the credit loss component of credit-impaired debt securities were as follows:

	For the Year Ended December 31,	
	2013	2012
Credit loss component, beginning of period	\$320	\$281
Additions:		
Initial credit impairment	6	14
Subsequent credit impairments	5	33
Reductions:		
For securities sold/settled	(6)	(5)
For increases in expected cash flows	(6)	(3)
Credit loss component, end of period	<u>\$319</u>	<u>\$320</u>

NOTE 4 — LOANS AND ALLOWANCE FOR LOAN LOSSES

The System is limited by statute to providing credit and related services nationwide to farmers, ranchers, producers and harvesters of aquatic products, rural homeowners, certain farm-related businesses, agricultural and aquatic cooperatives (or to other entities for the benefit of the cooperatives) and their customers, rural utilities, other eligible borrowers, and entities engaging in certain agricultural

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export finance transactions. Accordingly, the borrowers' abilities to perform in accordance with their loan contracts are generally dependent upon the performance of the agricultural economic sector. While the amounts in the following table represent the maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the System's lending activities is collateralized, which reduces the exposure to credit risk associated with the activities.

Loans outstanding by portfolio segment and class consisted of the following:

	December 31,	
	2013	2012
Real estate mortgage loans	\$ 94,194	\$ 88,263
Production and intermediate-term loans	45,412	43,861
Agribusiness loans:		
Loans to cooperatives	11,560	12,769
Processing and marketing loans . . .	12,729	11,483
Farm-related business loans	2,953	2,838
Energy and water/waste water loans	15,473	14,525
Rural residential real estate loans . . .	6,557	6,210
Agricultural export finance	4,588	4,674
Communication loans	4,142	4,177
Lease receivables	2,706	2,415
Loans to other financing institutions	746	689
Total loans	<u>\$201,060</u>	<u>\$191,904</u>

Approximately 40% of the loan volume at December 31, 2013 and 2012 contained terms under which the interest rate on the outstanding balance may be adjusted from time-to-time during the term of the loan. These floating-rate loans are comprised of administered-rate loans that may be adjusted at the discretion of the lending institution and indexed/adjustable loans that are periodically adjusted based on changes in specified indices. Fixed-rate loans comprised the remaining 60% of loans outstanding at December 31, 2013 and 2012.

As of December 31, 2013 and 2012, 57% and 75% of the loans made in connection with the financing of U.S. agricultural exports were guaranteed through the United States Department of Agriculture's Commodity Credit Corporation.

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

	2013	2012	2011
Real estate mortgage			
Acceptable	95.8%	94.5%	92.1%
OAEM	1.8	2.2	3.7
Substandard/doubtful	2.4	3.3	4.2
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Production and intermediate-term			
Acceptable	94.3	93.2	90.6
OAEM	2.7	2.7	4.5
Substandard/doubtful	3.0	4.1	4.9
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Agribusiness			
Acceptable	95.0	93.0	91.7
OAEM	2.8	3.5	5.1
Substandard/doubtful	2.2	3.5	3.2
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Energy and water/waste water			
Acceptable	98.8	98.4	98.4
OAEM	0.3	0.5	1.0
Substandard/doubtful	0.9	1.1	0.6
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Rural residential real estate			
Acceptable	97.2	96.7	96.3
OAEM	0.7	0.8	0.9
Substandard/doubtful	2.1	2.5	2.8
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Agricultural export finance			
Acceptable	100.0	100.0	100.0
OAEM	0.0	0.0	0.0
Substandard/doubtful	0.0	0.0	0.0
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Communication			
Acceptable	94.1	94.5	95.7
OAEM	2.1	2.4	2.4
Substandard/doubtful	3.8	3.1	1.9
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Lease receivables			
Acceptable	97.7	97.2	95.1
OAEM	1.2	1.3	2.9
Substandard/doubtful	1.1	1.5	2.0
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Loans to other financing institutions			
Acceptable	100.0	100.0	100.0
OAEM	0.0	0.0	0.0
Substandard/doubtful	0.0	0.0	0.0
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Total Loans			
Acceptable	95.8	94.5	92.6
OAEM	1.9	2.3	3.6
Substandard/doubtful	2.3	3.2	3.8
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

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NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
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Impaired loans (which consist of nonaccrual loans, accruing restructured loans and accruing loans 90 days or more past due) are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the

loan. The following tables present information concerning impaired loans and include both the principal outstanding and the related accrued interest receivable on these loans.

	December 31,		
	2013	2012	2011
Nonaccrual loans:			
Current as to principal and interest	\$1,015	\$1,238	\$1,447
Past due	721	1,062	1,291
Total nonaccrual loans	<u>1,736</u>	<u>2,300</u>	<u>2,738</u>
Impaired accrual loans:			
Restructured accrual loans	286	271	214
Accrual loans 90 days or more past due	18	37	45
Total impaired accrual loans	<u>304</u>	<u>308</u>	<u>259</u>
Total impaired loans	<u>\$2,040</u>	<u>\$2,608</u>	<u>\$2,997</u>

The following table reflects nonperforming assets (which consist of impaired loans and other property owned) in a more detailed manner than the previous table. In addition, certain related credit quality statistics are included below:

	December 31,		
	2013	2012	2011
Nonaccrual loans:			
Real estate mortgage	\$ 930	\$1,234	\$1,448
Production and intermediate-term	538	666	883
Agribusiness	77	206	227
Energy and water/waste water	26	26	9
Rural residential real estate	65	76	95
Communication	94	86	60
Lease receivables	6	6	16
Total nonaccrual loans	<u>1,736</u>	<u>2,300</u>	<u>2,738</u>
Accruing restructured loans:			
Real estate mortgage	176	157	112
Production and intermediate-term	95	94	56
Agribusiness	8	14	41
Energy and water/waste water	3	3	3
Rural residential real estate	4	3	2
Total accruing restructured loans	<u>286</u>	<u>271</u>	<u>214</u>
Accruing loans 90 days or more past due:			
Real estate mortgage	9	20	15
Production and intermediate-term	6	14	20
Agribusiness	1		4
Rural residential real estate	2	3	6
Total accruing loans 90 days or more past due	<u>18</u>	<u>37</u>	<u>45</u>
Total nonperforming loans	<u>2,040</u>	<u>2,608</u>	<u>2,997</u>
Other property owned	<u>198</u>	<u>324</u>	<u>458</u>
Total nonperforming assets	<u>\$2,238</u>	<u>\$2,932</u>	<u>\$3,455</u>

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

	December 31,		
	2013	2012	2011
Nonaccrual loans as a percentage of total loans	0.86%	1.20%	1.57%
Nonperforming assets as a percentage of total loans and other property owned	1.11	1.53	1.97
Nonperforming assets as a percentage of capital	5.25	7.59	9.61

Commitments to lend additional funds to debtors whose loans were classified as impaired were \$55 million and \$99 million at December 31, 2013 and 2012.

Additional impaired loan information by class is as follows:

	December 31, 2013			December 31, 2012		
	Recorded Investment*	Unpaid Principal Balance**	Related Allowance	Recorded Investment*	Unpaid Principal Balance**	Related Allowance
Impaired loans with a related allowance for loan losses:						
Real estate mortgage	\$ 277	\$ 322	\$ 58	\$ 336	\$ 409	\$ 85
Production and intermediate-term	245	317	77	353	512	138
Loans to cooperatives	3	5	2	4	6	2
Processing and marketing	30	37	11	98	99	46
Farm-related business	9	14	2	18	23	6
Energy and water/waste water	26	28	16	26	27	14
Rural residential real estate	18	21	5	22	28	6
Communication	84	88	21	77	81	24
Lease receivables	1	1	1	2	2	2
Total	<u>693</u>	<u>833</u>	<u>193</u>	<u>936</u>	<u>1,187</u>	<u>323</u>
Impaired loans with no related allowance for loan losses:						
Real estate mortgage	838	1,051		1,075	1,246	
Production and intermediate-term	394	590		421	685	
Loans to cooperatives	3	5		2	7	
Processing and marketing	36	76		87	148	
Farm-related business	8	22		11	24	
Energy and water/waste water	3	26		3	33	
Rural residential real estate	53	69		60	73	
Communication	10	11		9	11	
Lease receivables	5	6		4	4	
Total	<u>1,347</u>	<u>1,856</u>		<u>1,672</u>	<u>2,231</u>	
Total impaired loans:						
Real estate mortgage	1,115	1,373	58	1,411	1,655	85
Production and intermediate-term	639	907	77	774	1,197	138
Loans to cooperatives	3	10	2	6	13	2
Processing and marketing	66	113	11	185	247	46
Farm-related business	17	36	2	29	47	6
Energy and water/waste water	29	54	16	29	60	14
Rural residential real estate	71	90	5	82	101	6
Communication	94	99	21	86	92	24
Lease receivables	6	7	1	6	6	2
Total	<u>\$2,040</u>	<u>\$2,689</u>	<u>\$193</u>	<u>\$2,608</u>	<u>\$3,418</u>	<u>\$323</u>

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

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

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
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	For the Year Ended			
	December 31, 2013		December 31, 2012	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:				
Real estate mortgage	\$ 306	\$ 3	\$ 351	\$ 4
Production and intermediate-term	284	4	398	4
Loans to cooperatives	6		5	4
Processing and marketing	59	1	79	1
Farm-related business	13		27	
Energy and water/waste water	31		10	
Rural residential real estate	20		23	
Communication	73		37	
Lease receivables	1		3	
Total	<u>793</u>	<u>8</u>	<u>933</u>	<u>13</u>
Impaired loans with no related allowance for loan losses:				
Real estate mortgage	1,017	51	1,154	42
Production and intermediate-term	443	25	502	24
Loans to cooperatives			11	3
Processing and marketing	62	4	104	14
Farm-related business	23	2	19	1
Energy and water/waste water	3		5	
Rural residential real estate	57	3	67	3
Communication	11	3	26	2
Lease receivables	7		6	
Total	<u>1,623</u>	<u>88</u>	<u>1,894</u>	<u>89</u>
Total impaired loans:				
Real estate mortgage	1,323	54	1,505	46
Production and intermediate-term	727	29	900	28
Loans to cooperatives	6		16	7
Processing and marketing	121	5	183	15
Farm-related business	36	2	46	1
Energy and water/waste water	34		15	
Rural residential real estate	77	3	90	3
Communication	84	3	63	2
Lease receivables	8		9	
Total	<u>\$2,416</u>	<u>\$96</u>	<u>\$2,827</u>	<u>\$102</u>

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

The following table provides an aging analysis of past due loans (including accrued interest) by portfolio segment:

	December 31, 2013					
	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$299	\$299	\$ 598	\$ 94,486	\$ 95,084	\$ 9
Production and intermediate-term	160	198	358	45,480	45,838	6
Agribusiness	8	29	37	27,303	27,340	1
Energy and water/waste water				15,534	15,534	
Rural residential real estate	82	19	101	6,484	6,585	2
Agricultural export finance				4,598	4,598	
Communication		64	64	4,085	4,149	
Lease receivables	6	2	8	2,699	2,707	
Loans to other financing institutions	4		4	744	748	
Total	<u>\$559</u>	<u>\$611</u>	<u>\$1,170</u>	<u>\$201,413</u>	<u>\$202,583</u>	<u>\$18</u>

	December 31, 2012					
	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$367	\$516	\$ 883	\$ 88,221	\$ 89,104	\$20
Production and intermediate-term	162	270	432	43,852	44,284	14
Agribusiness	54	95	149	27,042	27,191	
Energy and water/waste water				14,582	14,582	
Rural residential real estate	88	30	118	6,120	6,238	3
Agricultural export finance				4,686	4,686	
Communication		5	5	4,179	4,184	
Lease receivables	10	3	13	2,403	2,416	
Loans to other financing institutions				691	691	
Total	<u>\$681</u>	<u>\$919</u>	<u>\$1,600</u>	<u>\$191,776</u>	<u>\$193,376</u>	<u>\$37</u>

Interest income on nonaccrual and accruing restructured loans that would have been recorded if the loans had been current in accordance with their original terms:

	December 31, 2013	December 31, 2012
Interest income that would have been recognized under original terms	\$138	\$ 214
Less: interest income recognized	<u>(93)</u>	<u>(100)</u>
Interest income not recognized	<u>\$ 45</u>	<u>\$ 114</u>

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
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A summary of changes in the allowance for loan losses and the recorded investment for loans outstanding by portfolio segment follows:

	Real estate mortgage	Production and intermediate- term	Agribusiness	Energy and water/ waste water	Rural residential real estate	Agricultural export finance	Communications	Lease receivables	Loans to OFIs	Total
Allowance for Loan Losses:										
Balance at December 31, 2012	\$ 307	\$ 424	\$ 359	\$ 116	\$ 22	\$ 6	\$ 73	\$ 35	\$ 1	\$ 1,343
Charge-offs	(59)	(81)	(40)	(1)	(8)			(1)		(190)
Recoveries	27	80	16		1	1	1	2		128
Provision for loan losses (loan loss reversal)	36	(43)	(40)	8	7	1	(1)	1		(31)
Other*	(1)	(5)	(3)	(1)			(2)			(12)
Balance at December 31, 2013	\$ 310	\$ 375	\$ 292	\$ 122	\$ 22	\$ 8	\$ 71	\$ 37	\$ 1	\$ 1,238
Balance at December 31, 2011	\$ 332	\$ 429	\$ 333	\$ 85	\$ 21	\$ 12	\$ 52	\$ 25	\$ 1	\$ 1,290
Charge-offs	(118)	(157)	(24)	(9)	(10)		(2)	(3)		(323)
Recoveries	29	38	10			1	2	7		87
Provision for loan losses (loan loss reversal)	71	115	35	63	11	(8)	20	6		313
Adjustment due to merger	(3)	(4)	(1)							(8)
Other*	(4)	3	6	(23)		1	1			(16)
Balance at December 31, 2012	\$ 307	\$ 424	\$ 359	\$ 116	\$ 22	\$ 6	\$ 73	\$ 35	\$ 1	\$ 1,343
Ending Balance at December 31, 2013:										
Individually evaluated for impairment	\$ 58	\$ 77	\$ 16	\$ 16	\$ 5		\$ 20	\$ 2		\$ 194
Collectively evaluated for impairment	252	297	276	106	17	\$ 8	51	35	\$ 1	1,043
Loans acquired with deteriorated credit quality		1								1
Balance at December 31, 2013	\$ 310	\$ 375	\$ 292	\$ 122	\$ 22	\$ 8	\$ 71	\$ 37	\$ 1	\$ 1,238
Ending Balance at December 31, 2012:										
Individually evaluated for impairment	\$ 83	\$ 138	\$ 56	\$ 14	\$ 6		\$ 24	\$ 2		\$ 323
Collectively evaluated for impairment	223	285	303	102	16	\$ 6	49	33	\$ 1	1,018
Loans acquired with deteriorated credit quality	1	1								2
Balance at December 31, 2012	\$ 307	\$ 424	\$ 359	\$ 116	\$ 22	\$ 6	\$ 73	\$ 35	\$ 1	\$ 1,343
Recorded Investments in Loans Outstanding:										
Ending balance at December 31, 2013:										
Loans individually evaluated for impairment	\$ 1,347	\$ 712	\$ 124	\$ 27	\$ 2,374	\$ 1	\$ 95	\$ 9	\$ 51	\$ 4,740
Loans collectively evaluated for impairment	93,728	45,121	27,216	15,507	4,211	4,597	4,054	2,698	697	197,829
Loans acquired with deteriorated credit quality	9	5								14
Balance at December 31, 2013	\$95,084	\$45,838	\$27,340	\$15,534	\$6,585	\$4,598	\$4,149	\$2,707	\$748	\$202,583
Ending balance at December 31, 2012:										
Loans individually evaluated for impairment	\$ 1,676	\$ 790	\$ 259	\$ 29	\$ 2,250	\$ 1	\$ 89	\$ 9		\$ 5,103
Loans collectively evaluated for impairment	87,408	43,486	26,932	14,553	3,987	4,685	4,095	2,407	\$691	188,244
Loans acquired with deteriorated credit quality	20	8			1					29
Balance at December 31, 2012	\$89,104	\$44,284	\$27,191	\$14,582	\$6,238	\$4,686	\$4,184	\$2,416	\$691	\$193,376

* Represents reclassifications between the allowance for loan losses and the reserve for unfunded commitments as a result of advances on or repayments of seasonal lines of credit or other loans.

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NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
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A restructuring of a loan constitutes a troubled debt restructuring, also known as formally restructured, 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. Concessions vary by program and are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or

the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. When a restructured loan constitutes a troubled debt restructuring, these loans are included within our risk loans under nonaccrual or accruing restructured loans. All risk loans are analyzed within our allowance for loan losses.

The following table presents additional information regarding loans restructured as troubled debt restructuring that occurred during the past three years:

	For the Year Ended December 31, 2013		For the Year Ended December 31, 2012		For the Year Ended December 31, 2011	
	Pre-modification Outstanding Recorded Investment*	Post- modification Outstanding Recorded Investment*	Pre-modification Outstanding Recorded Investment*	Post- modification Outstanding Recorded Investment*	Pre-modification Outstanding Recorded Investment*	Post- modification Outstanding Recorded Investment*
Troubled debt restructurings:						
Real estate mortgage	\$133	\$126	\$174	\$168	\$187	\$187
Production and intermediate-term	128	122	150	147	269	258
Agribusiness	13	9	33	33	115	115
Rural residential real estate	6	5	3	3	4	4
Communication	72	72				
Total	<u>\$352</u>	<u>\$334</u>	<u>\$360</u>	<u>\$351</u>	<u>\$575</u>	<u>\$564</u>

* Pre-modification represents the recorded investment just prior to restructuring and post-modification represents the recorded investment immediately following the restructuring. The recorded investment is the face amount of the receivable 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.

The following table presents information regarding troubled debt restructurings that occurred within the previous 12 months and for which there was a payment default during the period:

	Recorded Investment at December 31, 2013	Recorded Investment at December 31, 2012	Recorded Investment at December 31, 2011
Troubled debt restructurings that subsequently defaulted:			
Real estate mortgage	\$ 9	\$19	\$56
Production and intermediate-term	1	8	29
Agribusiness		1	
Rural residential real estate	1	1	1
Total	<u>\$11</u>	<u>\$29</u>	<u>\$86</u>

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

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

	Loans Modified as Troubled Debt Restructurings		Troubled Debt Restructurings in Nonaccrual Status*	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Real estate mortgage	\$404	\$359	\$228	\$202
Production and intermediate-term	260	284	165	190
Agribusiness	32	60	24	46
Energy and water/waste water	3	3		
Rural residential real estate	10	8	6	5
Communication	68		68	
Total	<u>\$777</u>	<u>\$714</u>	<u>\$491</u>	<u>\$443</u>

* Represents the portion of loans modified as troubled debt restructurings (first column) that are in nonaccrual status.

Additional commitments to lend to borrowers whose loans have been modified in troubled debt restructurings was \$12.9 million and \$40.4 million at December 31, 2013 and 2012.

NOTE 5 — PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31,	
	2013	2012
Land, buildings and improvements	\$ 955	\$ 856
Furniture and equipment	642	612
	1,597	1,468
Less: accumulated depreciation ..	(702)	(669)
	<u>\$ 895</u>	<u>\$ 799</u>

NOTE 6 — OTHER ASSETS AND OTHER LIABILITIES

Other assets consisted of the following:

	December 31,	
	2013	2012
Equipment held for lease	\$1,121	\$1,006
Interest rate swaps and other derivatives	776	1,117
Accounts receivable	197	167
Tobacco contracts receivables	158	307
Assets held in non-qualified benefits trusts	132	112
Unamortized debt issue costs	120	136
Equity investments in other System institutions	89	85
Prepaid expenses	63	60
Pension assets	28	1
Net deferred tax assets	20	15
Other	55	80
Total	<u>\$2,759</u>	<u>\$3,086</u>

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NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
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Other liabilities consisted of the following:

	December 31,	
	2013	2012
Patronage and dividends payable . . .	\$ 961	\$ 860
Pension and other postretirement benefit plan liabilities	938	1,409
Accounts payable	494	379
Collateral held from derivative counterparties	451	578
Net deferred tax liabilities	422	383
Reserve for unfunded commitments	206	194
Accrued salaries and employee benefits	195	189
Interest rate swaps and other derivatives	120	175
Bank drafts payable	106	112
Liabilities held in non-qualified benefit trusts	92	69
Protected borrower stock	1	2
Other	273	269
Total	<u>\$4,259</u>	<u>\$4,619</u>

Substantially all derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of credit with exposure are reached by one of the counterparties to the other. For derivative transactions that are cleared through a futures commission merchant with a clearinghouse or central counterparty, the bilateral swap is divided into two separate swaps with the clearinghouse or central counterparty becoming the counterparty to both of the initial parties to the swap.

As part of the “Fair and Equitable Tobacco Reform Act of 2004,” tobacco producers are to receive 10 equal payments over 10 years under a contract with the Secretary of Agriculture. Certain Associations have entered into successor-in-interest contracts with tobacco producers. Under the contracts, the Associations have paid the producers a lump sum and have received the rights to the remaining contract payments.

Reserve for unfunded commitments provides for potential losses related to unfunded commitments.

This reserve is determined using the same methodology as used for our allowance for loan losses.

Protection of certain borrower stock is provided under the Farm Credit Act, which requires System institutions, when retiring protected borrower stock, to retire the stock at par or stated value regardless of its book value. Protected borrower stock includes participation certificates and allocated equities that were outstanding as of January 6, 1988, or that were issued or allocated prior to October 6, 1988. If a System institution is unable to retire protected borrower stock at par or stated value due to the liquidation of the institution, amounts required to retire protected borrower stock would be obtained from the Insurance Fund, as discussed in Note 7. As a result of the borrower capital protection mechanisms contained in the Farm Credit Act, the at-risk characteristics necessary for such protected borrower stock to be classified as permanent equity have been substantially reduced. Accordingly, at December 31, 2013 and 2012, \$1 million and \$2 million of protected borrower stock has been classified as a liability in the accompanying Combined Statement of Condition.

NOTE 7 — FARM CREDIT INSURANCE FUND

The assets in the Insurance Fund are designated as restricted assets and the related capital is designated as restricted capital. The classification of the Insurance Fund as restricted assets (and as restricted capital) in the System’s combined financial statements is based on the statutory requirement that the amounts in the Insurance Fund are to be used solely for the purposes specified in the Farm Credit Act, all of which benefit System institutions. The Insurance Fund is under the direct control of the Insurance Corporation, an independent U.S. government-controlled corporation, and not under the control of any System institution. A board of directors consisting of the Farm Credit Administration Board directs the Insurance Corporation.

The Insurance Corporation’s primary asset is the Insurance Fund and the primary sources of funds for the Insurance Fund are:

- premiums paid by the Banks, which may be passed on to the Associations, and

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(dollars in millions, except as noted)

- earnings on assets in the Insurance Fund.

Premiums will be due until the assets in the Insurance Fund for which no specific use has been identified or designated reach the “secure base amount,” which is defined in the Farm Credit Act as 2% of the aggregate outstanding insured obligations (adjusted to reflect the System’s reduced risk on loans and investments guaranteed by federal or state governments) or such other percentage of the aggregate outstanding insured obligations as the Insurance Corporation, in its sole discretion, determines to be actuarially sound.

The Insurance Corporation is required to expend funds in the Insurance Fund to:

- insure the timely payment of principal and interest on Systemwide Debt Securities, and
- ensure the retirement of protected borrower stock at par value.

The Insurance Corporation is authorized to use the Insurance Fund to cover its operating costs. Subject to the “least-cost determination” described below, the Insurance Corporation is authorized, in its sole discretion, to expend amounts in the Insurance Fund to:

- provide assistance to a financially stressed Bank or Association,
- make loans on the security of, or may purchase, and liquidate or sell, any part of the assets of any Bank or Association that is placed in receivership because of the inability of the institution to pay the principal or interest on any of its notes, bonds, debentures, or other obligations in a timely manner, or
- provide assistance to qualified merging institutions.

The Insurance Corporation cannot provide discretionary assistance to an eligible institution as described above unless the means of providing the assistance is the least costly means of all possible alternatives available to the Insurance Corporation. The alternatives may include liquidation of the eligible institution (taking into account, among other factors, payment of the insured obligations issued on behalf of the institution).

In the event a Bank is unable to pay on a timely basis an insured debt obligation for which that Bank is primarily liable, the Insurance Corporation must expend amounts in the Insurance Fund to the extent available to insure the timely payment of principal and interest on the 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 Insurance Fund is 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 principal or interest on the insured debt obligation. The insurance provided through use of the Insurance Fund is not an obligation of and is not a guarantee by the U.S. government.

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

As of December 31, 2013, the assets in the Insurance Fund aggregated \$3.496 billion for which no specific use has been identified or designated by the Insurance Corporation. At December 31, 2013, assets in the Insurance Fund consisted of cash and cash equivalents, which includes investments in U.S. Treasury obligations with original maturities of 90 days or less, of \$249 million, investments of \$3.060 billion, accrued interest receivable of \$13 million and premiums receivable from System institutions of \$174 million accrued on the basis of adjusted outstanding insured debt at December 31, 2013.

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NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

If at the end of any calendar year, the aggregate amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, as necessary, to maintain the Insurance Fund at the 2% level. In addition, the Insurance Corporation is required to establish Allocated Insurance Reserves Accounts for each Bank

and for former Farm Credit System Financial Assistance Corporation stockholders. At December 31, 2013, 2012 and 2011, the secure base amount was 1.94%, 1.93% and 2.14%. The Insurance Corporation distributed \$222 million to System institutions in early 2012, as the secure base amount at December 31, 2011 exceeded the 2% level.

At December 31, 2013 and 2012, the investments in the Insurance Fund, which are classified as restricted assets, and are carried at amortized cost, consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2013:				
U.S. Treasury obligations	\$3,060	\$12	\$(13)	\$3,059
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2012:				
U.S. Treasury obligations	\$3,196	\$42	\$(1)	\$3,237

The amortized cost and fair value at December 31, 2013 by contractual maturity were as follows:

	Amortized Cost	Fair Value
Due in one year or less	\$ 723	\$ 727
Due one year through five years	1,998	2,004
Due after five years through ten years	339	328
	<u>\$3,060</u>	<u>\$3,059</u>

NOTE 8 — SHORT-TERM BORROWINGS

The System uses short-term borrowings as a source of funds. The following table shows short-term borrowings by category:

	2013		2012		2011	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
Systemwide discount notes:						
Outstanding at December 31	\$18,637	0.09%	\$14,548	0.17%	\$13,640	0.15%
Average during year	15,966	0.15	14,959	0.17	17,680	0.23
Maximum month-end balance during year	18,637		15,960		21,525	
Systemwide bonds(1):						
Outstanding at December 31	10,513	0.27	10,438	0.29	5,989	0.30
Average during year	11,318	0.28	9,053	0.36	6,426	0.34
Maximum month-end balance during year	11,929		10,438		7,592	

(1) Represents bonds issued with a maturity of one year or less.

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NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

NOTE 9 — SYSTEMWIDE DEBT SECURITIES AND OTHER BONDS

Aggregate maturities and the weighted average interest rate of Systemwide Debt Securities were as follows at December 31, 2013:

	Bonds		Medium-term notes		Discount notes		Total	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
2014	\$ 51,488	0.42%	\$ 7	8.20%	\$18,637	0.09%	\$ 70,132	0.33%
2015	48,004	0.44	8	6.93			48,012	0.44
2016	26,158	0.65	16	6.30			26,174	0.65
2017	15,955	1.15					15,955	1.15
2018	10,269	1.55					10,269	1.55
2019 and thereafter	36,828	2.61	119	5.87			36,947	2.62
Total	<u>\$188,702</u>	1.01	<u>\$150</u>	6.08	<u>\$18,637</u>	0.09	<u>\$207,489</u>	0.93

Included in Systemwide Debt Securities are callable debt issues consisting of the following:

Year of Maturity	Amount	Range of Next Call Dates
2014	\$ 1,067	January 2014
2015	6,989	January 2014 - December 2014
2016	9,220	January 2014 - December 2014
2017	8,863	January 2014 - December 2014
2018	7,337	January 2014 - December 2014
2019 and thereafter	23,017	January 2014 - March 2018
Total	<u>\$56,493</u>	

The average maturity of Systemwide discount notes at December 31, 2013 and 2012 was 3.2 months and 4.0 months. Pursuant to authorizations by the Farm Credit Administration, the maximum amount of Systemwide discount notes, medium-term notes and global debt securities that Banks in the aggregate may have outstanding at any one time is currently \$60 billion, \$40 billion and \$5 billion. There is no limit on the amount of Systemwide bonds that may be outstanding at any one time.

Systemwide Debt Securities are the joint and several obligations of the Banks. Payments of principal and interest to the holders of Systemwide Debt Securities with an outstanding balance aggregating \$207.489 billion at December 31, 2013 are insured by amounts held in the Insurance Fund as described in Note 7.

Certain other bonds are debt issued directly by individual Banks and are the obligations solely of the issuing Bank. Payments on other bonds are not insured by the Farm Credit Insurance Corporation. The aggregate amount of bonds issued directly by the Banks was \$3.215 billion at December 31, 2013 and \$2.399 billion at December 31, 2012. All of these bonds mature in the following year, and had a weighted average interest rate of 0.08% for 2013 and 2012.

The Farm Credit Act and Farm Credit Administration regulations require each Bank to maintain specified eligible assets at least equal in value to the total amount of debt securities outstanding for which it is primarily liable as a condition for participation in the issuance of Systemwide Debt Securities. Each Bank was in compliance with these requirements as

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
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of December 31, 2013. At December 31, 2013, the combined Banks had specified eligible assets of \$227.6 billion, as compared with \$211.3 billion of Systemwide Debt Securities and other bonds and accrued interest payable at that date. The specified eligible asset requirement does not provide holders of the securities with a security interest in any assets of the Banks.

Farm Credit Administration regulations provide that, in the event a Bank is placed in liquidation, holders of Systemwide Debt Securities have claims against the Bank's assets, whether or not these holders file individual claims. Under these regulations, the claims of these holders are junior to claims relating to costs incurred by the receiver in connection with the administration of the receivership, claims for taxes, claims of secured creditors and claims of holders of bonds issued by the Bank individually to the extent such bonds are collateralized in accordance with the requirements of the Farm Credit Act. These regulations further provide that the claims of holders of Systemwide Debt Securities are senior to all claims of general creditors.

Amounts paid to dealers in connection with the sale of Systemwide Debt Securities are deferred and amortized to interest expense using the straight-line method (which approximates the interest method) over the term of the related indebtedness.

NOTE 10 — SUBORDINATED DEBT

The following table sets forth each issuance of subordinated debt outstanding as of December 31, 2013:

Institution	Issue Date	Amount	General Terms
AgriBank	July 2009	\$ 500	9.125% unsecured subordinated notes due in 2019
Texas	September 2008	50	8.406% unsecured subordinated notes due in 2018
CoBank	April 2008	405	7.875% unsecured subordinated notes due in 2018
CoBank	June 2007	500	Three-month LIBOR plus 0.60%, reset quarterly, unsecured subordinated notes due in 2022
AgStar Financial Services, ACA ..	March 2010	100	9.0% unsecured subordinated notes due in 2025
Total		<u>\$1,555</u>	

In December 2012, CoBank purchased \$95 million of their 7.875 percent subordinated notes through a cash tender offer. As a result of this tender offer, losses on extinguishment of debt of \$28.5 million were incurred.

The proceeds of each issuance were used to increase each institution's regulatory permanent capital and total surplus pursuant to the Farm Credit Administration regulations and for general corporate purposes.

Subordinated debt is unsecured and subordinate to all other categories of creditors, including any claims of holders of Systemwide Debt Securities and general creditors, and senior to all classes of shareholders. Interest will be deferred if, as of the fifth business day prior to an interest payment date of the debt, any applicable minimum regulatory capital ratios are not satisfied. A deferral period may not last for more than five consecutive years or beyond the maturity date of the debt. During such a period, the System institution may not declare or pay any dividends or patronage refunds, among certain other restrictions, until interest payments are resumed and all deferred interest has been paid. The subordinated debt is not considered a Systemwide Debt Security and is not guaranteed by the Farm Credit System or any Banks in the System, other than the issuing Bank. Payments on the subordinated debt are not insured by the Farm Credit Insurance Fund.

NOTE 11 — MANDATORILY REDEEMABLE PREFERRED STOCK

After the dividend payment on December 15, 2011, AgFirst FCB redeemed 225,000 shares of mandatorily redeemable cumulative preferred stock at \$1,000 per share. Preferred stock dividends were payable at the rate of 8.393% per annum of the \$1,000 per share par value. As of December 31, 2011, AgFirst FCB had no shares outstanding of mandatorily redeemable preferred stock.

NOTE 12 — MERGER OF SYSTEM INSTITUTIONS

The primary reason for System entity mergers is based on a determination that the combined organization would be financially and operationally

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

stronger with an enhanced ability to fulfill its mission. The mergers were accounted for under the acquisition method of accounting.

System Banks and Associations are cooperatives that are owned and controlled by their members who use the cooperatives' products or services. As such, their capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and their bylaws, the capital stock is not tradable, and the capital stock can be retired only for the lesser of par value or book value. In these and other respects, the shares of capital stock in one institution that were converted to shares of another institution had identical rights and attributes. For this reason, the outstanding capital stock and other equities of the acquired institutions were converted into a like amount of capital stock and equities of the acquiring institutions. Management believes that because the stock is fixed in value, the stock issued pursuant to the mergers provides no basis for estimating the fair value of the consideration transferred pursuant to the mergers. In the absence of a purchase price determination, the acquiring institutions identified and estimated the acquisition date fair value of the equity interests (net assets) of the acquired institution instead of the acquisition date fair value of the equity interests transferred as consideration. The fair value of the net assets acquired, including specific intangible assets and liabilities assumed, were measured based on various estimates using assumptions that management believes are reasonable utilizing information currently available. These evaluations produced a fair value of identifiable assets acquired and liabilities assumed that was substantially equal to the fair value of the member interests transferred in the mergers. The difference between the fair value of identifiable net assets acquired and the fair value of member interests transferred was recorded as additional paid-in capital or a reduction in surplus. The mergers did not have a material impact on the System's financial condition or results of operations because the incomes of the acquired institutions were previously reflected in the Combined Statement of Income.

Bank Merger

Effective January 1, 2012, U.S. AgBank, FCB, one of the Farm Credit Banks, merged with and into CoBank, FCB, a wholly-owned subsidiary of CoBank, ACB, another System Bank. In connection with the merger, each share of outstanding common stock of U.S. AgBank (\$5 par value, 177,162,954 shares outstanding) was exchanged for one-twentieth of a share of common stock of CoBank (\$100 par value, 8,858,148 shares outstanding). In addition, U.S. AgBank's \$225 million of preferred stock (\$1,000 par value, 225,000 shares outstanding) was exchanged for \$225 million of a new series of CoBank preferred stock with substantially the same terms and conditions.

CoBank acquired the assets and assumed the liabilities of U.S. AgBank at their acquisition-date fair values. The fair value of the net identifiable assets acquired (\$1.042 billion) was substantially equal to the fair value of the equity interests converted in the merger. As a result, no goodwill was recorded. In addition, no material amounts of intangible assets were acquired. The following condensed statement of net assets acquired reflects the fair values assigned by CoBank to U.S. AgBank's net assets as of the acquisition date.

	January 1, 2012
Assets:	
Net loans	\$20,200
Cash	226
Investment securities	4,832
Accrued interest receivable	113
Interest rate swaps and other financial instruments	85
Other assets	100
Total assets	<u>\$25,556</u>
Liabilities:	
Bonds and notes	\$24,306
Accrued interest payable	81
Other liabilities	127
Total liabilities	<u>\$24,514</u>
Fair value of net assets acquired	<u>\$ 1,042</u>

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NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

Fair value adjustments to U.S. AgBank's assets and liabilities included a \$553 million increase to loans, a \$33 million decrease in investment securities and a \$700 million increase to bonds and notes to reflect changes in interest rates and other market conditions since the time these instruments were issued. These adjustments are being accreted/amortized into net income over the remaining life of the respective loans, investments and debt instruments, with the majority being recognized in the first five years following the merger. The net accretion related to the fair value adjustments was included in the Combined Statement of Income for 2013 and 2012 and increased net income by \$83 million and \$90 million.

CoBank expects to collect substantially all of the contractual amounts of the acquired loans (\$19.7 billion at January 1, 2012). CoBank acquired investment securities with a contractual amount of \$5.2 billion. These investments were included in the Combined Statement of Condition at an estimated fair value of \$4.8 billion.

CoBank determined that certain of the acquired private label-FHA/VA mortgage-backed, non-agency mortgage-backed and asset-backed securities had evidence of credit quality deterioration such that it is probable that it will be unable to collect all contractually required payments. These investments, which are referred to as acquired credit-impaired investment securities, are subject to certain accounting provisions, pursuant to which the difference between contractually required payments and the cash flows expected to be collected at acquisition is considered a "non-accretable amount." This difference is neither accreted into income nor recorded on the Combined Statement of Condition. The excess of cash flows expected to be collected over fair value is referred to as "accretable amount" and is recognized in interest income over the remaining life of the investment using the effective yield method.

The following table displays information related to the acquired credit-impaired investment securities as of January 1, 2012:

Contractually required payments including interest	\$1,104
Non-accretable amount	(103)
Cash flows expected to be collected*	1,001
Accretable amount	(261)
Fair value of acquired credit-impaired investment securities	<u>\$ 740</u>

* Represents the undiscounted expected principal and interest cash flows

During 2013 and 2012, interest income recognized in earnings for acquired credit-impaired investment securities totaled \$43 million and \$44 million. The carrying amount of acquired credit-impaired investment securities was \$586 million and \$678 million at December 31, 2013 and 2012.

Association Mergers

Effective January 1, 2012, two Associations within the former U.S. AgBank District merged and on July 1, 2012, two Associations in the AgFirst District merged.

Effective January 1, 2011, three Associations in the AgFirst District merged into one entity. As part of the merger, these Associations entered into an agreement with AgFirst FCB 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 million. At December 31, 2013, those assets had a net book value \$77.2 million. This agreement does not include losses that are sustained outside of the high-risk asset pool. Protection to the Bank, such as limitation 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.

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

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, AgFirst would provide financial assistance as stipulated in the agreement. The assistance consists of three components. First, AgFirst would allow the merged Association to include AgFirst allocated stock owned by the merged Association in its capital ratio computations. This allocated stock has been counted entirely by AgFirst 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, and the redeemed amount would be included in capital ratio computations by the merged Association. This purchased stock has been counted entirely by AgFirst in its capital ratio computations under an existing capital sharing arrangement. The third and final level of assistance, if elected by the merged Association, would be a purchase by AgFirst of the high risk asset pool from the merged Association at net book value. There would also be a corresponding repurchase by the merged Association of its previously redeemed stock in AgFirst and a return to the capital sharing arrangement allowing AgFirst 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.

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

The following table summarizes the fair values of the identifiable assets acquired and liabilities assumed as of:

<u>Merger Date</u>	<u>Fair Value</u>		
	<u>Total Assets Acquired</u>	<u>Total Liabilities Assumed</u>	<u>Net Assets Acquired</u>
January 1, 2011	\$ 698	\$621	\$ 77
January 1, 2012	1,153	873	280
July 1, 2012	171	141	30

The following table summarizes the loans acquired in the merger transactions:

<u>Merger Date</u>	<u>Loans Acquired at Fair Value</u>	<u>Loans Acquired at Contractual Amount</u>	<u>Gross Contractual Amount Not Expected to be Collected</u>
January 1, 2011	\$ 604	\$ 661	\$27
January 1, 2012	1,085	1,062	7
July 1, 2012	156	164	3

NOTE 13 — CAPITAL STRUCTURE

Preferred Stock

As of December 31, 2013, the System had preferred stock issued and outstanding of \$2.469 billion that was issued separately by four Banks and four Associations. The preferred stock issued by the Banks and one Association is generally held by institutional investors or knowledgeable, high net worth individuals.

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

The following table presents the general terms of each preferred stock outstanding that was issued by the Banks and one Association as of December 31, 2013 (par amount in whole dollars):

Bank	Issue Date	Amount	Shares Issued and Outstanding	Par Amount	Security Type and Dividend Rate	Key Terms
AgFirst	June 2007	\$ 125.25	125,250	\$1,000	Non-cumulative perpetual three-month LIBOR plus 1.13% payable quarterly	Redeemable on June 15, 2017, and each five year anniversary thereafter.
AgriBank . .	October 2013	250.00	2,500,000	100	Non-cumulative perpetual 6.875% payable quarterly	Beginning January 1, 2024, dividends will accrue at an annual rate equal to 3-month USD LIBOR plus 4.225%. Redeemable on January 1, 2024 and any dividend payment date thereafter.
Texas	August 2010	300.00	300,000	1,000	Non-cumulative subordinated perpetual 10.00% payable semi-annually	Redeemable after the dividend payment date in June 2020.
Texas	July 2013	300.00	3,000,000	100	Non-cumulative perpetual 6.75% payable quarterly	Beginning September 15, 2023, dividends will accrue at an annual rate equal to 3-month USD LIBOR plus 4.01%. Redeemable on September 15, 2023 and any dividend payment date thereafter.
CoBank . . .	August 2009	136.75	2,735,000	50	Non-cumulative perpetual 11.00% payable quarterly	Redeemable on October 1, 2014 and any dividend payment date thereafter.
CoBank . . .	January 2012	225.00	225,000	1,000	Non-cumulative perpetual three-month LIBOR plus 1.18% payable quarterly	Redeemable on July 10, 2017 and each five year anniversary thereafter.
CoBank . . .	October 2012	400.00	4,000,000	100	Non-cumulative perpetual 6.25% payable quarterly	Beginning October 1, 2022, dividends will accrue at an annual rate equal to 3-month USD LIBOR plus 4.557%. Redeemable on October 1, 2022 and any dividend payment date thereafter.
CoBank . . .	April 2013	200.00	2,000,000	100	Non-cumulative perpetual 6.125% payable quarterly	Redeemable on July 1, 2018 and any dividend payment date thereafter.
AgStar Financial Services, ACA	May 2013	100.00	100,000	1,000	Non-cumulative perpetual 6.75% payable quarterly	Beginning August 15, 2023, dividends will accrue at an annual rate equal to 3-month USD LIBOR plus 4.58%. Redeemable on August 15, 2023 and any dividend payment date thereafter.
Total		<u>\$2,037.00</u>				

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

Proceeds from the preferred stock issuances in 2013 were used by each institution to increase their regulatory capital pursuant to current FCA regulations and for general corporate purposes.

During the fourth quarter 2013, the Farm Credit Bank of Texas redeemed \$200 million of cumulative perpetual preferred stock, plus all accrued and unpaid dividends. As Texas had repurchased 18,000 shares of its cumulative perpetual preferred stock in 2010, the outlay for the remaining preferred stock totaled \$182.0 million, and related dividends of \$6.881 million.

During the third quarter 2013, CoBank redeemed \$200 million of non-cumulative perpetual preferred stock and during the second quarter 2013, AgFirst redeemed \$150 million of non-cumulative perpetual preferred stock.

Non-cumulative perpetual preferred stock is not mandatorily redeemable at any time but is redeemable at par value, in whole or in part, at a Bank's option. Dividends will be payable, when, as and if declared by the board of directors in its sole discretion.

In addition, three Associations had Class H preferred stock outstanding of \$432 million at December 31, 2013. The purchase of this preferred stock is limited to existing common stockholders of each issuing Association. The Association's board of directors sets the dividend rate, and retirement of the stock is at the discretion of the board.

Capital Stock and Participation Certificates

In accordance with the Farm Credit Act, each borrower, as a condition of borrowing, is generally required to invest in capital stock or participation certificates of the Bank or Association that makes the loan. The statutory minimum amount of capital investment required for borrowers is 2% of the loan or one thousand dollars, whichever is less. The Associations are required to purchase stock in their affiliated Bank. The different classes of capital stock and participation certificates and the manner in which

capital stock and participation certificates are issued, retired and transferred are set forth in the respective Bank's or Association's bylaws. The Bank or Association generally has a first lien on the capital stock and participation certificates as collateral for the repayment of the borrower/stockholder loan.

Regulations concerning capitalization bylaws and the issuance and retirement of System equities provide that equities issued on or after October 6, 1988 must qualify as at-risk capital of System institutions. The retirement of at-risk capital must be solely at the discretion of the board of directors and not based on a date certain or on the occurrence of any event, such as the repayment of the borrower's loan.

The boards of directors of individual Banks and Associations generally may authorize the payment of dividends or patronage refunds as provided for in their respective bylaws. The payment of dividends or distribution of earnings is subject to regulations that establish minimum at-risk capital standards, as discussed below.

Additional Paid In Capital

The majority of additional paid in capital represents the excess value received by the acquiring Association from the acquired Association over the par-value of capital stock and participation certificates issued in the merger between Associations. The amount recognized by the Combined Banks represents the excess over par value received by one Bank for its repurchase of non-cumulative fixed-to-floating preferred stock.

Additional paid in capital is considered unallocated surplus for purposes of shareholder distributions. Generally, patronage is paid out of current year earnings and as such, this would not be paid out in the form of patronage. In the case of liquidation, additional paid in capital would be treated as unallocated surplus and distributed to shareholders after other obligations of the Association had been satisfied.

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

Capital consisted of the following at December 31, 2013:

	Combined Banks	Combined Associations	Combination Entries	System Combined
Preferred stock	\$ 1,937	\$ 532		\$ 2,469
Capital stock and participation certificates	5,209	560	\$(4,124)	1,645
Protected borrower stock		1	(1)	
Additional paid-in-capital	37	701		738
Restricted capital — Insurance Fund			3,496	3,496
Accumulated other comprehensive loss income (loss)	26	(71)	(762)	(807)
Surplus	7,869	27,344	(153)	35,060
Total capital	<u>\$15,078</u>	<u>\$29,067</u>	<u>\$(1,544)</u>	<u>\$42,601</u>

Combined System surplus reflected net eliminations of \$153 million representing transactions between the Banks, the Associations, or the Insurance Fund primarily related to surplus allocations by certain Banks to their Associations. The Associations owned capital stock and participation

certificates of the Banks amounting to approximately \$4.1 billion. These amounts have been eliminated in the accompanying combined financial statements. Restricted capital is available only for the uses described in Note 7 and is not available for payment of dividends or patronage refunds.

Accumulated other comprehensive loss, net of tax, at December 31, 2013 and 2012 was comprised of the following components:

	December 31, 2013			December 31, 2012		
	Before Tax	Deferred Tax	Net of Tax	Before Tax	Deferred Tax	Net of Tax
Unrealized gains on investments available-for-sale, net ...	\$ 61	\$ 42	\$ 103	\$ 503	\$(58)	\$ 445
Unrealized (losses) gains on other-than-temporary impairment investments available-for-sale	34	(57)	(23)	23	(6)	17
Unrealized losses on cash flow hedges, net	(8)	2	(6)	(117)	2	(115)
Pension and other benefit plans	(901)	20	(881)	(1,403)	32	(1,371)
	<u>\$(814)</u>	<u>\$ 7</u>	<u>\$(807)</u>	<u>\$(994)</u>	<u>\$(30)</u>	<u>\$(1,024)</u>

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

The following tables present the activity in the accumulated other comprehensive loss, net of tax by component:

	Unrealized gains on investments available-for-sale, net	Unrealized gains (losses) on other-than-temporary impairment investments available-for-sale	Unrealized losses on cash flow hedges, net	Pension and other benefit plans	Accumulated other comprehensive loss
Balance at December 31, 2012	\$ 445	\$ 17	\$(115)	\$(1,371)	\$(1,024)
Other comprehensive income before reclassifications	(335)	(50)	108	377	100
Amounts reclassified from accumulated other comprehensive loss to net income ...	(7)	10	1	113	117
Net current period other comprehensive income	(342)	(40)	109	490	217
Balance at December 31, 2013	<u>\$ 103</u>	<u>\$ (23)</u>	<u>\$ (6)</u>	<u>\$ (881)</u>	<u>\$ (807)</u>

	Unrealized gains on investments available-for-sale, net	Unrealized (losses) gains on other-than-temporary impairment investments available-for-sale	Unrealized losses on cash flow hedges, net	Pension and other benefit plans	Accumulated other comprehensive loss
Balance at December 31, 2011	\$ 282	\$(234)	\$(137)	\$(1,241)	\$(1,330)
Adjustment due to Bank merger	92	150	14	3	259
Balance at January 1, 2012	374	(84)	(123)	(1,238)	(1,071)
Other comprehensive income before reclassifications	66	63	6	(218)	(83)
Amounts reclassified from accumulated other comprehensive loss to net income ...	5	38	2	85	130
Net current period other comprehensive income	71	101	8	(133)	47
Balance at December 31, 2012	<u>\$ 445</u>	<u>\$ 17</u>	<u>\$(115)</u>	<u>\$(1,371)</u>	<u>\$(1,024)</u>

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

The following table represents reclassifications out of accumulated other comprehensive income (loss):

	For the Year Ended December 31,		Location of Gain/Loss Recognized in
	2013	2012	Combined Statement of Income
Unrealized gains on investments available-for-sale, net:			
Holding gains and losses		\$ (5)	Net other-than-temporary impairment losses recognized in earnings
Sales gains and losses	\$ 7		Gains on sales of investments and other assets, net
Net amounts reclassified	<u>7</u>	<u>(5)</u>	
Unrealized gains (losses) on other-than-temporarily-impaired investments available-for-sale:			
Holding gains and losses	(9)	(42)	Net other-than-temporary impairment losses recognized in earnings
Sales gains and losses	(1)		Gain on sales of investments and other assets, net
Deferred tax		4	Provision for income taxes
Net amounts reclassified	<u>(10)</u>	<u>(38)</u>	
Unrealized losses on cash flow hedges, net:			
Interest rate contracts	(4)	(3)	Interest expense
Other contracts	3	1	Interest income
Net amounts reclassified	<u>(1)</u>	<u>(2)</u>	
Pension and other benefit plans:			
Net actuarial loss	(118)	(91)	Salaries and employee benefits
Prior service cost	3	3	Salaries and employee benefits
Transition asset		1	Salaries and employee benefits
Deferred tax	2	2	Provision for income taxes
Net amounts reclassified	<u>(113)</u>	<u>(85)</u>	
Total reclassifications	<u><u>\$(117)</u></u>	<u><u>\$(130)</u></u>	

As discussed in Notes 9 and 22, only the Banks are statutorily liable for the payment of principal and interest on Systemwide Debt Securities. Under each Bank's bylaws, the Bank is authorized under certain circumstances to require its affiliated Associations and certain other equity holders to purchase additional Bank equities. In most cases, the Banks are limited as to the amounts of these purchases that may be required, generally with reference to a percentage of the Association's or other equity holder's direct loan from the Bank, and calls for additional equity investments may be subject to other limits or conditions. However, the Banks also generally possess indirect access to certain financial resources of their affiliated Associations through loan-pricing provisions and through Bank-influenced District operating and financing policies.

In case of liquidation or dissolution, preferred stock, capital stock, participation certificates and unallocated surplus would be distributed to equity holders, after the payment of all liabilities in accordance with Farm Credit Administration regulations, in the following order: (1) retirement of preferred stock at par, (2) retirement of all common stock and participation certificates at par, (3) retirement of all patronage surplus in amounts equal to the face amount of the applicable nonqualified written notices of allocation or such other notice, and (4) remaining unallocated surplus and reserves would be paid to the holders of voting stock, nonvoting stock and participation certificates in proportion to patronage to the extent possible.

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

Farm Credit Administration's capital regulations require that the Banks and Associations achieve and maintain permanent capital of at least seven percent of risk-adjusted assets. In addition, Farm Credit Administration regulations require that: (1) all System institutions achieve and maintain a total surplus ratio of at least seven percent of risk-adjusted assets and a core surplus ratio of at least three and one-half percent of risk-adjusted assets and (2) all Banks achieve and

maintain a net collateral ratio of at least 103 percent. Failure of an institution to meet any of these capital requirements may result in certain discretionary actions by the Farm Credit Administration that, if undertaken, could have a direct effect on the institution's financial and operational performance. At December 31, 2013, all System institutions reported compliance with these standards.

Ranges of capital ratios reported by System institutions at December 31, 2013 were as follows:

<u>System Institutions</u>	<u>Permanent Capital Ratio</u>	<u>Total Surplus Ratio</u>	<u>Core Surplus Ratio**</u>	<u>Net Collateral Ratio</u>
Banks*	16.7% - 22.9%	15.7% - 22.8%	10.1% - 20.0%	106.4% - 108.7%
Associations	13.3% - 35.7%	12.9% - 35.3%	12.5% - 30.0%	Not Applicable
Regulatory minimum required	7.0%	7.0%	3.5%	103%***

* See Note 22 for each Bank's permanent capital ratio and net collateral ratio at December 31, 2013 and 2012.

** As a condition of the merger with U.S. AgBank, from January 1, 2012 through December 31, 2014, if CoBank's core surplus ratio excluding common stock falls below 5.59%, it must notify the Farm Credit Administration and submit a written plan to restore and maintain the ratio to at least that level.

*** In connection with subordinated debt offerings, AgriBank, CoBank and the Farm Credit Bank of Texas are required by the Farm Credit Administration to maintain a minimum net collateral ratio of 104%. At December 31, 2013, AgFirst had no cumulative preferred stock or subordinated debt outstanding. As a condition of the merger with U.S. AgBank, from January 1, 2012 through December 31, 2014, if CoBank's net collateral ratio falls below 105%, it must notify the Farm Credit Administration and submit to them a written plan to restore and maintain a ratio of at least 105%.

System institutions are prohibited from reducing capital by retiring stock (other than protected borrower stock) or making certain distributions to shareholders if, after or due to the retirement or distribution, the institution would not meet the minimum capital adequacy standards established by the Farm Credit Administration under the Farm Credit Act.

By regulation, the Farm Credit Administration is empowered to direct a transfer of funds or equities by one or more Banks or Associations to another Bank or Association, under specified circumstances. The System has never been called on to initiate any transfers pursuant to this regulation and is not aware of any proposed action under this regulation.

NOTE 14 — EMPLOYEE BENEFIT PLANS

The Banks and substantially all Associations participate in defined benefit retirement plans. The Banks and Associations, except for CoBank and certain related Associations, generally sponsor multi-employer plans that can not be attributed to any individual entity. Thus, these plans are recorded at the combined District level. All retirement plans are noncontributory and benefits are based on salary and years of service. The Banks and Associations have closed their defined benefit pension plans to new participants and offer defined contribution retirement plans to all employees hired subsequent to the close. In addition, System institutions provide certain healthcare and other postretirement benefits to eligible retired employees. Employees of System institutions may become eligible for healthcare and other postretirement benefits if they reach normal retirement age while working for the System.

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

The following tables set forth the funding status and the amounts recognized in the System's Combined Statement of Condition for pension and other postretirement benefit plans:

	Pension Benefits		Other Benefits	
	December 31,		December 31,	
	2013	2012	2013	2012
Change in benefit obligation:				
Benefit obligation at beginning of year	\$3,410	\$ 2,982	\$ 280	\$ 245
Service cost	79	72	6	5
Interest cost	138	143	12	12
Plan participants' contributions			2	2
Plan amendments	1			1
Actuarial (gain) loss	(253)	354	(27)	28
Benefits paid	(145)	(145)	(14)	(13)
Other		4		
Benefit obligation at end of year	<u>\$3,230</u>	<u>\$ 3,410</u>	<u>\$ 259</u>	<u>\$ 280</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	\$2,282	\$ 1,966		
Actual return on plan assets	271	278		
Employer contributions	171	183	\$ 12	\$ 11
Plan participants' contributions			2	2
Benefits and premiums paid	(145)	(145)	(14)	(13)
Fair value of plan assets at end of year	<u>\$2,579</u>	<u>\$ 2,282</u>	<u>\$ 0</u>	<u>\$ 0</u>
Funded status at end of year	<u>\$ (651)</u>	<u>\$ (1,128)</u>	<u>\$ (259)</u>	<u>\$ (280)</u>
Amounts recognized in the balance sheet consist of:				
Pension asset	\$ 28	\$ 1		
Pension liability	(679)	(1,129)	\$(259)	\$(280)
Net amount recognized	<u>\$ (651)</u>	<u>\$ (1,128)</u>	<u>\$ (259)</u>	<u>\$ (280)</u>

The accumulated benefit obligation for all defined benefit pension plans was \$2.826 billion, \$2.938 billion and \$2.579 billion at December 31, 2013, 2012 and 2011.

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

	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
Net actuarial loss	\$875	\$1,351	\$24	\$ 55
Prior service costs	11	11	(9)	(14)
Total amount recognized in AOCL	<u>\$886</u>	<u>\$1,362</u>	<u>\$15</u>	<u>\$ 41</u>

Information for pension plans with an accumulated benefit obligation in excess of plan assets.

	December 31,	
	2013	2012
Projected benefit obligation	\$3,098	\$3,406
Accumulated benefit obligation	2,687	2,934
Fair value of plan assets	2,467	2,277

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

The net periodic pension cost for defined benefit plans and other postretirement benefit plans included in the Combined Statement of Income and changes in plan assets and benefit obligations recognized in other comprehensive income (loss) are as follows:

	Pension Benefits For The Year Ended December 31,			Other Benefits For The Year Ended December 31,		
	2013	2012	2011	2013	2012	2011
Net Periodic Benefit Cost:						
Service cost	\$ 79	\$ 72	\$ 67	\$ 6	\$ 5	\$ 5
Interest cost	138	143	139	12	12	13
Expected return on plan assets	(162)	(154)	(154)			
Net amortization and deferral	116	93	77	(1)	(3)	(2)
Curtailments		18	1		(1)	
Other		(2)				
Net periodic benefit cost	<u>171</u>	<u>170</u>	<u>130</u>	<u>17</u>	<u>13</u>	<u>16</u>
Other Changes in Plan Assets and Benefit Obligations:						
Net actuarial (gain) loss	(362)	208	345	(27)	27	(5)
Prior service cost	2		8			
Amortization of net actuarial loss	(114)	(108)	(75)	(4)	(1)	(3)
Amortization of prior service (cost) credit	(2)	(2)	(2)	5	5	5
Amortization of transition asset		1				
Total recognized in other comprehensive income (loss)	<u>(476)</u>	<u>99</u>	<u>276</u>	<u>(26)</u>	<u>31</u>	<u>(3)</u>
Total recognized in net periodic benefit cost and other comprehensive income (loss)	<u><u>\$(305)</u></u>	<u><u>\$ 269</u></u>	<u><u>\$ 406</u></u>	<u><u>\$ (9)</u></u>	<u><u>\$44</u></u>	<u><u>\$13</u></u>

The estimated net loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next year is \$72 million and an estimated prior service cost of \$2 million for pension benefits. The estimated prior service credit for the other defined benefit postretirement plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next year is \$4 million and an estimated net loss of \$2 million for other benefits.

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

	Pension Benefits		
	2013	2012	2011
Discount rate ..	4.60%-5.01%	3.80%-4.21%	4.80%-5.01%
Rate of compensation increase	4.09%-5.50%	4.50%-5.50%	4.50%-5.50%
	Other Benefits		
	2013	2012	2011
Discount rate ..	4.85%-5.20%	4.05%-4.40%	4.80%-5.10%

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

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

	Pension Benefits		
	2013	2012	2011
Discount rate ..	3.80%-4.21%	4.70%-5.01%	5.15%-5.51%
Expected long-term return on plan assets ..	6.57%-8.00%	7.25%-8.00%	7.50%-8.25%
Rate of compensation increase	4.00%-5.50%	4.50%-5.50%	3.50%-5.00%
	Other Benefits		
	2013	2012	2011
Discount rate ..	4.05%-4.40%	4.80%-5.10%	5.15%-5.70%

The expected long-term rate of return assumption is determined independently for each defined benefit pension plan. Generally, plan trustees use historical return information to establish a best-estimate range for each asset class in which the plans are invested. Plan trustees select the most appropriate rate for each plan from the best-estimate range, taking into consideration the duration of plan benefit liabilities and plan sponsor investment policies.

For measurement purposes, an annual rate increase of 7.50% in the per capita cost of covered health benefits was assumed for 2014. The rates were assumed to step down to 5.00% in various years beginning in 2018 — 2024, and remain at that level thereafter.

Assumed healthcare trend rates have a significant effect on the amounts reported for the health-

care plans. A one percentage point change in the assumed healthcare cost trend rates would have the following effects:

	1% Increase	1% Decrease
Effect on postretirement benefit obligation	\$35	\$(29)
Effect on total of service and interest cost	3	(2)

Plan Assets

The trustees of each defined benefit pension plan and other postretirement benefit plan set investment policies and strategies for the plan, including target allocation percentages for each category of plan asset. Generally, the funding objectives of the pension plans are to achieve and maintain plan assets adequate to cover the accumulated benefit obligations and to provide competitive investment returns and reasonable risk levels when measured against appropriate benchmarks. Plan trustees develop asset allocation policies based on plan objectives, characteristics of pension liabilities, capital market expectations, and asset-liability projections. Substantially all postretirement healthcare plans have no plan assets and are funded on a current basis by employer contributions and retiree premium payments.

Asset Category	Pension Benefits Target Allocation for Next Year
Equity securities	40%-75%
Debt securities	25%-50%
Other	0%-10%

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

The fair values of the System's pension plan assets at December 31, 2013 and 2012 by asset category are as follows:

December 31, 2013	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 58			\$ 58
Mutual Funds:				
International funds	228	\$ 18		246
Fixed income funds	5	424		429
Domestic funds	90	106		196
Bond funds	116	175		291
Real estate equity funds		50		50
Hedged equity funds			\$ 27	27
Other funds	12	330		342
Trust funds		837		837
Limited partnerships			96	96
Investment insurance contracts			7	7
Total	<u>\$509</u>	<u>\$1,940</u>	<u>\$130</u>	<u>\$2,579</u>
December 31, 2012	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 22			\$ 22
Mutual Funds:				
International funds	180	\$ 214		394
Fixed income funds		363		363
Domestic funds	98	196		294
Bond funds	135	149		284
Real estate equity funds		57		57
Hedged equity funds			\$23	23
Other funds	18	39		57
Trust funds		714		714
Limited partnerships			66	66
Investment insurance contracts			8	8
Total	<u>\$453</u>	<u>\$1,732</u>	<u>\$97</u>	<u>\$2,282</u>

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

The table below represents a reconciliation of all Level 3 pension plan assets measured at fair value:

	<u>Hedged equity funds</u>	<u>Limited partnerships</u>	<u>Investment insurance contracts</u>
Balance at December 31, 2012	\$23	\$66	\$ 8
Actual return on plan assets:			
Held at reporting date	3	12	
Purchases	1	18	
Sales	—	—	(1)
Balance at December 31, 2013	<u>\$27</u>	<u>\$96</u>	<u>\$ 7</u>
	<u>Hedged equity funds</u>	<u>Limited partnerships</u>	<u>Investment insurance contracts</u>
Balance at December 31, 2011	\$23	\$65	\$ 8
Actual return on plan assets:			
Held at reporting date		5	1
Sales	—	(4)	(1)
Balance at December 31, 2012	<u>\$23</u>	<u>\$66</u>	<u>\$ 8</u>

Note: There were no plan assets for other benefits at December 31, 2013 and 2012.

Concentrations of Credit Risk

The plan assets are diversified into various investment types as shown in the preceding table. The plan assets are spread among various mutual funds, with numerous fund managers. Diversification is also obtained by selecting fund managers whose funds are not concentrated in individual stock, or individual countries for the international funds.

Contributions

The Banks and Associations expect to contribute \$114 million to their pension plans and \$12 million to their other postretirement benefit plans in 2014.

The Banks and Associations expect to pay the following benefit payments, which reflect expected future service, as appropriate.

<u>Year</u>	<u>Pension Benefits</u>	<u>Other Benefits</u>
2014	\$ 176	\$12
2015	189	13
2016	200	14
2017	212	15
2018	226	16
2019 to 2023	1,207	85

The Banks and Associations also participate in defined contribution savings plans. Certain plans require Banks and Associations to match a percentage of employee contributions. Employer contributions to these plans were \$73 million, \$66 million and \$59 million for the years ended December 31, 2013, 2012 and 2011.

NOTE 15 — INCOME TAXES

The provision for income taxes was comprised of the following amounts:

	<u>For The Year Ended December 31,</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current:			
Federal	\$135	\$189	\$120
State and local	15	38	23
Deferred:			
Federal	61	3	114
State	10	(8)	12
Provision for income taxes	<u>\$221</u>	<u>\$222</u>	<u>\$269</u>

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

The deferred income tax provision (benefit) results from differences between amounts of assets and liabilities as measured for income tax return and financial reporting purposes. The significant components of deferred tax assets and liabilities at December 31, 2013 and 2012 were as follows:

	December 31,	
	2013	2012
Deferred tax assets:		
Allowance for loan losses	\$ 334	\$ 339
Loss carryforwards	92	81
Employee benefit plan obligations	74	99
Nonaccrual loan interest	28	33
Loan origination fees	18	22
Other	58	63
Gross deferred tax assets	604	637
Less: valuation allowance	(188)	(194)
Deferred tax assets, net of valuation allowance	416	443
Deferred tax liabilities:		
Direct financing leases	(705)	(654)
Patronage allocated by Banks to Associations	(44)	(39)
Pensions	(22)	(20)
Unrealized net gains on investments available-for-sale	(13)	(62)
Depreciation	(5)	(5)
Other	(29)	(31)
Gross deferred tax liabilities	(818)	(811)
Net deferred tax liability	<u>\$ (402)</u>	<u>\$ (368)</u>
System entities with net deferred tax assets (included in other assets)	\$ 20	\$ 15
System entities with net deferred tax liabilities (included in other liabilities)	(422)	(383)
	<u><u>\$ (402)</u></u>	<u><u>\$ (368)</u></u>

The provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income from continuing operations as a result of the following differences:

	Year Ended December 31,		
	2013	2012	2011
Federal tax at statutory rate	\$ 1,701	\$ 1,519	\$ 1,473
State tax, net	17	19	25
Effect of nontaxable entities	(1,348)	(1,157)	(1,028)
Patronage distributions allocated by taxable entities	(258)	(237)	(246)
Other	109	78	45
Provision for income taxes	<u>\$ 221</u>	<u>\$ 222</u>	<u>\$ 269</u>

System entities have unrecognized tax benefits for which liabilities have been established. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	For the Year Ended December 31,		
	2013	2012	2011
Balance at beginning of year	\$ 8	\$ 5	\$ 6
Additions based on tax positions related to the current year	1	2	1
Additions based on tax positions related to the prior year	1	2	
Reductions for tax positions of prior years	(5)	(1)	(2)
Balance at end of year	<u>\$ 5</u>	<u>\$ 8</u>	<u>\$ 5</u>

System entities recognize interest and penalties related to unrecognized tax benefits as an adjustment to income tax expense. The amounts of interest and penalties recognized in 2013, 2012 and 2011 were not significant. At December 31, 2013, no interest or penalties were accrued. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rates were \$4.7 million, \$6.0 million and \$5.2 million at December 31, 2013, 2012 and 2011. System entities did not have any positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next 12 months. The tax years that remain open for federal and major state income tax jurisdictions are 2010 and forward.

NOTE 16 — FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. See Note 2 — Summary of Significant Accounting Policies for additional information.

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

Assets and liabilities measured at fair value on a recurring basis at December 31, 2013 and 2012 for each of the fair value hierarchy values are summarized below:

December 31, 2013	Fair Value Measurement Using			Total
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Federal funds and securities purchased under resale agreements		\$ 1,078		\$ 1,078
Commercial paper, bankers' acceptances, certificates of deposit and other securities		4,177	\$ 56	4,233
U.S. Treasury securities		8,127		8,127
U.S. agency securities		4,704	27	4,731
Mortgage-backed securities		23,704	1,312	25,016
Asset-backed securities		1,276	253	1,529
Derivative assets		776		776
Assets held in non-qualified benefits trusts	\$132			132
Total assets	\$132	\$43,842	\$1,648	\$45,622
Liabilities:				
Derivative liabilities		\$ 120		\$ 120
Collateral liabilities	\$ 26	425		451
Standby letters of credit		1	\$ 15	16
Total liabilities	\$ 26	\$ 546	\$ 15	\$ 587

December 31, 2012	Fair Value Measurement Using			Total
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Federal funds and securities purchased under resale agreements		\$ 918		\$ 918
Commercial paper, bankers' acceptances, certificates of deposit and other securities		3,026	\$ 113	3,139
U.S. Treasury securities		5,999		5,999
U.S. agency securities		3,960	15	3,975
Mortgage-backed securities		23,513	1,559	25,072
Asset-backed securities		973	283	1,256
Derivative assets		1,117		1,117
Assets held in non-qualified benefits trusts	\$112			112
Total assets	\$112	\$39,506	\$1,970	\$41,588
Liabilities:				
Derivative liabilities		\$ 175		\$ 175
Collateral liabilities	\$ 22	556		578
Standby letters of credit		2	\$ 17	19
Total liabilities	\$ 22	\$ 733	\$ 17	\$ 772

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

The tables below represents a reconciliation of all Level 3 assets and liabilities measured at fair value on a recurring basis:

	Commercial paper, bankers' acceptances, certificates of deposit and other securities	U.S. agency securities	Mortgage-backed securities	Asset-backed securities	Standby letters of credit
Balance at December 31, 2012	\$113	\$ 15	\$1,559	\$283	\$17
Total gains or (losses) realized/unrealized:					
Included in earnings	(3)		(4)	(1)	(1)
Included in other comprehensive loss ...	(6)	(1)	8	27	
Purchases		56	165		
Sales			(16)	(2)	
Issuances					7
Settlements	(28)	(1)	(236)	(54)	(8)
Transfers from Level 3 into Level 2	(20)	(42)	(180)		
Transfers into Level 3 from Level 2			16		
Balance at December 31, 2013	<u>\$ 56</u>	<u>\$ 27</u>	<u>\$1,312</u>	<u>\$253</u>	<u>\$15</u>

The amount of losses for the period
included in earnings attributable to the
change in unrealized gains or losses
relating to assets or liabilities still held at
December 31, 2013

<u>\$ 3</u>	<u>\$ 0</u>	<u>\$ 7</u>	<u>\$ 1</u>	<u>\$ 0</u>
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	Commercial paper, bankers' acceptances, certificates of deposit and other securities	U.S. agency securities	Mortgage-backed securities	Asset-backed securities	Standby letters of credit
Balance at December 31, 2011	\$ 82		\$1,258	\$297	\$13
Total gains or (losses) realized/unrealized:					
Included in earnings			(15)	(27)	
Included in other comprehensive loss ...	(1)		53	91	
Purchases	61	\$15	202	12	
Sales			(11)		
Issuances					13
Settlements	(1)		(250)	(74)	(9)
Transfers from Level 3 into Level 2	(82)		(323)	(22)	
Transfers into Level 3 from Level 2	54		645	6	
Balance at December 31, 2012	<u>\$113</u>	<u>\$15</u>	<u>\$1,559</u>	<u>\$283</u>	<u>\$17</u>

The amount of losses for the period
included in earnings attributable to the
change in unrealized gains or losses
relating to assets or liabilities still held at
December 31, 2012

<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 20</u>	<u>\$ 27</u>	<u>\$ 0</u>
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FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
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The transfers between Level 3 and Level 2 during 2013 were due to a change in the sources of pricing information. Substantially all transfers into Level 3 from Level 2 during 2012 were due to a

change in valuation methodology in connection with the Bank merger. There were no transfers into or out of Level 1 for both 2013 and 2012.

Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2013 and 2012 for each of the fair value hierarchy values and the losses are summarized below:

	Fair Value Measurement Using		Total Fair Value	Total Losses
	Level 2	Level 3		
<u>December 31, 2013</u>				
Assets:				
Loans	\$38	\$1,364	\$1,402	\$(70)
Other property owned		218	218	(24)

	Fair Value Measurement Using		Total Fair Value	Total Losses
	Level 2	Level 3		
<u>December 31, 2012</u>				
Assets:				
Loans	\$51	\$1,919	\$1,970	\$(317)
Other property owned		350	350	(73)

Financial assets and financial liabilities measured at carrying amounts and not measured at fair value on the Combined Statement of Condition for each of the fair value hierarchy values are summarized as follows:

	December 31, 2013				
	Total Carrying Amount	Fair Value Measurement Using			Total Fair Value
		Level 1	Level 2	Level 3	
Assets:					
Cash	\$ 4,365	\$4,365			\$ 4,365
Mission-related and other investments held-to-maturity . . .	2,814		\$1,128	\$ 1,685	2,813
Net loans	199,822		58	204,114	204,172
Tobacco contract receivables	158			158	158
Total assets	<u>\$207,159</u>	<u>\$4,365</u>	<u>\$1,186</u>	<u>\$205,957</u>	<u>\$211,508</u>
Liabilities:					
Systemwide Debt Securities	\$207,489			\$206,195	\$206,195
Subordinated debt	1,555			1,707	1,707
Other bonds	3,215			3,215	3,215
Other interest bearing liabilities	1,082		\$ 13	1,069	1,082
Total liabilities	<u>\$213,341</u>	<u>\$ 0</u>	<u>\$ 13</u>	<u>\$212,186</u>	<u>\$212,199</u>
Other financial instruments:					
Commitments to extend credit				\$ 158	\$ 158

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
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	December 31, 2012				
	Total Carrying Amount	Fair Value Measurement Using			Total Fair Value
		Level 1	Level 2	Level 3	
Assets:					
Cash	\$ 3,394	\$3,394			\$ 3,394
Mission-related and other investments held-to-maturity . . .	3,175		\$1,524	\$ 1,707	3,231
Net loans	190,561		60	197,907	197,967
Tobacco contract receivables	307			314	314
Total assets	<u>\$197,437</u>	<u>\$3,394</u>	<u>\$1,584</u>	<u>\$199,928</u>	<u>\$204,906</u>
Liabilities:					
Systemwide Debt Securities	\$197,966			\$200,346	\$200,346
Subordinated debt	1,555			1,818	1,818
Other bonds	2,399			2,399	2,399
Other interest bearing liabilities	952		\$ 9	943	952
Total liabilities	<u>\$202,872</u>	<u>\$ 0</u>	<u>\$ 9</u>	<u>\$205,506</u>	<u>\$205,515</u>
Other financial instruments:					
Commitments to extend credit				\$ 152	\$ 152

Sensitivity to Changes in Significant Unobservable Inputs

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the mortgage-backed securities are prepayment rates, probability of default, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement.

Generally, a change in the assumption used for the probability of default is accompanied by a direc-

tionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

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.

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
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Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value		Valuation Technique(s)	Unobservable Input	Range of Inputs	
	December 31, 2013	December 31, 2012			December 31, 2013	December 31, 2012
Commercial paper, bankers' acceptances, certificates of deposit and other securities	\$ 41 15 \$ 56	\$ 53 60 \$ 113	Discounted cash flow Vendor priced	Risk-adjusted spread	0.01%-91.6%	2.0%-8.3%
U.S. agency securities	\$ 27	\$ 15	Vendor priced			
Mortgage-backed securities	\$ 922	\$1,087	Discounted cash flow	Prepayment rate Probability of default Loss severity	4.0%-77.1% 0.5%-21.4% 10.5%-31.0%	5.0%-79.0% 0.8%-21.0% 11.0%-56.1%
	390 \$1,312	472 \$1,559	Vendor priced			
Asset-backed securities	\$ 253	\$ 283	Vendor priced			
Standby letters of credit	\$ 15	\$ 17	Discounted cash flow	Rate of funding Risk-adjusted spread	50.0% 0.2%-1.7%	50.0% 0.2%-2.0%

With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and

other property owned and take into account unobservable inputs such as, income and expense, comparable sales, replacement cost and comparability adjustments.

Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

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

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NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
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Information about Other Financial Instrument Fair Value Measurements

	<u>Valuation Technique(s)</u>	<u>Input</u>
Cash	Carrying value	Par/principal and appropriate interest yield
Mission-related and other investments held-to-maturity	Discounted cash flow	Prepayment rates Probability of default Loss severity
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Tobacco contracts receivables	Discounted cash flow	Prepayment rate Derived yield curve
Systemwide Debt Securities and other bonds.	Discounted cash flow	Benchmark yield curve Derived yield spread Company's own credit risk
Subordinated debt	Discounted cash flow	Credit spreads Market trends Interest rate risks
	Broker/Dealer quotes	Price for similar security
Other interest bearing liabilities	Carrying value	Par/principal and appropriate interest yield

Valuation Techniques

As more fully discussed in Note 2 — Summary of Significant Accounting Policies, FASB guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represents a brief summary of the valuation techniques used by the System for assets and liabilities:

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities would be classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using pricing models that utilize observable inputs, quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. This would include U.S. Treasury and certain mortgage-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Securities classified within Level 3

include asset-based securities and certain mortgage-backed securities including private label-FHA/VA securities and those issued by Farmer Mac.

As permitted under Farm Credit Administration regulations, the Banks are authorized to hold eligible investments. The regulations define eligible investments by specifying credit rating criteria, final maturity limit, and percentage of portfolio limit for each investment type. At the time of purchase, mortgage-backed and asset-backed securities must be triple-A rated by at least one Nationally Recognized Statistical Rating Organization. The triple-A rating requirement puts the Banks in a position to hold the senior tranches of securitizations. The underlying loans for mortgage-backed securities are residential mortgages, while the underlying loans for asset-backed securities are home equity lines of credit, small business loans, equipment loans or student loans.

To estimate the fair value of the majority of the investments held, the Banks obtain prices from third party pricing services. For the valuation of securities not actively traded, including certain non-agency securities, the Banks utilize either a third party cash flow model or an internal model. The significant

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
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inputs for the valuation models include yields, probability of default, loss severity and prepayment rates.

Derivatives

Exchange-traded derivatives valued using quoted prices would be classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the majority of the derivative positions are valued using internally developed models that use as their basis readily observable market parameters and are classified within Level 2 of the valuation hierarchy. Such derivatives include basic interest rate swaps and options. Derivatives that are valued based upon models with significant unobservable market parameters and that are normally traded less actively or have trade activity that is one way are classified within Level 3 of the valuation hierarchy.

The models used to determine the fair value of derivative assets and liabilities use an income approach based on observable market inputs, primarily the LIBOR swap curve and volatility assumptions about future interest rate movements.

Assets Held in Non-Qualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Standby Letters of Credit

The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

Loans Evaluated for Impairment

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. 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. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

Other Property Owned

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of other property owned involves the use of independent appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

Collateral Liabilities

Substantially all 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. The market value of collateral liabilities is its face value plus accrued interest that approximates fair value.

A description of the methods and assumptions used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value follows:

Cash

For cash, the carrying amount is a reasonable estimate of fair value.

Loans

Fair value is estimated by discounting the expected future cash flows using the Banks' or the Associations' current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the Banks' or the Associations' current loan origination rates as

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
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well as managements' estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale and could be less.

For purposes of estimating fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows, primarily based on contractual terms, and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

The fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For collateral-dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral.

Bonds and Notes

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 System debt instruments and Treasury securities. We estimate an appropriate yield-spread taking into consideration selling group member (banks and securities dealers) yield indications, observed new government-sponsored enterprise debt security pricing, and pricing levels in the related U.S. dollar interest rate swap market.

Subordinated Debt

The fair value of subordinated debt is estimated based upon quotes obtained from a broker/dealer or based on discounted cash flows.

Commitments to Extend Credit

The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated

fair value also considers the difference between current levels of interest rates and the committed rates.

NOTE 17 — DERIVATIVE PRODUCTS AND HEDGING ACTIVITIES

The Banks and Associations maintain an overall interest rate risk management strategy that incorporates the use of derivative products to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The Banks' and Associations' goals are to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that movements in interest rates do not adversely affect the net interest margin. As a result of interest rate fluctuations, hedged fixed-rate assets and liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by the Banks' gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. Another result of interest rate fluctuations is that the interest income and interest expense of hedged floating-rate assets and liabilities will increase or decrease. The effect of this variability in earnings is expected to be substantially offset by the Banks' gains and losses on the derivative instruments that are linked to these hedged assets and liabilities. The Banks consider the 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.

In addition, the Banks enter into derivative transactions, particularly interest rate swaps, to lower funding costs, diversify sources of funding, alter interest rate exposures arising from mismatches between assets and liabilities, or better manage liquidity. The Banks may also enter into derivatives with their customers as a service to enable them to transfer, modify or reduce their interest rate risk by transferring this risk to the Bank. The Banks substantially offset this risk by concurrently entering into offsetting agreements with non-System institutional counterparties. Interest rate swaps allow the Banks to raise long-term borrowings at fixed rates and swap them into floating rates that are lower than those available to the Bank if floating rate borrowings were made directly. These interest rate swaps also help the Banks to manage their liquidity.

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NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

Under interest rate swap arrangements, the Banks agree 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.

A substantial amount of the System's assets are interest-earning assets (principally loans and investments) that tend to be medium-term floating-rate instruments while the related interest-bearing liabilities tend to be short- or medium-term fixed rate obligations. Given this asset-liability mismatch, interest rate swaps in which a Bank pays the floating rate and receives the fixed rate (receive-fixed swaps) are used to reduce the impact of market fluctuations

on a Bank's net interest income. Because the size of swap positions needed to reduce the impact of market fluctuations varies over time, a Bank also enters into swaps in which it receives the floating rate and pays the fixed rate (pay-fixed swaps) when necessary to reduce its net position.

The Banks may purchase interest rate options, such as caps, in order to reduce the impact of rising interest rates on their floating-rate debt, and floors, in order to reduce the impact of falling interest rates on their floating-rate assets. The primary types of derivative instruments used and the amount of activity (notional amount of derivatives) during 2013 and 2012 are summarized in the following tables:

	Receive-Fixed Swaps	Pay-Fixed and Amortizing Pay-Fixed Swaps	Floating-for-Floating and Amortizing Floating-for-Floating	Interest Rate Caps	Other Derivatives	Total
Balance at December 31, 2012 ..	\$20,197	\$4,255	\$1,750	\$ 3,660	\$ 3,572	\$ 33,434
Additions	1,598	1,262		159	4,439	7,458
Maturities/amortization	(5,262)	(681)	(400)	(570)	(4,073)	(10,986)
Terminations	(1)	(79)			(79)	(159)
Balance at December 31, 2013 ..	<u>\$16,532</u>	<u>\$4,757</u>	<u>\$1,350</u>	<u>\$ 3,249</u>	<u>\$ 3,859</u>	<u>\$ 29,747</u>

	Receive-Fixed Swaps	Pay-Fixed and Amortizing Pay-Fixed Swaps	Floating-for-Floating and Amortizing Floating-for-Floating	Interest Rate Caps	Other Derivatives	Total
Balance at December 31, 2011 ..	\$24,389	\$3,593	\$2,250	\$ 4,035	\$ 3,176	\$ 37,443
Additions	3,087	1,092		860	4,271	9,310
Maturities/amortization	(7,279)	(412)	(500)	(1,130)	(3,857)	(13,178)
Terminations		(18)		(105)	(18)	(141)
Balance at December 31, 2012 ..	<u>\$20,197</u>	<u>\$4,255</u>	<u>\$1,750</u>	<u>\$ 3,660</u>	<u>\$ 3,572</u>	<u>\$ 33,434</u>

By using derivative products, Banks expose themselves 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 a derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes a Bank, thus creating a repayment (credit) risk for a Bank. When the fair value of the derivative contract is negative, a Bank owes the counterparty and, therefore, assumes no repayment risk.

To minimize the risk of credit losses, the Banks almost exclusively deal with non-customer counterparties that have an investment grade or better credit rating from a major rating agency, and also monitor the credit standing and levels of exposure to individual counterparties. The Banks do not anticipate nonperformance by any of these counterparties. The Banks typically enter into master agreements that contain netting provisions. These provisions allow the Banks to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. A majority of derivative contracts are

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supported by collateral arrangements with counterparties. The System's exposure to counterparties, net of \$604 million of collateral at December 31, 2013 and \$812 million at December 31, 2012, was \$68 million and \$79 million. The collateral consisted of \$451 million of cash and \$153 million in securities at December 31, 2013, as compared with \$578 million of cash and \$234 million in securities at December 31, 2012.

The Banks may also clear derivative transactions through a futures commission merchant (FCM) with a clearinghouse or a central counterparty (CCP). When the swap is cleared by the two parties, the single bilateral swap is divided into two separate swaps with the CCP becoming the counterparty to both of the initial parties to the swap. CCPs have several layers of protection against default including margin, member capital contributions, and FCM guarantees of their customers' transactions with the CCP. FCMs also pre-qualify the counterparties to all swaps that are sent to the CCP from a credit perspective, setting limits for each counterparty and collecting initial and variation margin daily from each counterparty for changes in the value of cleared derivatives. The margin collected from both parties to the swap protects against credit risk in the event a counterparty defaults. The initial and variation margin requirements are set by and held for the benefit of the CCP. Additional initial margin may be required and held by the FCM, due to its guarantees of its customers' trades with the CCP.

Each 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. Each Bank's ALCO is responsible for approving hedging strategies that are developed within parameters established by each Bank's board of directors through the

Bank's 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 that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item (principally, debt securities) attributable to the hedged risk are recognized in current earnings. The System 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 losses on interest rate swaps recognized in interest expense for 2013 was \$415 million, while the amount of gains on the Systemwide Debt Securities was \$420 million.

Cash Flow Hedges

For derivative instruments that are designated and qualify as cash flow hedges, 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.

Derivatives not Designated as Hedges

For derivatives not designated as a hedging instrument, the related change in fair value is recorded in current period earnings in "net gains on derivative and other transactions" in the Combined Statement of Income.

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

Fair Values of Derivative Instruments

The following table represents the fair value of derivative instruments:

	Balance Sheet Classification Assets	Fair Value at December 31, 2013	Fair Value at December 31, 2012	Balance Sheet Classification Liabilities	Fair Value at December 31, 2013	Fair Value at December 31, 2012
Derivatives designated as hedging instruments:						
Receive-fixed swaps	Other assets	\$578	\$ 982	Other liabilities	\$ 12	
Pay-fixed and amortizing pay-fixed swaps	Other assets	42	1	Other liabilities	35	\$ 87
Interest rate caps	Other assets	52	20			
Floating-for-floating and amortizing floating-for-floating swaps				Other liabilities	7	11
Foreign exchange contracts	Other assets	1		Other liabilities	2	2
Total derivatives designated as hedging instruments		<u>\$673</u>	<u>\$1,003</u>		<u>\$ 56</u>	<u>\$100</u>
Derivatives not designated as hedging instruments:						
Derivatives entered into on behalf of customers	Other assets	\$144	\$ 192	Other liabilities	\$105	\$153
Foreign exchange contracts	Other assets	1	2	Other liabilities	1	2
Total derivatives not designated as hedging instruments		<u>\$145</u>	<u>\$ 194</u>		<u>\$106</u>	<u>\$155</u>
Total derivatives		<u>\$818</u>	<u>\$1,197</u>		<u>\$162</u>	<u>\$255</u>

The following table sets forth the amount of gain recognized in the Combined Statement of Income for the years ended December 31, 2013 and 2012:

Derivatives-Fair Value Hedging Relationships	Location of Gain Recognized in Combined Statement of Income	For the Year Ended December 31,	
		2013	2012
Receive-fixed swaps	Interest expense	<u>\$5</u>	<u>\$12</u>

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NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
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The following table sets forth the effect of derivative financial instruments in cash flow hedging relationships:

Derivatives-Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)		Location of Gain or (Loss) Reclassification from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	
	December 31, 2013	December 31, 2012		December 31, 2013	December 31, 2012
Pay-fixed and amortizing pay-fixed swaps	\$ 94	\$ 6			
Floating-for-floating and amortizing floating-for-floating swaps	4	1			
Interest rate caps	32	(8)	Interest expense	\$(3)	\$(2)
Foreign exchange contracts	(23)		Interest income	2	
Other derivative products		8	Interest income	1	1
Total	<u>\$107</u>	<u>\$ 7</u>		<u>\$ 0</u>	<u>\$(1)</u>

The System had no gains or losses recognized in income on cash flow hedges (ineffective portion and amount excluded from effectiveness testing) for 2013 and 2012.

The following table sets forth the amount of gain recognized in the Combined Statement of Income related to derivatives not designated as hedging instruments:

Derivatives Not Designated as Hedging Instruments	Location of Gain Recognized in Combined Statement of Income	For The Year Ended December 31,	
		2013	2012
Receive-fixed swaps	Noninterest income		\$14
Derivatives entered into on behalf of customers	Noninterest income	\$7	15
Total		<u>\$7</u>	<u>\$29</u>

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NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
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NOTE 18 — ASSET/LIABILITY OFFSETTING

The following tables represent the offsetting of financial assets and liabilities:

	Gross Amounts Recognized	Gross Amounts Offset in the Combined Statement of Condition	Net Amounts Presented in the Combined Statement of Condition	Gross Amounts Not Offset in the Combined Statement of Condition		Net Amount
				Securities Received/Pledged	Cash Collateral Received/Pledged	
December 31, 2013						
Assets:						
Interest rate swaps and other derivatives	\$ 818	\$(42)	\$ 776	\$(153)	\$(451)	\$172
Federal Funds sold and securities purchased under resale agreements	1,078		1,078	(145)		933
Liabilities:						
Interest rate swaps and other derivatives	162	(42)	120		(10)	110
	Gross Amounts Recognized	Gross Amounts Offset in the Combined Statement of Condition	Net Amounts Presented in the Combined Statement of Condition	Gross Amounts Not Offset in the Combined Statement of Condition		Net Amount
				Securities Received/Pledged	Cash Collateral Received/Pledged	
December 31, 2012						
Assets:						
Interest rate swaps and other derivatives	\$1,197	\$(80)	\$1,117	\$(234)	\$(578)	\$305
Federal Funds sold and securities purchased under resale agreements	918		918	(150)		768
Liabilities:						
Interest rate swaps and other derivatives	255	(80)	175		(17)	158

**NOTE 19 — RELATED PARTY
TRANSACTIONS**

In the ordinary course of business, the Banks and Associations may enter into loan transactions with their officers and directors and non-System organizations with which such persons may be associated. These loans are subject to special approval requirements contained in Farm Credit Administration regulations and are, in the view of the lending System institution's management, made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers. As of December 31, 2013 and 2012, all related party loans were made in accordance with established policies and on the same terms as those prevailing at the time

for comparable transactions, except for one loan to a company affiliated with a System institution directors, which was \$2.7 million and \$3.2 million at December 31, 2013 and 2012. The interest rates on this loan was marginally lower than the rate on similar loans to unrelated borrowers.

Total loans outstanding to related parties were \$2.2 billion at December 31, 2013 and \$1.9 billion at December 31, 2012. During 2013 and 2012, \$3.6 billion and \$5.1 billion of new loans were made to such persons and repayments totaled \$3.3 billion and \$5.0 billion. In the opinions of Bank and Association managements, substantially all of such loans outstanding at December 31, 2013 and 2012 did not involve more than a normal risk of collectability.

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NOTE 20 — COMMITMENTS AND CONTINGENCIES

At December 31, 2013, various lawsuits were pending or threatened against System institutions. In the opinion of management, based on information currently available and taking into account the advice of legal counsel, the ultimate liability, if any, of pending legal actions will not have a material adverse impact on the System's combined results of operations or financial condition.

The Banks and Associations may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of their borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit and standby letters of credit. In the normal course of business, various commitments are made to customers, such as commitments to extend credit and letters of credit, which represent credit-related financial instruments with off-balance-sheet risk.

A summary of the contractual amount of credit-related instruments is presented in the following table:

	December 31, 2013	December 31, 2012
Commitments to extend credit	\$74,787	\$73,095
Standby letters of credit ...	2,463	2,244
Commercial and other letters of credit	502	311

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their contractual amounts are not reflected on the balance sheet until funded or drawn upon. Standby letters of credits are reflected on the balance sheet at fair value of the liability. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and the same credit policies are applied by management. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. No material losses are anticipated as a result of these transactions.

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

NOTE 21 — QUARTERLY FINANCIAL DATA (UNAUDITED)

The unaudited results of operations by quarter for the past three years are presented below:

	2013 Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
Net interest income	\$1,677	\$1,635	\$1,669	\$1,693
(Provision for loan losses) loan loss reversal.	(22)	(19)	32	40
Net noninterest expense	(454)	(454)	(397)	(539)
Provision for income taxes	(59)	(58)	(51)	(53)
Net income	<u>\$1,142</u>	<u>\$1,104</u>	<u>\$1,253</u>	<u>\$1,141</u>

	2012 Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
Net interest income	\$1,581	\$1,600	\$1,638	\$1,658
Provision for loan losses.	(32)	(35)	(121)	(125)
Net noninterest expense	(429)	(412)	(431)	(552)
Provision for income taxes	(68)	(86)	(47)	(21)
Net income	<u>\$1,052</u>	<u>\$1,067</u>	<u>\$1,039</u>	<u>\$ 960</u>

	2011 Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
Net interest income	\$1,569	\$1,563	\$1,564	\$1,563
Provision for loan losses.	(108)	(126)	(118)	(78)
Net noninterest expense	(387)	(389)	(377)	(467)
Provision for income taxes	(70)	(66)	(61)	(72)
Net income	<u>\$1,004</u>	<u>\$ 982</u>	<u>\$1,008</u>	<u>\$ 946</u>

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

NOTE 22 — COMBINING BANK-ONLY INFORMATION

The following condensed combining statements include the statement of condition, statement of comprehensive income and statement of changes in capital for the combined Banks without the affiliated Associations or other System institutions.

**Combining Bank-Only
Statement of Condition**

December 31, 2013

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	CoBank, ACB	Combination Entries	Combined Banks
Assets						
Cash	\$ 1,039	\$ 1,074	\$ 603	\$ 1,335		\$ 4,051
Federal funds sold and securities purchased under resale agreements	145	911	22			1,078
Investments (Note 3)(2)	7,153	11,555	3,638	21,688		44,034
Loans						
To Associations(1)	13,990	65,594	7,326	37,851		124,761
To others(2)	6,211	8,083	4,453	35,752	\$(470)	54,029
Less: allowance for loan losses	(23)	(10)	(14)	(447)		(494)
Net loans	20,178	73,667	11,765	73,156	(470)	178,296
Accrued interest receivable	63	345	37	369		814
Other assets	266	174	158	1,096	329	2,023
Total assets	<u>\$28,844</u>	<u>\$87,726</u>	<u>\$16,223</u>	<u>\$97,644</u>	<u>\$(141)</u>	<u>\$230,296</u>
Liabilities and Capital						
Systemwide Debt Securities (Notes 8 and 9):						
Due within one year	\$ 9,072	\$23,095	\$ 5,071	\$32,907	\$ (13)	\$ 70,132
Due after one year	17,153	57,888	9,531	52,804	(19)	137,357
Total Systemwide Debt Securities	26,225	80,983	14,602	85,711	(32)	207,489
Subordinated debt (Note 10)		500	50	905		1,455
Accrued interest payable	54	197	38	291		580
Other liabilities	418	1,125	140	4,032	(21)	5,694
Total liabilities	26,697	82,805	14,830	90,939	(53)	215,218
Capital (Note 13)						
Preferred stock	125	250	600	962		1,937
Capital stock and participation certificates	309	2,110	239	2,677	(126)	5,209
Additional paid-in-capital	37					37
Accumulated other comprehensive income (loss)	98	9	(33)	(39)	(9)	26
Surplus	1,578	2,552	587	3,105	47	7,869
Total capital	2,147	4,921	1,393	6,705	(88)	15,078
Total liabilities and capital	<u>\$28,844</u>	<u>\$87,726</u>	<u>\$16,223</u>	<u>\$97,644</u>	<u>\$(141)</u>	<u>\$230,296</u>

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

**Combining Bank-Only
Statement of Condition**

December 31, 2012

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	CoBank, ACB	Combination Entries	Combined Banks
Assets						
Cash	\$ 723	\$ 340	\$ 502	\$ 1,254		\$ 2,819
Federal funds sold and securities purchased under resale agreements	149	745	24			918
Investments (Note 3)(2)	7,485	10,987	3,346	17,999		39,817
Loans						
To Associations(1)	13,834	61,649	7,184	36,712		119,379
To others(2)	6,376	8,049	4,155	35,268	\$(468)	53,380
Less: allowance for loan losses	(45)	(13)	(17)	(437)		(512)
Net loans	20,165	69,685	11,322	71,543	(468)	172,247
Accrued interest receivable	73	358	36	361		828
Other assets	296	184	151	1,321	348	2,300
Total assets	<u>\$28,891</u>	<u>\$82,299</u>	<u>\$15,381</u>	<u>\$92,478</u>	<u>\$(120)</u>	<u>\$218,929</u>
Liabilities and Capital						
Systemwide Debt Securities (Notes 8 and 9):						
Due within one year	\$10,627	\$23,633	\$ 4,864	\$25,613	\$ (3)	\$ 64,734
Due after one year	15,660	52,717	9,047	55,810	(2)	133,232
Total Systemwide Debt Securities	26,287	76,350	13,911	81,423	(5)	197,966
Subordinated debt (Note 10)		500	50	905		1,455
Accrued interest payable	41	195	32	296		564
Other liabilities	265	998	114	3,413	(12)	4,778
Total liabilities	26,593	78,043	14,107	86,037	(17)	204,763
Capital (Note 13)						
Preferred stock	275		482	962		1,719
Capital stock and participation certificates	333	1,990	228	2,606	(108)	5,049
Additional paid-in-capital	37					37
Accumulated other comprehensive income (loss)	171	(64)	28	144	(15)	264
Surplus	1,482	2,330	536	2,729	20	7,097
Total capital	2,298	4,256	1,274	6,441	(103)	14,166
Total liabilities and capital	<u>\$28,891</u>	<u>\$82,299</u>	<u>\$15,381</u>	<u>\$92,478</u>	<u>\$(120)</u>	<u>\$218,929</u>

- (1) These loans represent direct loans to Associations, not retail loans to borrowers. Since the Associations operate under regulations that require maintenance of certain minimum capital levels, adequate reserves, and prudent underwriting standards, these loans are considered to carry less risk. Accordingly, these loans typically have little or no associated allowance for loan losses. The majority of the credit risk resides with the Banks' and Associations' retail loans to borrowers. Association retail loans are not reflected in the combining Bank-only financial statements.

Further, the loans to the Associations are risk-weighted at 20% of the loan amount in the computation of each Bank's regulatory permanent capital, total surplus and core surplus ratios. Based upon the lower risk-weighting of these loans to the Associations, the Banks, especially AgFirst, AgriBank and Texas, typically operate with more leverage and lower earnings than would be expected from a traditional retail bank. In the case of CoBank, approximately half of its loans are retail loans to cooperatives and other eligible borrowers.

- (2) Loans to others represent retail loans held by the Banks. The Banks may purchase participations in loans to eligible borrowers made by Associations, other Banks and non-System lenders. Three Banks (AgFirst, AgriBank and Texas) have one or more participation pool programs designed to allow Associations to sell loan participation interests to the Bank in order to more efficiently manage the capital of each Bank and its related Associations within their respective District. Within these programs, a separate patronage pool is created for each participating Association. The net income from each pool is tracked separately so that, at the Bank board's discretion, patronage can be distributed from the pool. The declared patronage generally approximates the net earnings of the respective pool. At December 31, 2013 and 2012, such participation pools outstanding were \$0.6 billion and \$0.8 billion for AgFirst, \$4.0 billion and \$4.4 billion for AgriBank and \$41.0 million and \$14.7 million for Texas.

Also, the participation pool program for Texas includes investments that were sold to the Bank by its Associations of \$101.1 million and \$115.5 million for 2013 and 2012.

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

**Combining Bank-Only
Statement of Comprehensive Income**

For the year ended December 31,

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	CoBank, ACB	Combination Entries	Combined Banks
2013						
Interest income	\$ 735	\$1,343	\$ 370	\$1,963	\$ 99	\$ 4,510
Interest expense	(197)	(819)	(157)	(800)	18	(1,955)
Net interest income	538	524	213	1,163	117	2,555
Loan loss reversal (provision for loan losses)	10	4	(6)			8
Noninterest income						
Loan-related fee income	10	21	10	116		157
Losses on extinguishment of debt	(5)	(4)		(97)	34	(72)
Total other-than-temporary impairment losses	(2)	(5)		(2)		(9)
Portion of other-than-temporary impairment recognized in other comprehensive income		3	(1)	(1)		1
Net other-than-temporary impairment losses included in earnings	(2)	(2)	(1)	(3)		(8)
Other noninterest income	20	126	33	116	(138)	157
Total noninterest income	23	141	42	132	(104)	234
Noninterest expense	(114)	(105)	(69)	(280)	(26)	(594)
Provision for income taxes				(159)		(159)
Net income	457	564	180	856	(13)	2,044
Other comprehensive income	(73)	73	(61)	(183)	6	(238)
Comprehensive income	<u>\$ 384</u>	<u>\$ 637</u>	<u>\$ 119</u>	<u>\$ 673</u>	<u>\$ (7)</u>	<u>\$ 1,806</u>
2012						
Interest income	\$ 815	\$1,407	\$ 390	\$2,025	\$ 51	\$ 4,688
Interest expense	(209)	(923)	(172)	(787)	(1)	(2,092)
Net interest income	606	484	218	1,238	50	2,596
Provision for loan losses	(15)	(7)	(27)	(70)		(119)
Noninterest income						
Loan-related fee income	11	46	10	115		182
Losses on extinguishment of debt	(40)	(1)		(115)	1	(155)
Total other-than-temporary impairment losses	(23)	(38)		(1)		(62)
Portion of other-than-temporary impairment recognized in other comprehensive income	19	13		(16)		16
Net other-than-temporary impairment losses included in earnings	(4)	(25)		(17)		(46)
Other noninterest income	20	108	37	130	(69)	226
Total noninterest income	(13)	128	47	113	(68)	207
Noninterest expense	(109)	(91)	(63)	(263)	(24)	(550)
Provision for income taxes				(164)		(164)
Net income	469	514	175	854	(42)	1,970
Other comprehensive income	47	84	3	42	(1)	175
Comprehensive income	<u>\$ 516</u>	<u>\$ 598</u>	<u>\$ 178</u>	<u>\$ 896</u>	<u>\$ (43)</u>	<u>\$ 2,145</u>

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

Combining Bank-Only
Statement of Comprehensive Income — continued

For the year ended December 31,

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	U.S. AgBank, FCB*	CoBank, ACB	Combination Entries	Combined Banks
2011							
Interest income	\$ 888	\$ 1,519	\$ 423	\$ 514	\$1,789	\$ 24	\$ 5,157
Interest expense	(293)	(1,061)	(198)	(366)	(718)	17	(2,619)
Net interest income	595	458	225	148	1,071	41	2,538
(Provision for loan losses) loan loss reversal ...	(80)	(9)	(17)	1	(58)		(163)
Noninterest income							
Loan-related fee income	11	42	10	14	117		194
Losses on extinguishment of debt	(28)			(4)	(50)		(82)
Total other-than-temporary impairment losses	(7)	(31)	(3)	(88)	(9)		(138)
Portion of other-than-temporary impairment recognized in other comprehensive income	(2)	8	1	64	(1)		70
Net other-than-temporary impairment losses included in earnings	(9)	(23)	(2)	(24)	(10)		(68)
Other noninterest income	10	80	16	30	60	(58)	138
Total noninterest income	(16)	99	24	16	117	(58)	182
Noninterest expense	(114)	(83)	(58)	(36)	(227)	(21)	(539)
Provision for income taxes					(196)		(196)
Net income	385	465	174	129	707	(38)	1,822
Other comprehensive income	92	(62)	3	(51)	102	(1)	83
Comprehensive income	<u>\$ 477</u>	<u>\$ 403</u>	<u>\$ 177</u>	<u>\$ 78</u>	<u>\$ 809</u>	<u>\$(39)</u>	<u>\$ 1,905</u>

* Effective January 1, 2012, U.S. AgBank, FCB merged with and into CoBank, FCB, a wholly-owned subsidiary of CoBank, ACB.

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

**Combining Bank-Only
Statement of Changes in Capital**

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	U.S. AgBank, FCB*	CoBank, ACB	Combination Entries	Combined Banks
Balance at December 31, 2010	\$ 1,903	\$ 3,595	\$ 1,151	\$ 1,367	\$ 4,406	\$ (46)	\$ 12,376
Comprehensive income (loss)	477	403	177	78	809	(39)	1,905
Preferred stock dividends	(27)		(44)	(13)	(64)		(148)
Capital stock and participation certificates issued	10	119	3	254	5		391
Capital stock, participation certificates, and surplus retired	(22)	(127)	(14)		(30)		(193)
Patronage and dividends	(192)	(184)	(63)	(181)	(230)	16	(834)
Recapitalization distribution related to Bank merger				(246)			(246)
Balance at December 31, 2011	2,149	3,806	1,210	1,259	4,896	(69)	13,251
Adjustment due to Bank merger				(1,259)		1,259	
Balance at January 1, 2012	2,149	3,806	1,210		4,896	1,190	13,251
Comprehensive income (loss)	516	598	178		896	(43)	2,145
Preferred stock issued, net					394		394
Preferred stock repurchased	(125)				(363)		(488)
Preferred stock dividends	(18)		(44)		(72)		(134)
Equity issued or recharacterized upon Bank merger					225		225
Equity retired or recharacterized upon Bank merger						(225)	(225)
Capital stock and participation certificates issued	3	183	5		27		218
Capital stock, participation certificates, and surplus retired	(77)	(112)	(9)		(34)		(232)
Transfer of capital stock and participation certificates due to merger					878	(878)	
Additional paid-in-capital	37						37
Recharacterization of other comprehensive loss due to Bank merger						259	259
Net reduction in surplus related to net fair value adjustment related to merger ...					(62)	(407)	(469)
Patronage and dividends	(187)	(219)	(66)		(344)	1	(815)
Balance at December 31, 2012	2,298	4,256	1,274		6,441	(103)	14,166
Comprehensive income (loss)	384	637	119		673	(7)	1,806
Preferred stock issued, net		246	296		196		738
Preferred stock retired	(150)		(182)		(200)		(532)
Preferred stock dividends	(6)	(3)	(50)		(63)		(122)
Capital stock and participation certificates issued	14	141	12		27		194
Capital stock, participation certificates, and surplus retired	(39)	(121)	(4)		(32)		(196)
Patronage and dividends	(354)	(235)	(72)		(337)	22	(976)
Balance at December 31, 2013	<u>\$ 2,147</u>	<u>\$ 4,921</u>	<u>\$ 1,393</u>	<u>\$ 0</u>	<u>\$ 6,705</u>	<u>\$ (88)</u>	<u>\$ 15,078</u>

* Effective January 1, 2012, U.S. AgBank, FCB merged with and into CoBank, FCB, a wholly-owned subsidiary of CoBank, ACB.

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

Certain Bank-only ratios and other information is as follows:

	<u>AgFirst FCB</u>	<u>AgriBank, FCB</u>	<u>FCB of Texas</u>	<u>CoBank, ACB</u>
<u>December 31, 2013</u>				
Return on average assets	1.61%	0.68%	1.16%	0.91%
Return on average capital	19.45%	12.46%	12.31%	12.92%
Nonperforming assets as a percentage of loans and other property owned	0.40%	0.08%	0.46%	0.21%
Allowance for loan losses as a percentage of loans	0.11%	0.01%	0.12%	0.61%
Capital as a percentage of total assets	7.44%	5.61%	8.59%	6.87%
Net collateral ratio	106.8%	106.4%	108.7%	107.6%
Permanent capital ratio	22.9%	22.1%	21.6%	16.7%
Liquidity in days	246	161	268	181
Average liquidity in days during 2013	239	162	264	194
<u>December 31, 2012</u>				
Return on average assets	1.63%	0.68%	1.18%	0.94%
Return on average capital	20.06%	12.80%	13.56%	13.73%
Nonperforming assets as a percentage of loans and other property owned	0.53%	0.10%	0.94%	0.24%
Allowance for loan losses as a percentage of loans	0.22%	0.02%	0.15%	0.61%
Capital as a percentage of total assets	7.95%	5.17%	8.28%	6.96%
Net collateral ratio	107.0%	106.0%	107.9%	107.1%
Permanent capital ratio	23.6%	21.1%	18.6%	16.1%
Liquidity in days	218	139	231	204
Average liquidity in days during 2012	220	146	234	190

Bank-only information is considered meaningful because only the Banks are jointly and severally liable for the payment of principal and interest on Systemwide Debt Securities (See Notes 7 and 9 for additional information.) That means that each Bank is primarily liable for the payment of principal and interest on Systemwide Debt Securities issued to fund its lending activities and is also jointly and severally liable with respect to Systemwide Debt Securities issued to fund the other Banks.

The Associations are the primary owners of the Farm Credit Banks. The Agricultural Credit Bank (CoBank) is principally owned by cooperatives, other eligible borrowers and its affiliated Associations. Due to the financial and operational interdependence of the Banks and Associations, capital at the Association level reduces the Banks' credit exposure with respect to the direct loans between the Banks and each of their affiliated Associations. However, capital of the

Associations may not be available if the provisions of joint and several liability were to be invoked. There are various limitations and conditions with respect to each Bank's access to the capital of its affiliated Associations, as more fully discussed in Note 13.

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 insure 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.

FARM CREDIT SYSTEM
NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

Once joint and several liability is triggered, 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 Bank’s 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. On 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 default-

ing Bank. The receiver would be required to expeditiously liquidate the Bank.

NOTE 23 — SUBSEQUENT EVENTS

Effective January 1, 2014, there were several Association mergers within the System. Four Associations within the CoBank District merged reducing the total number of Associations within the CoBank District by two. Similarly, four Associations within the Texas District merged reducing the total number of Associations within the Texas District by two. All mergers were accounted for under the acquisition method of accounting.

The Banks and Associations have evaluated subsequent events through February 28, 2014, which is the date the financial statements were issued and have determined that there were no other events requiring disclosure.

FARM CREDIT SYSTEM
SUPPLEMENTAL COMBINING INFORMATION

The following condensed Combining Statements of Condition and Comprehensive Income present Bank-only and Insurance Fund information, as well as information related to the other entities included in the System's combined financial statements. As part of the combining process, all significant transactions

between the Banks, the Associations, including loans made by the Banks to the Associations and the interest income/interest expense related thereto, and investments of the Associations in the Banks and the earnings related thereto, have been eliminated.

COMBINING STATEMENT OF CONDITION — (CONDENSED)
December 31, 2013
(in millions)

	Combined Banks	Combined Associations	Eliminations	Combined without Insurance Fund	Insurance Fund	Combination Entries	System Combined
Cash and investments	\$ 49,163	\$ 2,730		\$ 51,893			\$ 51,893
Loans	178,790	146,914	\$(124,644)	201,060			201,060
Less: allowance for loan losses	(494)	(744)		(1,238)			(1,238)
Net loans	178,296	146,170	(124,644)	199,822			199,822
Other assets	2,837	8,242	(5,508)	5,571			5,571
Restricted assets					\$3,496		3,496
Total assets	<u>\$230,296</u>	<u>\$157,142</u>	<u>\$(130,152)</u>	<u>\$257,286</u>	<u>\$3,496</u>	<u>\$ 0</u>	<u>\$260,782</u>
Systemwide Debt Securities and subordinated debt	\$208,944	\$ 100		\$209,044			\$209,044
Other liabilities	6,274	127,975	\$(125,113)	9,136		\$ 1(a)	9,137
Total liabilities	<u>215,218</u>	<u>128,075</u>	<u>(125,113)</u>	<u>218,180</u>		<u>1</u>	<u>218,181</u>
Capital							
Protected borrower stock		1		1		(1)(a)	
Preferred stock	1,937	532		2,469			2,469
Capital stock and participation certificates	5,209	560	(4,124)	1,645			1,645
Additional paid-in-capital	37	701		738			738
Restricted capital					\$3,496		3,496
Accumulated other comprehensive income (loss)	26	(71)	(762)	(807)			(807)
Surplus	7,869	27,344	(153)	35,060			35,060
Total capital	<u>15,078</u>	<u>29,067</u>	<u>(5,039)</u>	<u>39,106</u>	<u>3,496</u>	<u>(1)</u>	<u>42,601</u>
Total liabilities and capital	<u>\$230,296</u>	<u>\$157,142</u>	<u>\$(130,152)</u>	<u>\$257,286</u>	<u>\$3,496</u>	<u>\$ 0</u>	<u>\$260,782</u>

Combination entry (a) reclassifies protected borrower stock to other liabilities in recognition of its

reduced at-risk characteristics at the System level.

FARM CREDIT SYSTEM
SUPPLEMENTAL COMBINING INFORMATION — (continued)
COMBINING STATEMENT OF CONDITION — (CONDENSED)
December 31, 2012
(in millions)

	Combined Banks	Combined Associations	Eliminations	Combined without Insurance Fund	Insurance Fund	Combination Entries	System Combined
Cash and investments	\$ 43,554	\$ 3,374		\$ 46,928			\$ 46,928
Loans	172,759	138,319	\$(119,174)	191,904			191,904
Less: allowance for loan losses	(512)	(831)		(1,343)			(1,343)
Net loans	172,247	137,488	(119,174)	190,561			190,561
Other assets	3,128	7,913	(5,164)	5,877			5,877
Restricted assets					\$3,298		3,298
Total assets	<u>\$218,929</u>	<u>\$148,775</u>	<u>\$(124,338)</u>	<u>\$243,366</u>	<u>\$3,298</u>	<u>\$ 0</u>	<u>\$246,664</u>
Systemwide Debt Securities and subordinated debt	\$199,421	\$ 100		\$199,521			\$199,521
Other liabilities	5,342	122,197	\$(119,007)	8,532		\$ 2(a)	8,534
Total liabilities	<u>204,763</u>	<u>122,297</u>	<u>(119,007)</u>	<u>208,053</u>		<u>2</u>	<u>208,055</u>
Capital							
Protected borrower stock		2		2		(2)(a)	
Preferred stock	1,719	338		2,057			2,057
Capital stock and participation certificates	5,049	560	(3,988)	1,621			1,621
Additional paid-in-capital	37	701		738			738
Restricted capital					\$3,298	0(b)	3,298
Accumulated other comprehensive income (loss)	264	(112)	(1,176)	(1,024)			(1,024)
Surplus	7,097	24,989	(167)	31,919		0(b)	31,919
Total capital	<u>14,166</u>	<u>26,478</u>	<u>(5,331)</u>	<u>35,313</u>	<u>3,298</u>	<u>(2)</u>	<u>38,609</u>
Total liabilities and capital	<u>\$218,929</u>	<u>\$148,775</u>	<u>\$(124,338)</u>	<u>\$243,366</u>	<u>\$3,298</u>	<u>\$ 0</u>	<u>\$246,664</u>

Combination entry (b) eliminates \$222 million of income recognized by System institutions for excess funds that were returned during the second

quarter of 2012, and a transfer from restricted capital to surplus of \$222 million.

FARM CREDIT SYSTEM
SUPPLEMENTAL COMBINING INFORMATION — (continued)

COMBINING STATEMENT OF COMPREHENSIVE INCOME — (CONDENSED)
For the Year Ended December 31,
(in millions)

	Combined Banks	Combined Associations	Eliminations	Combined without Insurance Fund	Insurance Fund	Combination Entries	System Combined
2013							
Net interest income	\$2,555	\$ 4,075	\$ 44	\$ 6,674			\$ 6,674
Loan loss reversal	8	23		31			31
Noninterest income	234	1,447	(1,087)	594	\$201	\$(174)(c)	621
Noninterest expense	(594)	(2,173)	131	(2,636)	(3)	174 (c)	(2,465)
Provision for income taxes	(159)	(62)		(221)			(221)
Net income	2,044	3,310	(912)	4,442	198	0	4,640
Other comprehensive income (loss)	(238)	41	414	217			217
Comprehensive income	<u>\$1,806</u>	<u>\$ 3,351</u>	<u>\$ (498)</u>	<u>\$ 4,659</u>	<u>\$198</u>	<u>\$ 0</u>	<u>\$ 4,857</u>
2012							
Net interest income	\$2,596	\$ 3,843	\$ 38	\$ 6,477			\$ 6,477
Provision for loan losses	(119)	(194)		(313)			(313)
Noninterest income	207	1,420	(950)	677	\$131	\$(306)(b)(c)	502
Noninterest expense	(550)	(2,014)	157	(2,407)	(3)	84 (c)	(2,326)
Provision for income taxes	(164)	(58)		(222)			(222)
Net income	1,970	2,997	(755)	4,212	128	(222)	4,118
Other comprehensive income (loss)	175	(22)	(106)	47			47
Comprehensive income	<u>\$2,145</u>	<u>\$ 2,975</u>	<u>\$ (861)</u>	<u>\$ 4,259</u>	<u>\$128</u>	<u>\$(222)</u>	<u>\$ 4,165</u>
2011							
Net interest income	\$2,538	\$ 3,687	\$ 34	\$ 6,259			\$ 6,259
Provision for loan losses	(163)	(267)		(430)			(430)
Noninterest income	182	1,535	(1,219)	498	\$169	\$ (99)(c)	568
Noninterest expense	(539)	(1,884)	139	(2,284)	(3)	99 (c)	(2,188)
Provision for income taxes	(196)	(73)		(269)			(269)
Net income	1,822	2,998	(1,046)	3,774	166	0	3,940
Other comprehensive income (loss)	83	(28)	(214)	(159)			(159)
Comprehensive income	<u>\$1,905</u>	<u>\$ 2,970</u>	<u>\$(1,260)</u>	<u>\$ 3,615</u>	<u>\$166</u>	<u>\$ 0</u>	<u>\$ 3,781</u>

Combination entry (b) eliminates \$222 million of income recognized by System institutions for excess funds that were returned during the second quarter of 2012. Combination entry (c) eliminates the

Insurance Fund premiums of \$174 million, \$84 million, and \$99 million expensed by the Banks during the years ended 2013, 2012, and 2011 and the related income recognized by the Insurance Corporation.

FARM CREDIT SYSTEM
SUPPLEMENTAL COMBINING INFORMATION — (continued)

The chartered territories of the Banks and their affiliated Associations (collectively, the District) include all or portions of the states and territories set forth below:

AgFirst Farm Credit Bank	Alabama, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Ohio, Pennsylvania, Puerto Rico, South Carolina, Tennessee, Virginia, and West Virginia
AgriBank, FCB	Arkansas, Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Tennessee, Wisconsin, and Wyoming
Farm Credit Bank of Texas	Alabama, Louisiana, Mississippi, New Mexico, and Texas
CoBank, ACB	Serves eligible customers nationwide and Associations in the states of Alaska, Arizona, California, Colorado, Connecticut, Hawaii, Idaho, Kansas, Maine, Massachusetts, Montana, Nevada, New Hampshire, New Jersey, New Mexico, New York, Oklahoma, Oregon, Rhode Island, Utah, Vermont, Washington, and Wyoming

Although the Banks are not commonly owned or controlled, they fund their operations primarily through the issuance of Systemwide Debt Securities for which they are jointly and severally liable. Further, each District operates in such an interdependent manner that we believe the financial results of the

Banks combined with their affiliated Associations are more meaningful than providing financial information of the Banks and Associations on a stand-alone basis. For the purpose of additional analysis, the following presentation reflects each District, the Insurance Fund and combination entries.

FARM CREDIT SYSTEM
SUPPLEMENTAL COMBINING INFORMATION — (continued)

COMBINING BANK AND ASSOCIATION (DISTRICT)

STATEMENT OF CONDITION — (CONDENSED)

December 31, 2013

(in millions)

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	CoBank District Combined	Insurance Fund and Combination Entries	System Combined
Cash and investments	\$ 8,526	\$ 15,598	\$ 4,325	\$ 23,438	\$ 6	\$ 51,893
Loans	23,271	82,770	17,725	81,603	(4,309)	201,060
Less: allowance for loan losses	(188)	(236)	(74)	(740)		(1,238)
Net loans	23,083	82,534	17,651	80,863	(4,309)	199,822
Other assets	652	2,197	397	2,054	271	5,571
Restricted assets					3,496	3,496
Total assets	<u>\$32,261</u>	<u>\$100,329</u>	<u>\$22,373</u>	<u>\$106,355</u>	<u>\$ (536)</u>	<u>\$260,782</u>
Systemwide Debt Securities and subordinated debt	\$26,225	\$ 81,583	\$14,652	\$ 86,616	\$ (32)	\$209,044
Other liabilities	861	2,232	4,147	5,766	(3,869)	9,137
Total liabilities	<u>27,086</u>	<u>83,815</u>	<u>18,799</u>	<u>92,382</u>	<u>(3,901)</u>	<u>218,181</u>
Capital						
Protected borrower stock	1				(1)	
Preferred stock	125	350	600	1,394		2,469
Capital stock and participation certificates ..	156	300	78	1,278	(167)	1,645
Additional paid-in-capital	61		23	654		738
Restricted capital					3,496	3,496
Accumulated other comprehensive loss	(175)	(315)	(111)	(196)	(10)	(807)
Surplus	5,007	16,179	2,984	10,843	47	35,060
Total capital	<u>5,175</u>	<u>16,514</u>	<u>3,574</u>	<u>13,973</u>	<u>3,365</u>	<u>42,601</u>
Total liabilities and capital	<u>\$32,261</u>	<u>\$100,329</u>	<u>\$22,373</u>	<u>\$106,355</u>	<u>\$ (536)</u>	<u>\$260,782</u>

FARM CREDIT SYSTEM
SUPPLEMENTAL COMBINING INFORMATION — (continued)

COMBINING BANK AND ASSOCIATION (DISTRICT)

STATEMENT OF CONDITION — (CONDENSED)

December 31, 2012

(in millions)

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	CoBank District Combined	Insurance Fund and Combination Entries	System Combined
Cash and investments	\$ 8,574	\$14,568	\$ 3,953	\$ 19,827	\$ 6	\$ 46,928
Loans	22,929	77,089	16,867	79,077	(4,058)	191,904
Less: allowance for loan losses	(213)	(263)	(107)	(760)		(1,343)
Net loans	22,716	76,826	16,760	78,317	(4,058)	190,561
Other assets	809	2,115	413	2,231	309	5,877
Restricted assets					3,298	3,298
Total assets	<u>\$32,099</u>	<u>\$93,509</u>	<u>\$21,126</u>	<u>\$100,375</u>	<u>\$ (445)</u>	<u>\$246,664</u>
Systemwide Debt Securities and subordinated debt	\$26,287	\$76,950	\$13,961	\$ 82,328	\$ (5)	\$199,521
Other liabilities	924	2,231	3,879	5,104	(3,604)	8,534
Total liabilities	<u>27,211</u>	<u>79,181</u>	<u>17,840</u>	<u>87,432</u>	<u>(3,609)</u>	<u>208,055</u>
Capital						
Protected borrower stock	1	1			(2)	
Preferred stock	275		482	1,300		2,057
Capital stock and participation certificates ..	157	284	75	1,241	(136)	1,621
Additional paid-in-capital	61		23	654		738
Restricted capital					3,298	3,298
Accumulated other comprehensive loss	(214)	(583)	(111)	(101)	(15)	(1,024)
Surplus	4,608	14,626	2,817	9,849	19	31,919
Total capital	<u>4,888</u>	<u>14,328</u>	<u>3,286</u>	<u>12,943</u>	<u>3,164</u>	<u>38,609</u>
Total liabilities and capital	<u>\$32,099</u>	<u>\$93,509</u>	<u>\$21,126</u>	<u>\$100,375</u>	<u>\$ (445)</u>	<u>\$246,664</u>

FARM CREDIT SYSTEM
SUPPLEMENTAL COMBINING INFORMATION — (continued)
COMBINING BANK AND ASSOCIATION (DISTRICT)
STATEMENT OF COMPREHENSIVE INCOME — (CONDENSED)
For the Year Ended December 31,
(in millions)

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	U.S. AgBank District Combined*	CoBank District Combined	Insurance Fund and Combination Entries	System Combined
2013							
Net interest income	\$1,064	\$ 2,512	\$ 628		\$2,337	\$ 133	\$ 6,674
(Provision for loan losses)							
loan loss reversal	(15)	29	(6)		23		31
Noninterest income	60	351	57		249	(96)	621
Noninterest expense	(475)	(1,012)	(260)		(862)	144	(2,465)
Provision for income taxes	(1)	(50)			(170)		(221)
Net income	633	1,830	419		1,577	181	4,640
Other comprehensive income (loss) ..	39	268			(95)	5	217
Comprehensive income	<u>\$ 672</u>	<u>\$ 2,098</u>	<u>\$ 419</u>		<u>\$1,482</u>	<u>\$ 186</u>	<u>\$ 4,857</u>
2012							
Net interest income	\$1,131	\$ 2,311	\$ 613		\$2,362	\$ 60	\$ 6,477
Provision for loan losses	(98)	(34)	(34)		(147)		(313)
Noninterest income**	51	361	79		274	(263)	502
Noninterest expense	(449)	(880)	(248)		(807)	58	(2,326)
Provision for income taxes	(1)	(39)	(1)		(181)		(222)
Net income	634	1,719	409		1,501	(145)	4,118
Other comprehensive income (loss) ..	7	11	(19)		48		47
Comprehensive income	<u>\$ 641</u>	<u>\$ 1,730</u>	<u>\$ 390</u>		<u>\$1,549</u>	<u>\$(145)</u>	<u>\$ 4,165</u>
2011							
Net interest income	\$1,117	\$ 2,172	\$ 606	\$ 817	\$1,496	\$ 51	\$ 6,259
Provision for loan losses	(216)	(24)	(45)	(23)	(122)		(430)
Noninterest income	28	273	43	64	169	(9)	568
Noninterest expense	(442)	(825)	(234)	(342)	(418)	73	(2,188)
Provision for income taxes	(1)	(56)	(1)	(8)	(203)		(269)
Net income	486	1,540	369	508	922	115	3,940
Other comprehensive income (loss) ...	71	(160)	(43)	(109)	86	(4)	(159)
Comprehensive income	<u>\$ 557</u>	<u>\$ 1,380</u>	<u>\$ 326</u>	<u>\$ 399</u>	<u>\$1,008</u>	<u>\$ 111</u>	<u>\$ 3,781</u>

* Effective January 1, 2012, U.S. AgBank, FCB merged with and into CoBank, FCB, a wholly-owned subsidiary of CoBank, ACB.

** Includes Allocated Insurance Reserves Accounts distributions of \$34 million for AgFirst, \$79 million for AgriBank, \$23 million for Texas and \$86 million for CoBank, which are eliminated in combination.

FARM CREDIT SYSTEM
SUPPLEMENTAL COMBINING INFORMATION — (continued)

COMBINING BANK AND ASSOCIATION (DISTRICT)

STATEMENT OF CHANGES IN CAPITAL — (CONDENSED)
(in millions)

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	U.S. AgBank District Combined*	CoBank District Combined	Insurance Fund and Combination Entries	System Combined
Balance at December 31, 2010	\$ 4,157	\$ 11,658	\$ 2,966	\$ 5,169	\$ 6,153	\$ 3,148	\$ 33,251
Comprehensive income	557	1,380	326	399	1,008	111	3,781
Protected borrower stock retired	(1)	(1)				2	
Preferred stock dividends	(27)		(44)	(19)	(64)		(154)
Capital stock and participation certificates issued	40	30	7	4	3		84
Capital stock, participation certificates, and surplus retired	(32)	(18)	(9)	(5)	(32)		(96)
Additional paid-in-capital and other	11			1			12
Transfer of surplus due to merger	(34)			(1)			(35)
Patronage and dividends	(150)	(215)	(142)	(145)	(278)	27	(903)
Balance at December 31, 2011	4,521	12,834	3,104	5,403	6,790	3,288	35,940
Adjustment due to Bank merger				(5,403)	5,029	374	
Balance at January 1, 2012	4,521	12,834	3,104		11,819	3,662	35,940
Comprehensive income	641	1,730	390		1,549	(145)	4,165
Protected borrower stock retired	(2)	(1)				3	
Preferred stock retired, net	(125)				51		(74)
Preferred stock dividends	(18)		(44)		(76)		(138)
Equity issued or recharacterized upon Bank merger					225		225
Equity retired or recharacterized upon Bank merger						(225)	(225)
Capital stock and participation certificates issued	36	45	9		7	(22)	75
Capital stock, participation certificates, and surplus retired	(39)	(21)	(9)		(80)	31	(118)
Additional paid-in-capital	37						37
Equity issued or recharacterized upon Association merger	16				285		301
Equity retired or recharacterized upon Association merger	(15)				(288)		(303)
Recharacterization of other comprehensive loss due to fair value adjustments related to the Bank merger						259	259
Net reduction in surplus related to net fair value adjustment related to the Bank merger					(62)	(407)	(469)
Patronage and dividends	(164)	(259)	(164)		(487)	8	(1,066)
Balance at December 31, 2012	4,888	14,328	3,286		12,943	3,164	38,609
Comprehensive income	672	2,098	419		1,482	186	4,857
Protected borrower stock retired		(1)				1	
Preferred stock (retired) issued, net	(150)	342	114		90		396
Preferred stock dividends	(6)	(6)	(50)		(68)		(130)
Capital stock and participation certificates issued	37	36	9		7	(12)	77
Capital stock, participation certificates, and surplus retired	(39)	(21)	(10)		(38)		(108)
Patronage and dividends	(227)	(262)	(194)		(443)	26	(1,100)
Balance at December 31, 2013	\$ 5,175	\$ 16,514	\$ 3,574	\$ 0	\$13,973	\$ 3,365	\$ 42,601

* Effective January 1, 2012, U.S. AgBank, FCB merged with and into CoBank, FCB, a wholly-owned subsidiary of CoBank, ACB.

FARM CREDIT SYSTEM
SUPPLEMENTAL FINANCIAL INFORMATION
COMBINED BANK AND ASSOCIATION (DISTRICT)
SELECTED KEY FINANCIAL RATIOS
(unaudited)

The following combining key financial ratios related to each combined Bank and its affiliated Associations is intended for the purpose of additional analysis.

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	CoBank District Combined
<u>December 31, 2013</u>				
Return on average assets	1.99%	1.93%	1.95%	1.54%
Return on average capital	12.96%	11.98%	11.64%	11.63%
Net interest margin	3.47%	2.71%	3.02%	2.33%
Operating expense as a % of net interest income and noninterest income	40.64%	34.93%	38.57%	33.17%
Net loan charge-offs (recoveries) as a % of average loans	0.18%	0.00%	0.23%	(0.02)%
Nonperforming assets as a % of loans and other property owned	2.61%	0.86%	1.49%	0.80%
Allowance for loan losses as a % of loans	0.81%	0.29%	0.42%	0.91%
Capital as a % of total assets	16.04%	16.46%	15.97%	13.14%
Capital and allowance for loan losses as a % of loans	23.05%	20.24%	20.58%	18.03%
Debt to capital	5.23:1	5.08:1	5.26:1	6.61:1
<u>December 31, 2012</u>				
Return on average assets	1.99%	1.98%	2.00%	1.53%
Return on average capital	13.30%	12.56%	12.42%	11.89%
Net interest margin	3.70%	2.73%	3.11%	2.48%
Operating expense as a % of net interest income and noninterest income	35.11%	32.02%	33.85%	30.32%
Net loan charge-offs as a % of average loans	0.26%	0.09%	0.22%	0.10%
Nonperforming assets as a % of loans and other property owned	3.46%	1.08%	2.61%	1.08%
Allowance for loan losses as a % of loans	0.93%	0.34%	0.63%	0.96%
Capital as a % of total assets	15.23%	15.32%	15.55%	12.89%
Capital and allowance for loan losses as a % of loans	22.25%	18.93%	20.12%	17.33%
Debt to capital	5.57:1	5.53:1	5.43:1	6.76:1

FARM CREDIT SYSTEM
SUPPLEMENTAL FINANCIAL INFORMATION — (continued)
(unaudited)

The table below reflects the combined results of each Bank and its affiliated Associations (District) measurement under market value of equity and net interest income sensitivity analyses in accordance with their respective asset/liability management policies and District limits.

<u>District</u>	<u>Change in Market Value of Equity</u>			<u>Change in Net Interest Income</u>		
	<u>December 31, 2013</u>			<u>December 31, 2013</u>		
	<u>-4</u>	<u>+100</u>	<u>+200</u>	<u>-4</u>	<u>+100</u>	<u>+200</u>
AgFirst	0.04%	-2.60%	-6.92%	-0.09%	4.09%	6.09%
AgriBank	0.15	-3.23	-6.33	-0.04	1.70	2.43
Texas	0.00	-3.81	-8.35	-0.67	3.51	5.20
CoBank	0.06	-1.40	-2.88	-0.04	2.01	3.93

<u>District</u>	<u>Change in Market Value of Equity</u>			<u>Change in Net Interest Income</u>		
	<u>December 31, 2012</u>			<u>December 31, 2012</u>		
	<u>-3</u>	<u>+100</u>	<u>+200</u>	<u>-3</u>	<u>+100</u>	<u>+200</u>
AgFirst	-0.06%	1.49%	-0.39%	-0.08%	6.68%	10.07%
AgriBank	0.05	-2.19	-5.08	-0.02	1.76	2.75
Texas	0.00	-0.92	-3.22	-3.70	5.30	9.18
CoBank	0.12	-2.28	-4.83	-0.11	2.28	3.66

FARM CREDIT SYSTEM
SUPPLEMENTAL FINANCIAL INFORMATION — (continued)
(unaudited)

SELECTED ASSOCIATION KEY FINANCIAL INFORMATION

The Banks serve as financial intermediaries between the capital markets and the retail lending activities of their related Associations. Accordingly, in addition to the supplemental combining Bank and Association (District) information provided on pages F-75 to F-77, selected financial information regarding Associations with asset size greater than \$1 billion is provided below for the purpose of additional analysis.

December 31, 2013
(\$ in millions)

	Total Assets	Gross Loans	Return on Average Assets	Return on Average Capital	Net Interest Margin	Allowance for Loan Losses as a % of Gross Loans	Nonperforming Assets as a % of Gross Loans and Other Property Owned	Permanent Capital Ratio
AgFirst District								
MidAtlantic Farm Credit, ACA	\$ 2,272	\$ 2,198	3.09%	14.36%	3.15%	1.08%	2.07%	20.21%
AgSouth Farm Credit, ACA	1,594	1,497	3.22	18.29	3.84	0.78	2.39	18.69
Farm Credit of the Virginias, ACA	1,561	1,483	3.36	17.04	2.98	0.80	2.19	19.88
AgCredit, ACA	1,545	1,473	3.06	19.61	2.74	1.05	1.07	20.28
AgChoice Farm Credit, ACA	1,544	1,487	3.42	17.82	2.99	0.79	2.66	17.48
Carolina Farm Credit, ACA	1,472	1,362	3.18	15.06	3.49	0.41	2.60	20.34
First South Farm Credit, ACA	1,456	1,317	2.86	14.60	3.07	0.70	1.47	17.76
AgriBank District								
Farm Credit Services of America, ACA	21,274	20,212	2.60	15.00	2.95	0.26	0.45	14.81
Farm Credit Mid-America, ACA	20,032	17,670	1.61	9.79	2.15	0.26	1.33	15.93
AgStar Financial Services, ACA	7,106	6,364	1.73	11.91	2.72	0.39	2.27	15.41
GreenStone FCS, ACA	6,541	6,250	2.20	12.20	2.96	0.62	1.16	14.65
1st Farm Credit, ACA	4,909	4,467	1.97	11.24	2.53	0.30	0.60	15.21
AgCountry, ACA	4,550	4,203	2.16	10.50	2.81	0.37	0.62	15.82
Badgerland Financial, ACA	3,395	3,232	2.49	12.11	3.00	0.08	0.35	15.52
Farm Credit of Illinois, ACA	3,338	3,176	2.03	10.24	2.62	0.11	0.03	15.91
FCS Financial, ACA	3,180	3,050	2.03	10.58	2.77	0.56	0.56	16.19
United Farm Credit Services, ACA	1,466	1,389	2.04	11.33	2.99	0.21	0.50	13.26
Texas District								
Capital Farm Credit, ACA	5,551	5,429	2.66	14.91	3.39	0.36	1.49	16.36
CoBank District								
Northwest Farm Credit Services, ACA	9,605	9,160	2.55	14.39	2.97	1.06	1.54	14.74
Farm Credit West, ACA	6,926	6,415	2.36	11.91	2.90	0.54	1.53	18.62
American AgCredit, ACA	6,466	6,045	1.77	7.01	2.93	0.18	1.12	21.01
Farm Credit East, ACA	5,153	4,982	2.38	13.09	3.09	1.69	1.40	16.22
Yosemite Farm Credit, ACA	1,994	1,850	1.97	11.25	2.72	0.26	0.81	15.07
Frontier Farm Credit, ACA	1,717	1,597	1.72	9.22	2.66	0.31	0.43	14.58
Farm Credit of New Mexico, ACA	1,423	1,351	1.86	8.50	2.80	0.94	2.43	20.32
Farm Credit Services Southwest, ACA	1,060	994	1.58	8.91	2.83	0.39	2.42	17.76

FARM CREDIT SYSTEM
SUPPLEMENTAL FINANCIAL INFORMATION — (continued)
(unaudited)

SELECTED ASSOCIATION KEY FINANCIAL INFORMATION
December 31, 2012
(\$ in millions)

	Total Assets	Gross Loans	Return on Average Assets	Return on Average Capital	Net Interest Margin	Allowance for Loan Losses as a % of Gross Loans	Nonperforming Assets as a % of Gross Loans and Other Property Owned	Permanent Capital Ratio
AgFirst District								
MidAtlantic Farm Credit, ACA	\$ 2,213	\$ 2,144	2.32%	11.73%	3.14%	0.83%	2.97%	18.12%
AgSouth Farm Credit, ACA	1,583	1,491	2.70	16.30	3.89	0.73	2.63	17.05
Farm Credit of the Virginias, ACA	1,539	1,466	2.34	13.07	2.85	0.68	2.95	16.95
AgChoice Farm Credit, ACA	1,453	1,409	2.66	14.04	3.16	0.76	2.89	16.51
First South Farm Credit, ACA	1,443	1,323	2.20	11.83	3.10	0.57	1.35	16.12
AgCredit, ACA	1,426	1,379	2.17	13.88	2.84	1.27	2.33	19.36
Carolina Farm Credit, ACA	1,309	1,188	2.01	10.03	3.40	0.74	4.43	18.64
AgriBank District								
Farm Credit Services of America, ACA	19,610	18,490	2.75	15.60	3.07	0.32	0.48	14.86
Farm Credit Mid-America, ACA	19,057	16,527	1.60	10.08	2.06	0.37	1.62	15.54
AgStar Financial Services, ACA	6,664	5,913	1.77	12.88	2.71	0.45	2.74	13.91
GreenStone FCS, ACA	6,028	5,727	2.25	12.54	3.03	0.73	1.79	14.63
1st Farm Credit, ACA	4,572	4,095	2.35	13.33	2.64	0.23	0.69	14.94
AgCountry, ACA	4,119	3,813	2.11	9.74	2.95	0.32	0.87	16.58
Farm Credit of Illinois, ACA	3,304	3,160	2.16	11.28	2.61	0.12	0.04	14.67
Badgerland Financial, ACA	3,005	2,856	2.88	13.99	3.17	0.16	0.85	15.86
FCS Financial, ACA	2,858	2,741	2.36	11.55	2.87	0.65	0.75	17.09
United Farm Credit Services, ACA	1,365	1,289	2.33	13.45	3.07	0.22	0.86	13.21
Texas District								
Capital Farm Credit, ACA	5,335	5,205	2.69	15.03	3.34	0.61	2.51	16.01
CoBank District								
Northwest Farm Credit Services, ACA	9,471	8,999	1.88	11.33	3.05	1.42	3.36	13.43
Farm Credit West, ACA	6,669	6,078	2.40	12.71	2.85	0.55	2.63	16.99
American AgCredit, ACA	6,212	5,817	1.82	7.17	2.91	0.27	1.66	21.12
Farm Credit East, ACA	4,869	4,693	2.36	13.09	3.17	1.60	1.66	15.62
Yosemite Farm Credit, ACA	1,879	1,737	2.17	12.43	2.73	0.28	0.57	14.46
Frontier Farm Credit, ACA	1,572	1,460	1.91	10.01	2.79	0.35	0.63	15.12
Farm Credit of New Mexico, ACA	1,419	1,349	2.08	9.83	2.86	0.95	1.45	19.63
Farm Credit Services Southwest, ACA	1,067	1,004	1.92	11.31	2.90	0.39	2.72	16.89

FARM CREDIT SYSTEM
SUPPLEMENTAL FINANCIAL INFORMATION — (continued)
(unaudited)

Young, Beginning and Small Farmers and Ranchers

In line with our mission, we have policies and programs for making credit available to young, beginning and small farmers and ranchers.

The definitions of young, beginning and small farmers and ranchers (YBS) are:

- Young: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the date the loan was originally made.
- Beginning: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the date the loan was originally made.
- Small: A farmer, rancher or producer or harvester of aquatic products who normally generates less than \$250 thousand in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

It is important to note that farmers/ranchers may be included in multiple categories since they are included in each category in which the definition is met.

The following table summarizes information regarding loans to young and beginning farmers and ranchers:

	At December 31, 2013	
	Number of loans	Volume
	(\$ in millions)	
Total loans and commitments	979,891	\$213,016
Loans and commitments to young farmers and ranchers	175,123	\$ 23,766
% of loans and commitments to young farmers and ranchers	17.9%	11.2%
Loans and commitments to beginning farmers and ranchers	251,983	\$ 36,873
% of loans and commitments to beginning farmers and ranchers	25.7%	17.3%

The following table summarizes information regarding new loans made during 2013 to young and beginning farmers and ranchers:

	For The Year Ended December 31, 2013	
	Number of new loans	Volume
	(\$ in millions)	
Total new YBS loans and commitments	359,082	\$75,601
New loans and commitments to young farmers and ranchers	58,279	\$ 8,348
% of new loans and commitments to young farmers and ranchers	16.2%	11.0%
New loans and commitments to beginning farmers and ranchers	73,902	\$11,097
% of new loans and commitments to beginning farmers and ranchers	20.6%	14.7%

FARM CREDIT SYSTEM
SUPPLEMENTAL FINANCIAL INFORMATION — (continued)
(unaudited)

The following table summarizes information regarding loans to small farmers and ranchers at December 31, 2013:

	Loan Size				
	\$50 thousand or less	\$50 to \$100 thousand	\$100 to \$250 thousand	Over \$250 thousand	Total
	(\$ in millions)				
Total number of loans and commitments	472,429	165,975	190,115	151,372	979,891
Number of loans and commitments to small farmers and ranchers	256,795	93,329	93,880	37,848	481,852
% of loans and commitments to small farmers and ranchers	54.4%	56.2%	49.4%	25.0%	49.2%
Total loan and commitment volume	\$ 10,737	\$ 12,030	\$ 30,049	\$160,200	\$213,016
Total loan and commitment volume to small farmers and ranchers	\$ 4,852	\$ 6,621	\$ 14,242	\$ 19,688	\$ 45,403
% of loan and commitment volume to small farmers and ranchers	45.2%	55.0%	47.4%	12.3%	21.3%

The following table summarizes information regarding new loans made during 2013 to small farmers and ranchers:

	Loan Size				
	\$50 thousand or less	\$50 to \$100 thousand	\$100 to \$250 thousand	Over \$250 thousand	Total
	(\$ in millions)				
Total number of new YBS loans and commitments	195,986	48,369	55,704	59,023	359,082
Number of new loans and commitments to small farmers and ranchers	92,682	22,613	20,769	9,112	145,176
% of new loans and commitments to small farmers and ranchers	47.3%	46.8%	37.3%	15.4%	40.4%
Total new YBS loan and commitment volume	\$ 3,307	\$ 3,609	\$ 9,108	\$59,577	\$ 75,601
Total new loan and commitment volume to small farmers and ranchers	\$ 1,555	\$ 1,660	\$ 3,278	\$ 5,134	\$ 11,627
% of loan and commitments volume to small farmers and ranchers	47.0%	46.0%	36.0%	8.6%	15.4%

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(unaudited)

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DIRECTORS AND MANAGEMENT

Boards of Directors

Each Bank is governed by a board of directors that is responsible for establishing policies and procedures for the operation of the Bank. Each Bank's bylaws provide for the number, term, manner of election and qualifications of the members of the Bank's board. Farm Credit Administration regulations require at least two members of each Bank's board of directors be appointed by the other directors. Appointed members cannot be a director, officer, employee or stockholder of a System institution.

The following information sets forth the directors of each Bank as of December 31, 2013. The information includes the director's name, age, and business experience, including principal occupation and employment during the past five years. For additional discussion and information on the compensation of each Bank's board of directors, see the Bank's annual report.

AgFirst Farm Credit Bank

Jack W. Bentley, Jr., 56, a dairy farmer in Tignall, Georgia, owns and operates A&J Dairy, a 370-cow dairy that includes 668 acres of pasture, crops and timberland, and an additional 500 acres of leased farmland. Mr. Bentley is a director of AgGeorgia Farm Credit, ACA, Southeast United Dairy Industry Association, American Dairy Association, and the Wilkes County Farm Bureau. He is past chairman of the Wilkes County Board of Tax Assessors and USDA Farm Service Agency. Mr. Bentley has a BS in Ag Mechanics and Business from Clemson University and has attended numerous Leadership Institutes for Banking. He serves on the Board Compensation Committee. Mr. Bentley is also the Board appointed member of both the AgFirst Plan Sponsor Committee and the AgFirst/FCBT Plan Sponsor Committee. Mr. Bentley became a director in 2010 and his term expires on December 31, 2017.

James "Jimmy" C. Carter, Jr., 67, owns and operates with his son, Southern Belle Farm, Inc., located in McDonough, Georgia. The 330-acre beef cattle and hay farm, includes fruit and vegetable crops, and agriculturally related educational activities. Mr. Carter also operates a feed, mineral, and supplements business from the farm and provides artificial insemination services and supplies for cattle. Mr. Carter is a director of AgSouth Farm Credit, the National Farm Credit Council, a trade organization; and serves as chairman of the Henry County Water and Sewage Authority. He is a representative on the Ocmulgee River Basin Advisory Council and serves as vice president of the Henry County Farm Bureau. He is a member of the board for the Henry County Cattleman's Association. Mr. Carter has a BS in Agriculture and Master of Science from the University of Georgia. Mr. Carter served as chair of the Board Audit Committee in 2013 and will serve on the Board Governance Committee in 2014. Mr. Carter became a director in 2011 and his term expires on December 31, 2014.

Bonnie V. Hancock, 52, is Executive Director of the Enterprise Risk Management Initiative at North Carolina State University (NCSU). She also teaches courses in financial management, enterprise risk management, strategy and financial statement analysis. Prior to joining NCSU, she worked with Progress Energy as senior vice president of finance and information technology and later as president of Progress Fuels, a subsidiary that produces and markets gas, coal and synthetic fuels and operates fuel terminals and ash management facilities. Ms. Hancock is a graduate of Georgetown University with a master's degree in taxation. She is also a graduate of the College of William and Mary with a bachelor's degree in business administration with an accounting major. She lives in Wake Forest, North Carolina, and is a member of the boards of Powell Industries, designer and manufacturer of electrical equipment systems that monitor the flow of electricity in industrial facilities, where she serves on the audit and compensation committees, the Office of Mortgage Settlement Oversight, where she serves as chair of the audit committee, and the North Carolina Coastal Pines Girl Scout Council, where she serves as chair of the audit committee. Ms. Hancock serves as chair of the Board Risk Policy Committee. Ms. Hancock became a director in 2010 and her term expires on December 31, 2017.

Curtis R. Hancock, Jr., 67, from Fulton, Kentucky, is owner and operator of Hancock Farms. His operations consist of 1,400 acres of row crops, including corn, wheat and soybeans. He serves on the board of River Valley ACA; the national Farm Credit Council, a trade organization; Farm Credit Council Services, a Farm Credit System service provider; and Kentucky Small Grain Growers. He is a former member of the Hickman County Farm Bureau, the local Southern States Cooperative and of the Hickman County FSA. Mr. Hancock received a BS in

Agriculture from the University of Tennessee - Martin and a Master's of Science in Ag Economics from the University of Tennessee. Mr. Hancock served on the Board Risk Policy Committee in 2013 and will serve on the Board Governance Committee in 2014. Mr. Hancock became a director in 2013 and his term expires on December 31, 2016.

Dale R. Hershey, 66, Vice Chairman of the Board, from Manheim, Pennsylvania is a partner in Hershey Brothers Dairy Farms, managing the operations' real estate and cropping enterprises. The operation includes a dairy operation which milks 300 cows, raises 250 dairy replacements and grows 650 acres of corn, alfalfa, soybeans, barley and rye and grass hay. He serves on the board of directors of MidAtlantic Farm Credit, ACA. He is a member of Pennsylvania Farm Bureau, the Pennsylvania Holstein Association, Lancaster County Blue Ribbon Commission for Agriculture and the Penn Township Ag Advisory Committee. Mr. Hershey has a BS in Community Development and a Master's of Science in Ag Economics and Rural Sociology from Penn State University. In addition, he has taken special courses at Eastern Mennonite University. Mr. Hershey serves on the Board Compensation Committee. Mr. Hershey became a director in 2008 and his term expires on December 31, 2015.

Walter C. Hopkins, 66, is from Lewes, Delaware, and he along with his son operate a dairy and grain farm, Green Acres Farm, consisting of 570 cows, 500 replacement heifers and 1,000 acres of crops. He is also manager of Lyons LLC, a land holding company. He serves on the board of directors of MidAtlantic Farm Credit and is chair of both the AgFirst Plan Sponsor Committee and the AgFirst/FCBT Plan Sponsor Committee. He is a member of Delaware Farm Bureau, Land O' Lakes Cooperative, Genex Cooperative and Delaware Holstein Association. Mr. Hopkins has a BS in Agricultural Engineering from the University of Delaware, and has attended several professional development programs. Mr. Hopkins served on the Board Compensation Committee in 2013 and will serve as chair of the Board Compensation Committee in 2014. Mr. Hopkins became a director in 2013 and his term expires on December 31, 2016.

Paul M. House, 65, is from Nokesville, Virginia, where he grows corn, soybeans, wheat, hay and turf grass. He also operates a dairy. He serves as a director of Farm Credit of the Virginias, ACA. Mr. House attended Glenville State and completed various courses in principles of real estate, turfgrass ecology and management. Mr. House serves on the Board Compensation Committee. Mr. House became a director in 2002 and his term expires on December 31, 2015.

William K. Jackson, 58, from New Salem, Pennsylvania, is a partner in Jackson Farms, an 800-acre dairy that milks 160 registered Holsteins and grows corn and alfalfa. He is president of Jackson Farms 2, LLC, a small dairy processing facility that produces milk and ice cream which are marketed to area stores and are also sold via an on-site convenience store. He is also president of Jackson Farms 3, LLC and Jackson Farms Limited Partnership, which are involved in the production of natural gas. He serves on the boards of AgChoice Farm Credit, ACA; the Fay Penn Economic Development Council; the Fayette County Fair Board; and the Penn State Fayette - Eberly Campus Advisory Board. Mr. Jackson has a BS in Agricultural Business Management from Penn State University. Mr. Jackson serves on the Board Risk Policy Committee. Mr. Jackson became a director in 2013 and his term expires on December 31, 2016.

M. Wayne Lambertson, 67, from Pocomoke City, Maryland, owns and operates with his son a 2,700-acre farm of corn, soybeans, and wheat, and a 300,000 capacity pullet operation. He is co-owner of a restaurant, Don's Seafood and Chicken House, and partner in a development and construction company, J.W.L. Enterprise, LLC. He currently serves on the boards of the national Farm Credit Council (the Farm Credit System's national trade organization), the Federal Farm Credit Funding Corporation, MidAtlantic Farm Credit, ACA, and the Delmarva Poultry Industry (DPI), a trade organization. Mr. Lambertson served on the Board Governance Committee. Mr. Lambertson became a director in 2002 and his term expired on December 31, 2013.

John S. Langford, 64, from Lakeland, Florida, has been a citrus grower for 47 years. Mr. Langford has also been a realtor for 34 years, specializing in agricultural lands. He currently serves as a director on the Farm Credit of Central Florida board, as chairman of the board of the Community Southern Bank, and on the boards of Lake Wales Citrus Growers Association and Polk County Florida Farm Bureau. Mr. Langford obtained his B.A. degree from Emory University and his MBA from Harvard Business School. He served on the Board Audit Committee in 2013 and will serve as chair of the Board Audit Committee in 2014. Mr. Langford became a director in 2012 and his term expires on December 31, 2015.

S. Alan Marsh, 59, is a third-generation farmer, and partner in Marsh Farms in Madison, Alabama. His operation consists of 3,000 acres of row crops, including cotton, soybeans, wheat and corn. Mr. Marsh is a director of First South Farm Credit, ACA and Limestone County Farmers Federation, and is president and stockholder of South Limestone Co-op Gin, an Association borrower. He is also an advisory board member for Staplecoth, a cotton cooperative association. Mr. Marsh received a Business Management Certification from Stratford Career Institute and has attended numerous special courses/workshops on director training, marketing, scouting, irrigation, pesticides and farm safety. Mr. Marsh serves on the Board Risk Policy Committee. Mr. Marsh became a director in 2010 and his term expires on December 31, 2017.

James L. May, 64, is owner and operator of Mayhaven Farm in Waynesburg, Kentucky, where he owns 650 acres and leases another 350 acres. His farming program consists of a 100 beef cow herd and a back grounding program of 200 head of feeder cattle. The operation also includes 100 acres of alfalfa hay, 400 acres of corn and soybeans and 100 acres of wheat. He also operates Mayhaven Seed Sales, an agricultural seed sales business. He currently serves as a member of the Central Kentucky Ag Credit board, Lincoln County Extension Council, and the Lincoln County Farm Bureau Board. He is a former director of the Lincoln County Ag Development Board and the local cattleman's association. Mr. May has a BS in Agricultural Economics from the University of Kentucky and has attended special courses for farm managers and rural appraisers. Mr. May serves on the Independent Associations' Retirement Plan Sponsor Committee. Mr. May served as chair of the Board Governance Committee in 2013 and will serve on the Board Risk Policy Committee in 2014. Mr. May became a director in 2006 and his term expires on December 31, 2017.

Bobby E. McCollum, Jr., 64, is a poultry operator in Polkton, North Carolina. His operation includes eight broiler houses that produce 750,000 heavy broilers per year. Mr. McCollum also has a 100-head brood cow/calf commercial herd and grows 100 acres of timber as well as hay, soybeans, wheat and corn. He is a member of Anson County Cattleman's Association and serves on the Anson County Agriculture Advisory Board. He is a member of Carolina Farm Credit, ACA. Mr. McCollum is a licensed North Carolina property and casualty insurance agent specializing in farm insurance. Mr. McCollum served on the Board Risk Policy Committee in 2013. Mr. McCollum became a director in 2010 and his term expired on December 31, 2013.

James M. Norsworthy, III, 63, from Jackson, Louisiana runs 100 Cedars Cattle Farm, a 145-head cow-calf operation. He also has a commercial hay operation with 125 acres in Alicia Bermuda hay and 150 acres in Bahia Grass hay and manages a 500 acre pine and hardwood timber operation. He is a member of the board of directors of First South Farm Credit, ACA. He is a member of Feliciana Farm Bureau, East Feliciana Cattleman's Association, American Angus Association and the Feliciana Forestry Association. Mr. Norsworthy served as a former mayor of the town of Jackson, Louisiana. Mr. Norsworthy has a BS of Vo Ag Education from Louisiana State University. Mr. Norsworthy served on the Board Governance Committee in 2013 and will serve as chair of the Board Governance Committee in 2014. Mr. Norsworthy became a director in 2008 and his term expires on December 31, 2015.

Katherine A. Pace, 51, from Orlando, Florida, is a certified public accountant and principal of Family Business Consulting, LLC, which provides financial and strategic planning for closely held businesses. Prior to forming her own company, she was a tax partner with KPMG, LLP, an audit, tax and advisory service firm, from 1985-2005. While at KPMG, her practice included a variety of cooperative and agribusiness clients as well as participation in trade associations such as the National Society of Accountants for Cooperatives. Ms. Pace obtained her B.S. degree in accounting from Furman University. She currently serves as an independent director on the board of B&W Quality Growers, Inc., a grower and processor of specialty produce. She is a member of the American Institute of Certified Public Accountants, the Florida Institute of Certified Public Accountants and current and past member and director of numerous trade and charitable organizations. Ms. Pace serves as a member of and is the board designated financial expert on the Board Audit Committee. Ms. Pace became a director in 2006 and her term expires on December 31, 2015.

Jimmy D. Poston, 58, from Johnsonville, South Carolina, owns and operates Triple P Farms together with his brother. His operation consists of 2,500 acres of corn, peanuts, soybeans, tobacco, turf grass, strawberries and timber. Mr. Poston serves on the boards of ArborOne Farm Credit, Southern Agriculture Alumni, South Carolina Tobacco Growers Association and is a District Commissioner for the Florence County Soil and Water Conservation District. He is a member of the SC Farm Bureau, and the SC Corn and Soybean Growers Associations.

Mr. Poston participated in the Phillip Morris Leadership Scholarship Program and the Advanced Phillip Morris Leadership Program. Mr. Poston serves on the Board Governance Committee. Mr. Poston became a director in 2011 and his term expires on December 31, 2014.

Robert G. Sexton, 54, is from Vero Beach, Florida. He is President of Oslo Citrus Growers Association and co-owner of Lost Legend, LLC, and owner of Orchid Island Juice Company. He serves as a director of Farm Credit of Florida, ACA; Oslo Citrus Growers Association; Lost Legend, LLC; Florida Citrus Packers; Indian River Citrus League; Highland Exchange Service Co-op, a packinghouse supply cooperative; McArthur Management Company, a management company for a large dairy, cattle and citrus agribusiness, and an association borrower; Sexton Grove Holdings, a family citrus company; Sexton Properties, Oslo Packing Company, Patio Restaurant and Sexton, Inc., family commercial real estate companies; and Dancing Pigs, LLC, which owns Red, Hot and Blue BBQ restaurants. In addition, he is a member of the Indian River Farm Bureau. He obtained both his B.S. degree in business administration and his MBA finance from the University of Florida. Mr. Sexton serves on the Board Audit Committee. Mr. Sexton became a director in 2013 and his term expires on December 31, 2016.

Robert H. Spiers, Jr., 68, Chairman of the Board, is a full-time farmer, with a tobacco, corn, and wheat operation on 1,400 acres in Dinwiddie County, Virginia. He currently serves on the boards of Colonial Farm Credit, ACA, the national Farm Credit Council, a trade organization, Tobacco Associates, Inc., which promotes export of US tobacco, and Dinwiddie County Farm Bureau. He is also a governor appointed director on the Virginia Flue-cured Tobacco Board, and the Virginia Tobacco Indemnification Commission. He has been active on a number of Virginia Farm Bureau advisory committees. Mr. Spiers has a BS in Ag Economics from Virginia Tech University. He is Vice Chair of the AgFirst Plan Sponsor Committee and a member of the AgFirst/FCBT Plan Sponsor Committee. As Chairman of the Board, Mr. Spiers serves as an ex-officio member of all Board Committees. He became a director in 2006 and his term expires on December 31, 2017.

Ellis W. Taylor, 44, from Roanoke Rapids, North Carolina, is an owner/operator of a row crop operation, Mush Island Farms, LLC, which consists of cotton, soybeans, wheat, corn and timber. He also is part owner of Roanoke Cotton Company, LLC, which operates three cotton gins and one warehouse. He is a director on the boards of AgCarolina Farm Credit, ACA, and Northampton County Farm Bureau. Mr. Taylor has a BS in Agronomy, a BS in Ag Business Management and a Master's of Economics from North Carolina State University. Mr. Taylor serves on the Board Audit Committee. He became a director in 2012 and his term expires on December 31, 2015.

William H. Voss, 72, is from McComb, Mississippi. He has commercial cattle, hay and timber operations in Southwest Mississippi and is involved in land and commercial property management. His career includes production agriculture, agribusiness and real estate. He obtained his B.S. degree from the University of Southern Mississippi, and currently serves on the board of directors of First South Farm Credit, ACA. He is a former agricultural commodities and securities broker and has served as Chairman of the Mississippi Real Estate Commission and Chairman of the Pike County Farm Service Committee. Mr. Voss served as chair in 2013 and continues to serve on the Board Compensation Committee. He became a director in 2007 and his term expires on December 31, 2014.

In 2013, each member of AgFirst FCB's board of directors received base compensation of \$55,594 plus expenses. Additional honorarium was paid to some members for leadership positions on the board.

AgriBank, FCB

Ed Breuer, 49, is a self-employed grain and livestock farmer in Mandan, North Dakota. Mr. Breuer serves as the vice chair of the Governance Committee. Mr. Breuer serves on the AgriBank District Farm Credit Council Board and is also a director of Farm Credit Services of Mandan, ACA, Mandan, North Dakota. His current term began in 2011 and expires in 2015.

Richard Davidson, 69, Board chair, is a self-employed grain and livestock farmer in Washington Court House, Ohio. Mr. Davidson serves on the Risk Management Committee and also serves on the Finance Committee. Mr. Davidson serves on the AgriBank District Farm Credit Council Board and serves on the Board of the Federal Agricultural Mortgage Corporation. His current term began in 2013 and expires in 2017.

Ernie Diggs, 61, is a self-employed crop farmer in Paris, Tennessee Mr. Diggs serves on the Human Resources Committee. His current term began in 2012 and expires in 2016.

Douglas Felton, 67, Board vice chair, is a self-employed grain farmer in Northfield, Minnesota Mr. Felton serves on the Governance Committee. He is also a director of D&T Enterprise of Minnesota, Inc., Randolph, Minn., which is engaged in custom harvesting and is a director of Great Western Industrial Park, LLC, Randolph, Minn., which is an industrial development company. He also serves on the AgriBank District Farm Credit Council Board, National Farm Credit Council Board, Washington, D.C., and is also the chair of the Farm Credit System's Coordinating Committee. His current term began in 2012 and expires in 2016.

Thomas Klahn, 64, is a self-employed grain farmer in Lodi, Wisconsin Mr. Klahn serves on the Human Resources Committee. He serves on the AgriBank District Farm Credit Council Board and National Farm Credit Council Board, Washington, D.C. His current term began in 2013 and expires in 2017.

Natalie Laackman, 54, appointed director, Wilmette, Illinois, is a chief financial officer and vice president of Finance of Global IT and of the Specialty Channels business at The Kellogg Company, a multinational food manufacturing company. Ms. Laackman serves as vice chair and financial expert of the Audit Committee. Her current role began in 2013 and expires in 2017.

Lyndon Limberg, 71, is a self-employed farmer in Gary, South Dakota Mr. Limberg serves on the Governance Committee and AgriBank District Farm Credit Council Board. Mr. Limberg also serves on the Board of the Antelope Valley Reformed Church in Gary. His current term began in 2011 and expires in 2015.

James McElroy, 65, is a self-employed grain farmer in Waverly, Kentucky Mr. McElroy serves on the Audit and Risk Management Committees. He is also on the Board of the Federal Agricultural Mortgage Corporation (Farmer Mac) and serves on the Audit, Governance and Marketing Committees of that organization. Mr. McElroy is also a director of Union County Soil and Conservation District in Morganfield, Ky, a natural resource conservation organization. His current term began in 2010 and expires in 2014.

Brian Peterson, 55, is a self-employed dairy and crop farmer in Trenton, Missouri Mr. Peterson serves on the Audit Committee. Mr. Peterson also serves on the Rural Dale Cemetery Association Board. His current term began in 2012 and expires in 2016.

Tim Rowe, 53, is a self-employed grain farmer in Elwood, Nebraska Mr. Rowe serves on the Finance Committee. He is also a director of All Point Cooperative in Gothenburg, Neb. His current term began in 2010 and expires in 2014.

John Schable, 66, is a self-employed grain farmer in Tuscola, Illinois Mr. Schable serves as the chair of the Governance Committee and serves on the Risk Management Committee. His current term began in 2013 and expires in 2017.

John Schmitt, 57, is a self-employed grain and beef cattle farmer in Quincy, Illinois Mr. Schmitt serves as vice chair of the Finance Committee. He is also a director of 1st Farm Credit Services, ACA, Normal, Ill. and Adams County Illinois Farm Bureau. His current term began in 2011 and expires in 2015.

William Stutzman, 66, is a self-employed crop farmer in Blissfield, Michigan and president of Ogden Communications, Inc. Mr. Stutzman serves as chair of the Audit Committee. He is also a director of GreenStone Farm Credit Services, ACA, Lansing, Mich., where he serves on its Audit Committee. He also serves on the Farm Credit Foundations Board, Farm Credit Foundations Plan Sponsor Committee, and as vice chair of the Farm Credit Foundations Coordinating Committee. His current term began in 2010 and expires in 2014.

Roy Tiarks, 63, is a self-employed grain and livestock farmer in Council Bluffs, Iowa. Mr. Tiarks serves on the Finance Committee and serves on the Risk Management Committee. He is also a director of the Federal Farm Credit Banks Funding Corporation in Jersey City, N.J. His current term began in 2013 and expires in 2017.

Keri Votruba, 54, is a self-employed grain and livestock farmer in Hemingford, Nebraska Mr. Votruba serves as the chair of the Human Resources Committee. His current term began in 2012 and expires in 2016.

Matt Walther, 42, is a self-employed crop and cow/calf herd and finished cattle farmer in Centerville, Indiana Mr. Walther serves as chair of the Finance Committee. His current term began in 2011 and expires in 2015.

Leon Westbrook, 66, appointed director, Alexandria, Minnesota, retired from CHS, Inc., a U.S. based diversified energy, grains and foods company owned by farmers, ranchers and cooperatives headquartered in Inver Grove Heights, Minn. Mr. Westbrook serves as the vice chair of the Human Resources and the Risk Management Committees. His term began in 2011 and expires in 2015.

Thomas Wilkie, III, 68, is a self-employed grain farmer and owner of a drainage supply company in Forrest City, Arkansas. Mr. Wilkie serves on the Audit Committee and also serves as a chair of the Risk Management Committee. He also is a director of the St. Francis County Farmers Association, Palestine, Ark. Mr. Wilkie also serves on the AgriBank District Farm Credit Council Board and is on the Board of the National Farm Credit Council, Washington, D.C. His current term began in 2010 and expires in 2014.

In 2013, each member of AgriBank, FCB's board of directors received an annual retainer which was paid quarterly for attendance at meetings and other official activities. Director compensation was \$55,592 per director for 2013, plus expenses.

CoBank, ACB

Gene J. Batali, 72, is the retired president of Batali Ranch, Inc., in Yakima, Washington. Mr. Batali served on the Board's Compensation Committee. Mr. Batali served on the Board from 2003-2005 and rejoined the Board in 2007. His term expired in 2013.

Robert M. Behr, 59, is the Chief Operating Officer of Citrus World, Inc., which produces and markets Florida's Natural brand citrus juices in Lake Wales, Florida. Dr. Behr is a director of the Florida Citrus Processors Association. Dr. Behr joined the CoBank Board in 2013 and served on the Audit Committee. His term expires in 2016.

Robert W. Bray, 58, is from Redvale, Colorado. Mr. Bray is the owner/operator of Bray Ranches, a farming and ranching operation, and a big game hunting business. Mr. Bray serves on The Farm Credit Council board of directors. He is a member of American AgCredit, ACA. He serves as a director of the Colorado Agriculture Development Authority, and of Club 20, as an officer of the San Miguel Water Conservancy District, and as a commissioner of the Colorado Parks and Wildlife Commission. Mr. Bray served on the Board's Executive Committee. He became a director of the former U.S. AgBank in 2008 and joined the CoBank Board in 2012 following the merger of the two banks. His term expires in 2014.

Oghi A. "Tony" DeGiusti, Jr., 61, is from Tuttle, Oklahoma. Mr. DeGiusti is the owner/operator of DeGiusti Farms, an alfalfa, grass, hay, wheat and cow/calf stocker operation. Mr. DeGiusti is a member of Chisholm Trail Farm Credit, ACA. Mr. DeGiusti serves on The Farm Credit Council board of directors. He is a director of the Grady County Alfalfa Hay Growers Association and serves as an alternate director of the Grady County Farm Services Agency, an organization which administers USDA programs. Mr. DeGiusti served as chairman of the Board's Compensation Committee. He became a director of the former U.S. AgBank in 2005 and joined the CoBank Board in 2012 following the merger of the two banks. His term expires in 2014.

Everett M. Dobrinski, chairman, 67, is the owner/operator of Dobrinski Farm, a cereal grain and oilseed farm in Makoti, North Dakota. He is a member of FCS of North Dakota, ACA, and serves as a director for The Farm Credit Council and North Dakota Coordinating Council for Cooperatives. Mr. Dobrinski previously served as the board chairman of Verendrye Electric Cooperative and on the advisory board of the Quentin Burdick Center for Cooperatives at North Dakota State University in Fargo, North Dakota. Mr. Dobrinski served as chairman of the Board's Executive Committee. He became a director in 1999 and his term expires in 2015.

William M. Farrow III, 58, is the founding director, president and CEO of the Urban Partnership Bank serving Chicago, Detroit and Cleveland. In addition, he is the owner of Winston and Wolfe, LLC, a privately held technology development company, a trustee of the Illinois Institute of Technology, and a director of the Federal Reserve Bank of Chicago. Mr. Farrow is the former CEO and managing partner of F.C. Partners Group, LLC, and former EVP and CIO for the Chicago Board of Trade. Mr. Farrow served on the Board's Risk Committee. He was appointed to the Board in 2007 and his term expires in 2014.

Mary E. Fritz, second vice chairman, 64, is the owner/operator of Quarter Circle JF Ranch, Inc., a dry land grain and cow/calf operation in Chester, Montana. Ms. Fritz is a member of Northwest Farm Credit Services, ACA, serves as chair of The Farm Credit Council and sits on the Farm Credit System Coordinating Committee. She served as chair of the Board's Governance Committee. Ms. Fritz became a director in 2003 and her term expires in 2015.

John L. "Less" Guthrie, 69, is from Porterville, California. Mr. Guthrie owns and operates a cow/calf and stocker cattle ranch and a diversified farming operation and is a partner in McGruder Partners, a farming operation. He is a member of Farm Credit West, ACA. He is a director of Guthrie Investment Co., Inc. (farming and investments) and F&T Financial Services (consumer loans and debt collections). He also serves as the chairman of the board of directors of the Federal Farm Credit Banks Funding Corporation, is vice chair of the Farm Credit System Coordinating Committee, and serves on the board of directors of the California Cattlemen's Association. Mr. Guthrie served on the Board's Executive Committee. He became a director of the former U.S. AgBank in 1997 and joined the CoBank Board in 2012 following the merger of the two banks. His term expires in 2016.

William H. Harris, 64, is the owner/operator of Harris Farms, a cash crop farming operation. He is a former partner of HR&W Harvesting, a processing vegetable farm. Both are located in LeRoy, New York. Mr. Harris is also president of Eatwell Farms, Inc., a custom field work operation in LeRoy, New York. Mr. Harris serves as a director with ACDI/VOCA in Washington, D.C. Mr. Harris served on the Board's Governance Committee. He became a director in 2001 and his term expires in 2015.

Erik (Rick) N. Jacobson, 69, is the retired President and CEO of NORPAC Foods, Inc., an international fruit and vegetable processing and marketing cooperative, and lives in Bend, Oregon. He is currently operating RG Solutions, LLC, a consulting firm contracted to the Pendleton Grain Growers providing General Management Services. He joined the CoBank Board in 2013 and served on the Risk Committee. His term expires in 2014.

Daniel T. Kelley, first vice chairman, 65, is the owner/operator of Kelley Farms, a diversified corn and soybean operation in Normal, Illinois, and is a member of 1st Farm Credit Services, ACA. Mr. Kelley recently served as board chairman and president of GROWMARK, Inc., and serves as chairman of Illinois Agricultural Leadership Foundation. He is a director of Evergreen FS, Inc., Midwest Grain LLC, Nationwide Mutual Insurance Company, Nationwide Bank, and Farmland Mutual Insurance Company. Mr. Kelley serves on the Board's Compensation Committee. He became a director in 2004 and his term expires in 2017.

James A. Kinsey, 64, is the owner/operator of Kinsey's Oak Front Farms, a purebred angus seed-stock operation in Flemington, West Virginia. Mr. Kinsey serves as a director of Farm Credit of the Virginias, ACA. Mr. Kinsey served on the Board's Executive Committee. He became a director in 2001 and his term expires in 2016.

George B. Kitchens, 60, is the General Manager and CEO of Joe Wheeler EMC, an electric distribution cooperative, in Trinity, Alabama. He is currently a director of several organizations, including the Alabama Rural Electric Association, Seven States Power Corporation, North Alabama Public Power Association, North Alabama Industrial Development Association, United Utility Supply Cooperative, and Morgan County Economic Development Association. He joined the CoBank Board in 2013 and served on the Audit Committee. His term expired in 2013.

David J. Kragnes, 61, is the owner/operator of a wheat, sugar beet, soybean and corn farm in Felton, Minnesota. He serves as a director for the Quentin Burdick Center for Cooperatives, an advisory board in Fargo, North Dakota. Mr. Kragnes served on the Board's Executive Committee. He became a director in 2009 and his term expires in 2016.

James R. Magnuson, 60, is the General Manager and CEO of Key Cooperative, an agricultural grain marketing and farm supply cooperative in Roland, Iowa. He is Chairman of United Suppliers Inc. and serves as a director for Agricultural Cooperative Employment Services. Mr. Magnuson joined the CoBank Board in 2013 and served on the Governance Committee. His term expires in 2014.

J. Scott Markham, 63, is the owner/operator of Markham Farms, Inc., a dairy, diversified corn, dairy heifer and beef operation in Constableville, New York. In addition to his CoBank service, Mr. Markham is a member of Farm Credit East, ACA. Mr. Markham served on the Board's Risk Committee. He joined the Board in 2010 and his term expired in 2013.

Jon E. Marthedal, 57, is the owner/operator of Marthedal Farms in Fresno, California, producing grapes, raisins and blueberries, and Keystone Blue Farms, LLC, a farming operation which grows blueberries. He is a member of the Fresno-Madera Farm Credit Association and the Kingsburg Federal Land Bank Association. Mr. Marthedal is the past chairman and now a director of Sun-Maid Growers of California. He serves as President of the California Blueberry Association, Vice Chairman of the California Raisin Marketing Board and the Raisin Administrative Committee, and a director of the California Blueberry Commission. He joined the CoBank Board in 2013 and served on the Governance Committee. His term expires in 2017.

Gary A. Miller, 53, is the president and CEO of GreyStone Power Corporation, an electric membership corporation in Douglasville, Georgia. Mr. Miller serves as the Vice Chair of Wellstar Health System, and as a director of GRESCO Utility Supply, Inc., and as Treasurer for the Douglas County Development Authority. Mr. Miller served on the Board's Audit Committee. He became a director in 2006 and his term expires in 2017.

Catherine Moyer, 38, is CEO and General Manager for Pioneer Communications, a rural telephone and communications company in Ulysses, Kansas. Ms. Moyer is a past chairman for the Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO), a national trade association. She now serves as a director for NTCA—The Rural Broadband Association, the successor to OPASTCO. She is a director for the Telcom Insurance Group and the Kan-ed Advisory Committee and is a commissioner with the Kansas Lottery Commission. Ms. Moyer served on the Board's Risk Committee. She was appointed to the Board in 2010 and her term expires in 2014.

Alarik Myrin, 67, is the owner/operator of a family ranching and farming operation in Altamont, Utah, where he serves as president of Myrin Ranch, Inc., and manager of Myrin Livestock Co., LLC. He is a director of Canyon Meadows Ranch, a division of Myrin Ranch, Inc. specializing in beef sales to consumers. He is also the managing member of Myrin Investment Co. Ltd., a real estate and rental income business. In addition, he is a director of Western Agrihaul, LLC, Lake Fork Irrigation Co. and Uintah Basin Medical Center. He is a member of Western AgCredit, ACA. He served on the Board's Audit Committee. He became a director of the former U.S. AgBank in 2011, and joined the CoBank Board in 2012 following the merger of the two banks. His term expires in 2014.

David S. Phippen, 63, is an almond grower and a co-owner of an almond processing company in Ripon, California, and a partner in several almond marketing, shelling and processing companies. He is a member of American AgCredit, ACA. Mr. Phippen is a director of the Almond Board of California. He also serves as a director of the San Joaquin County Farm Bureau. Mr. Phippen served on the Board's Compensation Committee. He became a director of the former U.S. AgBank in 2006, and joined the CoBank Board in 2012 following the merger of the two banks. His term expires in 2015.

Ronald J. Rahjes, 62, is a member of Wesley J. Rahjes & Sons, Inc., a diversified family farming corporation which produces wheat, corn, soybeans, and grain sorghum in Kensington, Kansas, and is a partner in R&D Farms, a farming partnership. He is also the owner of R&C Tax Service, an accounting and tax firm. Mr. Rahjes is a member of High Plains Farm Credit, ACA. He also serves on the board of directors of Rural Telephone/Nextech, Inc., a telecommunications company. Mr. Rahjes served on the Board's Audit Committee. He became a director of the former U.S. AgBank in 2009, and joined the CoBank Board in 2012 following the merger of the two banks. His term expires in 2015.

David L. Reinders, 57, is the CEO of Sunray Co-op, a diversified farmer-owned grain cooperative in Sunray, Texas. He is a member of Farm Credit Services of America. He is also a director of the Texas Agricultural Cooperative Council, and is a former chairman of Premier Ag, a crop service and supply company, and a former associate director of Happy State Bank. Mr. Reinders served on the Board's Compensation Committee. He became a director in 2011 and his term expires in 2014.

Clint E. Roush, 66, is the president of Clint Roush Farms, Inc., a family farm operation, producing wheat, alfalfa, and feeder cattle in Arapaho, Oklahoma. He is a member of Farm Credit of Western Oklahoma, ACA. Dr. Roush serves as president of the board of directors of the Farmers Cooperative Association of Clinton, Oklahoma, a grain and fertilizer cooperative. He also serves on the advisory board for the Bill Fitzwater Endowed Cooperative Chair in the Agricultural Economics Department of Oklahoma State University, and is a director for the Custer County Cattlemen's Association and Custer County Rural Water District. Dr. Roush served on the

Board's Risk Committee. He became a director of the former U.S. AgBank in 2009, and joined the CoBank Board in 2012 following the merger of the two banks. His term expires in 2014.

Barry M. Sabloff, 67, is a retired EVP of Bank One, N.A. (which subsequently merged with J.P. Morgan Chase) and during a 30-year career with Bank One and First Chicago, he headed a variety of areas including: the International Group; Global Risk Management; Europe, Middle East and Africa; Syndications and Placements; Training and Education; and Electric & Gas (utility company banking). Mr. Sabloff is currently the general partner of the Sabloff Family Limited Partnership, vice chairman/director of Marquette National Corporation, a bank holding company in Chicago, Illinois, and of Marquette Bank, a community bank. Mr. Sabloff is also a director of Calypso Technology, Inc., and The American School in London Foundation, and he serves as Vice Chair/Trustee of Columbia College Chicago. Mr. Sabloff is the Board's financial expert and serves as chairman of the Board's Audit Committee. He was appointed to the Board in 2005 and his term expires in 2016.

Richard W. Sitman, 60, is the past owner/operator of Jos. M. Sitman, Inc., a retail company in the rental and storage business in Greensburg, Louisiana. Mr. Sitman serves as the board chairman of Dixie Electric Membership Corporation, DEMCO Energy Services, LLC, and Dixie Business Center. He also serves as a director of First Guaranty Bank and as a director of The Farm Credit Council. Mr. Sitman served on the Board's Governance Committee. He served on the Board from 1995-1996 and rejoined the Board in 1999. His term expires in 2015.

Kevin A. Still, 56, is the president and CEO of Co-Alliance, LLP, a partnership of five cooperatives supplying energy, agronomy, and animal nutrition, producing swine, and marketing grain in Avon, Indiana. He is also CEO and treasurer of Midland Co-op, Inc., IMPACT Co-op, Inc., Frontier Co-op, Inc., LaPorte County Farm Bureau Cooperative Association, and Excel Co-op, Inc., agricultural retail cooperatives in Avon, Indiana. He is vice president and director of Connexities, LLC, a technology provider, and is president and owner of Still Farms LLC. Mr. Still served as chairman of the Board's Risk Committee. He became a director in 2002 and his term expires in 2014.

Scott H. Whittington, 61, is the General Manager of Lyon-Coffey Electric Cooperative, an electric distribution cooperative, in Burlington, Kansas. He serves on the board of the First National Bank of Kansas, is the President of the Kansas Electric Power Cooperative Inc., and is an Alternate Trustee for the Kansas Electric Cooperatives. He joined the CoBank Board in 2013 and served on the Governance Committee. His term expires in 2016.

CoBank is governed by a 28-member Board of Directors, which includes 24 directors elected by customers from six different geographic regions. The Board also consists of two outside directors and two appointed directors to complement the expertise of the customer-elected Board members.

In 2013, each member of CoBank, ACB's Board of Directors was compensated for attendance at meetings and other official activities. Director compensation ranged from \$54,994 to \$72,272, plus expenses.

Farm Credit Bank of Texas

Brad C. Bean, 53, is from Gillsburg, Mississippi. He is a dairy farmer with other farming interests, including corn, sorghum and timber. He is vice chairman of the bank's Audit committee and a member of the bank's Compensation committee. He is also a member of the Tenth District Farm Credit Council. Mr. Bean serves on the boards of the Amite County Farm Bureau, the Amite County Cooperative and is secretary-treasurer of the American Dairy Association of Mississippi, all of which are trade organizations. Mr. Bean is a former vice chairman of the Texas District's Stockholders Advisory Committee. He was elected to his first term on the board effective January 1, 2013, and his term will expire at the end of 2015.

Ralph W. "Buddy" Cortese, 67, is from Fort Sumner, New Mexico. He is president of Cortese Farm and Ranch Inc., a farming and ranching operation. He is chairman of the bank's Compensation committee and is a member of the bank's Audit committee. Mr. Cortese also is vice chairman of the Tenth District Farm Credit Council board. He currently serves on the board of the Federal Farm Credit Banks Funding Corporation. Mr. Cortese served as chairman of the board of directors of the bank from 2000 through 2011. He is a member of the Texas Agricultural Cooperative Council board of directors, an industry association. From 2003 to 2008, he served on the Federal Agricultural Mortgage Corporation (Farmer Mac), a government agency chartered to create a secondary market for agricultural loans, and is a former board member of the American Land Foundation, a property rights organization. Mr. Cortese became a director in 1995 and his term expires at the end of 2016.

James F. Dodson, 60, chairman of the board of directors, is from Robstown, Texas. He grows cotton, corn and milo, and operates a seed sales business with his family. Mr. Dodson serves on the bank's Audit and Compensation committees and is chairman of the Tenth District Farm Credit Council board. He is president of Dodson Farms, Inc. and Dodson Ag, Inc., both family-owned cotton and milo operations; a partner in Legacy Farms and 3-D Farms, which are farming operations. He is also a partner in Weber Greene, Ltd. and managing partner in Weber Station LLC, both of which are farm real estate management companies. In addition, Mr. Dodson is past chairman of the National Cotton Council of America, a trade organization, and serves on the boards of Gulf Coast Cooperative, an agricultural retail cooperative, and the South Texas Cotton and Grain Association, a trade organization, and is a member of the Texas Agricultural Cooperative Council, an industry association. He is past chairman of the American Cotton Producers of the National Cotton Council of America, formerly served on the board of Cotton Incorporated and is former chairman of the Cotton Foundation, both trade organizations. Mr. Dodson became a director in 2003 and his term expires at the end of 2014.

Elizabeth G. "Betty" Flores, 69, is from Laredo, Texas, where she served as city mayor from 1998 to 2006. Ms. Flores is one of the two appointed members on the board and serves on the bank's Audit and Compensation committees. She is also a member of the Tenth District Farm Credit Council. Previously, she was senior vice president of the Laredo National Bank. Ms. Flores serves on the boards of the Texas Agricultural Cooperative Council, an industry association; Mercy Ministries of Laredo, a domestic violence nonprofit corporation; and Laredo Main Street, a nonprofit organization. In 2012, she was appointed to a three-year term on the Institute of Mexicans in the Exterior, a council that is supported by the Mexican Secretary of State Department and serves to advise the Mexican government on ways to improve the lives of Mexicans Living Abroad. She is a graduate of Leadership Texas 1995, a leadership program for women professional and community leaders for the state of Texas and Leadership America 2008, a national leadership program for women professional and community leaders. In 2010, she was appointed to serve as a member of the Farm Credit System Diversity Workgroup. Ms. Flores is a partner in a ranching and real estate partnership, E.G. Ranch, Ltd. She is a former member of the Federal Reserve Board Consumer Advisory Council. Ms. Flores became a director in 2006 and her term expires at the end of 2015.

Jon "Mike" Garnett, 69, is from Spearman, Texas. Mr. Garnett raises grain and forage crops and runs stocker cattle, and is president of Garnett Farms, Inc., a farming operation. He is vice chairman of the bank's Compensation committee and a member of the bank's Audit committee. He is also a member of the Tenth District Farm Credit Council. In January 2003, Garnett joined the national Farm Credit Council (FCC) Board of Directors as a district representative, became vice chairman of the FCC Board of Directors in 2009 and served as chairman from 2011 to 2013. In addition, he is vice chairman of the FCC Board's compensation and benefits committee and a member of the board's executive, governance and coordinating committees. He also serves as a member of the State Technical Committee for the Natural Resources Conservation Service, an agency of the United States Department of Agriculture. Mr. Garnett is a former director of a consumer cooperative; a director on the Spearman Chamber of Commerce, a trade organization; and a former member of the Spearman Independent School District Board of Trustees. Mr. Garnett became a director in 1999 and his term expires at the end of 2016.

Lester Little, 63, vice chairman of the board of directors, is from Hallettsville, Texas. He owns and operates a farm and offers custom-farming services, primarily reclaiming farms and handling land preparation. His principal crops are corn, milo, hay and wheat. He is a member of the bank's Audit and Compensation committees. He is also a member of the Tenth District Farm Credit Council. In addition, he is a member of the Farm Bureau, an agriculture trade organization and serves on the Lavaca Regional Water Planning Group, a regional water planning authority in Texas. He previously was a board member of the Lavaca Central Appraisal District, a county organization in Texas that hires the chief appraiser for the county for purposes of assigning real estate values for tax assessments, and board chairman of the Hallettsville Independent School District Board of Trustees. Mr. Little became a director in 2009 and his term expires at the end of 2014.

William F. Staats, 75, is from Baton Rouge, Louisiana, and is a board-appointed director. Dr. Staats is a professor emeritus of finance at Louisiana State University, where he held the Louisiana Bankers Association Chair of Banking and the Hermann Moyse Jr. Distinguished Professorship. Previously, he was vice president and corporate secretary of the Federal Reserve Bank of Philadelphia. He is chairman of the bank's Audit committee and is the designated financial expert. Dr. Staats also serves on the bank's Compensation committee. He is also a

member of the Tenth District Farm Credit Council. Dr. Staats is vice chairman of the Farm Credit System Audit Committee. He serves on the boards of the Money Management International Financial Education Foundation and Money Management International, both of which are credit counseling agencies. He also serves on the boards of SevenOaks Capital Associates, LLC, a diversified financial services company providing working capital to trucking firms, and Lakeside Bank, a community bank in Lake Charles, Louisiana. He is also a member of the Texas Lutheran University board of regents. Dr. Staats became a director in 1997 and his term expires at the end of 2014.

In 2013, each member of the FCB of Texas' board of directors was compensated for attendance at meetings and other official activities. Each director's regular compensation totaled \$55,594 for 2013, plus expenses and additional compensation if approved by the board of directors if directors serve additional days on other official assignments and under exceptional circumstances where extraordinary time and effort are involved. No additional compensation was paid in 2013.

Federal Farm Credit Banks Funding Corporation

The following sets forth the directors and those individual nominated to serve on the board of directors.

Leon T. Amerson, vice chairman, 51, is president and CEO of AgFirst Farm Credit Bank in Columbia, South Carolina. Mr. Amerson serves as Chairman of the Finance Committee of the Presidents Planning Committee of the Farm Credit System, a member of both the AgFirst/FCBT and AgFirst Plan Sponsor Committees, a Council member of the National Council of Farmer Cooperatives, and a Board member of the Midlands Business Leadership Group and Palmetto Agribusiness Council. He also is a member of the Board of Trustees of the National 4-H Council, the Farm Credit System Coordinating Committee, the Finance Committee for United Way of the Midlands, and the University of South Carolina Risk and Uncertainty Management Advisory Board. Mr. Amerson serves as the Chairman of the Funding Corporation Compensation Committee. Mr. Amerson became a director in 2012 and his term expires in 2016.

F. Gerald Byrne, 67, is from Long Beach, Indiana and is a retired chairman and executive vice president of Bank One Capital Markets. Mr. Byrne serves as chairman of the Funding Corporation Audit Committee and as a member of the Farm Credit System Audit Committee. Mr. Byrne became a director in 2007 and his term expires in 2014.

Ralph W. "Buddy" Cortese, 67, is from Fort Sumner, New Mexico. He is president of Cortese Farm and Ranch Inc., a farming and ranching operation. He is a member of the board of directors of the Farm Credit Bank of Texas. He is a member of the Texas Agricultural Cooperative Council board of directors, an industry association. He also serves on the Funding Corporation Audit Committee. Mr. Cortese became a director in 2012 and his term expires in 2016.

Robert B. Engel, 60, is CEO of CoBank, ACB in Denver, Colorado. In addition, he serves on the Boards of Trustees of Niagara University and Regis University as well as the Board of Directors of New Ventures in Higher Education, Inc., and as vice chairman of the Graduate Institute of Cooperative Leadership. He also serves as chairman of the National Council of Farmer Cooperatives. Mr. Engel serves on the Funding Corporation Governance Committee. He is a recipient of the Ellis Island Medal of Honor. Mr. Engel became a director in 2003 and his term expires in 2015.

J. Less Guthrie, 69, chairman, is from Porterville, California. He owns and operates a cow/calf and stocker cattle ranch and a diversified farming operation and is a partner in McGruder Partners, a farming operation. He is a member of Farm Credit West, ACA and a member of the board of directors of CoBank, ACB. Mr. Guthrie serves on the boards of directors of Guthrie Investment Co., Inc., (farming and investments) and F&T Financial Services (consumer loans and debt collections). He also serves on the board of directors of the California Cattlemen's Association (trade association). Mr. Guthrie also serves on the Funding Corporation Compensation Committee. Mr. Guthrie became a director of the former U.S. AgBank, FCB in 1997 and joined the CoBank board in 2012. Mr. Guthrie became a director in 2000 and his term expires in 2018.

M. Wayne Lambertson, 67, is from Pocomoke City, Maryland. He owns and operates with his son a 2,700-acre farm of corn, soybeans, and wheat, and a 300,000 capacity pullet operation. He is co-owner of a restaurant,

Don's Seafood and Chicken House, and partner in a development and construction company, J.W.L. Enterprise, LLC. Mr. Lambertson is a former member of the board of directors of AgFirst, FCB, and a current member of the board of directors of MidAtlantic Farm Credit, ACA. He also serves on The Farm Credit Council Board and Delmarva Poultry Industry (DPI) board of directors, a trade organization. He also serves on the Funding Corporation Compensation Committee. Mr. Lambertson became a director in 2012 and his term expired in December of 2013. Mr. Lambertson will continue to serve as a director until his successor is elected.

Amy Krueger Marsh, 57, is from Pittsburgh, Pennsylvania, and is the Chief Investment Officer and Treasurer of the University of Pittsburgh, a position she has held since 1999. Prior to joining the University, Ms. Marsh was Manager and Group Head of the Diversified Industries Group at Mellon Bank (now BNY Mellon) in Pittsburgh. She serves on the Funding Corporation Audit Committee and the Farm Credit System Audit Committee. Ms. Marsh became a director in 2011 and her term expires in 2015.

Theresa E. McCabe, 52, is President and CEO of the Federal Farm Credit Banks Funding Corporation in Jersey City, New Jersey. Prior to joining the Funding Corporation, Ms. McCabe was a Partner with Goldman, Sachs & Co. Ms. McCabe is a non-voting member of the board. She became a director in 2012 and her term will expire upon her retirement.

Roy Tiarks, 63, is a self-employed grain and livestock farmer in Council Bluffs, Iowa. Mr. Tiarks is a member of the board of directors of AgriBank, FCB. He also serves as the Chairman of the Funding Corporation Governance Committee. Mr. Tiarks became a director in 2001 and his term expires in 2015.

William York, 60, is the CEO of AgriBank, FCB in St. Paul, Minnesota. Mr. York serves on the Funding Corporation Governance Committee. Mr. York became a director in 2011 and his term expires in 2014.

Funding Corporation Bank director members and appointed members are compensated for their time served and for travel and related expenses, while Bank CEOs or presidents are only compensated for travel and related expenses. In 2013, the directors eligible for compensation were paid between \$54,467 and \$65,360 for the year, plus expenses.

Certain Relationships and Related Transactions

The System is a cooperatively owned network of agricultural lending institutions. Agricultural producers typically become members of an Association when they establish a borrowing/financing relationship with the Association. In CoBank's case, its Associations, together with other borrowers of the Bank, own CoBank, as well as borrow from the Bank. Accordingly, most Bank directors are agricultural producers who are member/borrowers of an Association and, in the case of CoBank, its other member/borrowers.

As discussed in Note 19 to the accompanying combined financial statements, Banks and Associations may, in the ordinary course of business, enter into loan transactions with their officers and directors and other organizations with which officers and directors are associated. These loans are subject to special approval requirements contained in the Farm Credit Administration regulations.

The following is a list of aggregate loan balances outstanding at December 31, 2013 to the directors of each Bank and its affiliated Associations and other organizations with which the directors are associated:

	<u>(in millions)</u>
AgFirst FCB	\$ 235
AgriBank, FCB	307
FCB of Texas.	202
CoBank, ACB	1,423

Senior Officers

The chief executive officer and all other senior officers of each Bank and the Funding Corporation, together with their age and length of service at their present position as of December 31, 2013, as well as prior positions held if in the current position less than five years, are as follows:

<u>Name, Age and Title</u>	<u>Time in Position</u>	<u>Prior Experience</u>
AgFirst Farm Credit Bank:		
Leon T. Amerson, 51, <i>President and Chief Executive Officer</i>	1.5 years	Chief Operating Officer from September 2006 to April 2010. President from April 2010 to present.
Charl L. Butler, 56, <i>Senior Vice President and Chief Financial Officer</i>	7 years	
Benjamin F. Blakewood, 65, <i>Senior Vice President and Chief Information Officer</i>	15 years	
Christopher L. Jones, 56, <i>Senior Vice President and Chief Credit Officer</i>	3 years	Senior Vice President and Chief Credit Officer South at United Community Banks from 2004 until 2011.
Daniel E. LaFreniere, 50, <i>Senior Vice President, Chief Audit Executive</i>	6 months	Director of Audit Services from 2007 to 2013 at SCANA Corporation
Isvara M.A. Wilson, 43, <i>Senior Vice President and General Counsel</i>	1 year	Managing Director and Associate General Counsel from 2010 to 2012, Assistant General Counsel and Senior Vice President from 2003 until 2010 at Bank of America.
AgriBank, FCB:		
L. William York, 59, <i>Chief Executive Officer</i>	8 years	
Brian J. O'Keane, 44, <i>Executive Vice President, Banking and Finance and Chief Financial Officer</i>	6.5 years	
Jeffrey R. Swanhorst, 51, <i>Executive Vice President, Credit and Chief Credit Officer</i>	2 year	Senior Vice President of Credit, CoBank, ACB; Vice President and Team Leader, St. Paul Bank for Cooperatives.
Jeffrey L. Moore, 52, <i>Senior Vice President, Finance</i>	1 year	Vice President, Controller AgriBank, FCB
Ruth L. Anderson, 48, <i>Vice President, Business Services</i>	3 years	Director, Information Services, AgriBank, FCB
Patricia G. Jones, 52, <i>Vice President, Human Resources and Administrative Services</i> ...	4 years	Head, HR NAFTA Technology for Syngenta; Vice President Human Resources for Agrilience, a joint venture of Land O'Lakes, Inc. and CHS, Inc.
William J. Thone, 58, <i>Vice President, Secretary and General Counsel</i>	15 years	
CoBank, ACB:		
Robert B. Engel, 60, <i>Chief Executive Officer</i>	7.5 years	
Mary E. McBride, 58, <i>President</i>	0.5 years	Chief Banking Officer since 2010; Chief Operating Officer 2009 — 2010; Executive Vice President, Communications and Energy Banking Group 2003 — 2009

Ann E. Trakimas, 57, <i>Chief Operating Officer</i>	3 years	Appointed Director, Federal Farm Credit Banks Funding Corporation; Vice President, Credit Risk Management & Advisory at Goldman Sachs & Co.
Thomas E. Halverson, 49, <i>Chief Banking Officer</i>	0.5 years	Managing Director and Chief of Staff, Goldman Sachs Bank USA
Lori L. O’Flaherty, 54, <i>Chief Risk Officer</i> ..	0.5 years	Chief Business Process and Accountability Officer since March 2013; Chief Credit Officer 2010 — 2013; Executive Vice President, Credit Approval and Administration 2009 — 2010; Senior Vice President, Credit Administration 2006 — 2009; Senior Vice President, Corporate Finance 2002 — 2006
David P. Burlage, 50, <i>Chief Financial Officer</i>	4.1 years	Senior Vice President — Finance since 2008; Senior Vice President and Controller 2006 — 2008; Controller 2002 — 2006
John Svisco, 55, <i>Chief Business Process and Accountability Officer</i>	0.5 years	Chief Administrative Officer since 2010; Senior Vice President, Human Resources and Administrative Services Divisions 2009 — 2010; Senior Vice President, Human Resources Division April 2009 — September 2009; Senior Vice President, Operations Division 2003 — 2009
Daniel L. Key, 57, <i>Chief Credit Officer</i>	0.5 years	Chief Credit Officer — In Charge since March 2013; Senior Vice President, Credit Approval 2011 — 2013; Vice President, Risk Management Division 2009 — 2011
Gregory J. Buehne, 61, <i>Senior Vice President and General Counsel</i>	2.5 years	Senior Vice President, Legal and Legislative Services of U.S. AgBank, FCB
Farm Credit Bank of Texas:		
Larry R. Doyle, 61, <i>Chief Executive Officer</i>	10.5 years	
Kurt Thomas, 58, <i>Senior Vice President, Chief Credit Officer</i>	3.6 years	Vice President and Unit Manager Association Direct Lending Group
Carolyn Owen, 62, <i>Senior Vice President, Corporate Affairs, General Counsel and Corporate Secretary</i>	Appointed April 2013	Vice President, Corporate Affairs, Deputy General Counsel
Amie Pala, 56, <i>Chief Financial Officer</i>	3.4 years	Vice President of Financial Management
Allen Buckner, 61, <i>Chief Operations Officer</i>	3.5 years	Vice President of Lending Systems 2007-2010; Vice President, Credit Operations and Risk Management 2006-2007; Chief Executive Officer, Heritage Land Bank, ACA — January 2006-December 2006
Stan Ray, 49, <i>Chief Administrative Officer</i>	3.4 years	Vice President of Marketing and Corporate Relations
Susan Wallar, 53, <i>Chief Audit Executive</i>	2 years	Vice President of Internal Audit

Federal Farm Credit Banks Funding Corporation:

Theresa E. McCabe, 52, <i>President and Chief Executive Officer</i>	2 years	President & Chief Executive Officer. Retired partner with Goldman Sachs & Co.
Karen R. Brenner, 49, <i>Managing Director — Financial Management Division</i>	9 months	Senior Vice President — Financial Management Division September, 2007 — March, 2013
Glenn R. Doran, 51, <i>Managing Director — Finance</i>	6.5 years	
Allison M. Finnegan, 42, <i>Managing Director — Human Resources, General Counsel and Corporate Secretary</i>	4.6 years	Senior Vice President — General Counsel 2009-2013; Senior Associate Counsel; Depository Trust & Clearing Corporation 2001-2009
Scott C. Pearson, 51, <i>Senior Vice President and Director — Information Services</i>	6.5 years	

Membership, Farm Credit System Audit Committee

The Farm Credit System Audit Committee is currently comprised of six members, all of whom are appointed by the board of directors of the Funding Corporation. The Funding Corporation Board has determined that each member of the System Audit Committee is financially literate and has designated at least one member to be the financial expert as defined by the Farm Credit Administration regulations. All members of the Committee are independent of management of the Funding Corporation or any System Bank or Association.

The membership of the Farm Credit System Audit Committee is as follows:

F. Gerald Byrne, 67, is from Long Beach, Indiana and is a retired chairman and executive vice president of Bank One Capital Markets. Mr. Byrne serves on the board of the Federal Farm Credit Banks Funding Corporation and the Funding Corporation Audit Committee. Mr. Byrne became a member of the Audit Committee in 2009 and his term expires in 2014.

Timothy Clayton, 59, is from Plymouth, Minnesota and is a Principal of the management consulting firm Emerging Capital, LLC and serves as Chief Financial Officer of Tile Shop Holdings, Inc., which is a retail ceramic and stone tile business. He previously served as an Appointed Director on the AgriBank, FCB Board of Directors from 2005 through 2013. Mr. Clayton became a member of the Audit Committee in September 2013 and his term expires in 2017.

Amy Krueger Marsh, 57, is from Pittsburgh, PA, and is the Chief Investment Officer and Treasurer of the University of Pittsburgh, a position she has held since 1999. Prior to joining the University, Ms. Marsh was Manager and Group Head of the Diversified Industries Group at Mellon Bank (now BNY Mellon) in Pittsburgh. Ms. Marsh serves on the board of the Federal Farm Credit Banks Funding Corporation and the Funding Corporation Audit Committee. Ms. Marsh became a member of the Audit Committee in 2011 and her term expires in 2014.

William F. Staats, 76, is from Baton Rouge, Louisiana and serves as vice chairman of the Committee. Dr. Staats is a professor emeritus of finance at Louisiana State University, where he held the Louisiana Bankers Association Chair of Banking and the Herman Moyse Jr. Distinguished Professorship. Previously, he was vice president and corporate secretary of the Federal Reserve Bank of Philadelphia. He is a director of the Farm Credit Bank of Texas and serves on the Bank's Compensation Committee and as chairman of the Bank's Audit Committee. He serves on the boards of the Money Management International Education Foundation, Money Management International, SevenOaks Capital Associates, LLC and Lakeside Bank. He is also a member of Texas Lutheran University board of regents. Dr. Staats became a member of the Audit Committee in 2004 and his term expires in 2016.

Norman N. Strauss, 72, is from Boca Raton, Florida. Mr. Strauss is an outside member of the Committee and serves as chairman of the Committee. He is a certified public accountant and a retired partner from Ernst & Young LLP where he was National Director of Accounting and is currently the Ernst & Young Professor in Residence at Baruch College in New York City. He is a member of the Financial Reporting Committee of the Institute of Management Accountants. The Funding Corporation board has designated Mr. Strauss as an Audit Committee financial expert. Mr. Strauss became an Audit Committee member in 2008 and his term expires in 2014.

Robert M. Tetrault, 62, is president/owner of T/R Fish, Inc., a marketing/management company for commercial fishing in Portland, Maine, and president/owner of Robert Michael, Inc., a commercial fishing group in Portland, Maine. Mr. Tetrault is a director and former chairman of the board of Farm Credit of Maine, ACA and serves as a director on the following boards: Land for Maine's Future, and is the director/owner of Vessel Services, Inc. Mr. Tetrault became a member of the Audit Committee in 2004 and his term expires in 2014.

The Committee held four meetings during 2013 and had one teleconference. All members were in attendance for each meeting and the teleconference, except for Mr. Clayton who was not a Committee member prior to September 2013 and Ms. Marsh who did not attend one of the meetings.

Each System Audit Committee member was compensated for attendance at meetings or participation in teleconferences as follows:

Norman N. Strauss, Chairman	\$80,000
William F. Staats, Vice Chairman	48,000
F. Gerald Byrne	36,000
Timothy Clayton	15,000
Amy Krueger Marsh	36,000
Robert M. Tetrault	48,000

No member of the System Audit Committee received non-monetary compensation for the year ended December 31, 2013.

COMPENSATION OF CHIEF EXECUTIVE OFFICERS

Compensation Discussion and Analysis

Overview

The philosophy of System institutions with respect to compensating each institution's senior officers is to attract, develop and retain senior officers who are highly qualified and proficient at executing each institution's strategic objectives and operational activities, and deliver performance results that optimize the return to the shareholders. In the case of the Banks, each Bank emphasizes:

- Establishing a clear link between the financial performance (e.g., earnings, capital, asset quality, liquidity, sensitivity to changes in interest rates, and customer satisfaction) of the Bank and each senior officer's total compensation package, including rewarding appropriate risk-taking with the Bank's capital to generate returns for the shareholders, while avoiding unnecessary risks, and
- Providing a total compensation package to each senior officer that is competitive within the financial services industry and their local market. The total compensation philosophy of System institutions seeks to achieve the appropriate balance between market-based base salary and benefits, and variable incentive compensation that is designed to incent and reward both the current and long-term achievement of System institutions' strategic business objectives and business plans. System institutions believe that this philosophy fosters a performance-oriented, results-based culture wherein compensation varies on the basis of results achieved.

All System institutions are cooperatives with no publicly traded stock. Therefore, no stock options or other equity- or stock-based compensation programs have been, or can be, granted to senior officers of System institutions. However, it is a general practice across the System to reward the performance of an institution's senior officers with some form of non-equity incentive compensation.

The operations of the Funding Corporation are different than the Banks' operations. While the Banks generate income through loans, investments, and related operations, the primary functions of the Funding Corporation are to raise funds as an agent for the Banks in the debt markets and to issue the combined financial statements of the System. The performance of the Funding Corporation in these two areas is used to gauge the performance of each Funding Corporation senior officer for purposes of determining his or her total compensation package. All operating expenses of the Funding Corporation are reimbursed by the Banks through the assessment of fees; there are no revenues generated by the Funding Corporation.

In addition to compensation, System institutions provide a comprehensive and market-based package of employee benefits for health and welfare and for retirement purposes. Some retirement benefits are restored or enhanced for certain senior officers through one or more non-qualified retirement plans. In other words, while the benefits may be limited as the result of Internal Revenue Code limitations, the benefits that would have been accrued had the Internal Revenue Code limits not been in place are made up for certain senior officers through certain non-qualified retirement plans. In addition, certain institutions have provided for enhanced retirement benefits for named executives.

CEO Compensation Policy

The following discussion regarding compensation policy, summary compensation tables, and related disclosures focuses on the CEOs of the Banks and the Funding Corporation since they are the CEOs of the System entities responsible for the Systemwide disclosures.

The Bank and Funding Corporation CEOs generally have three primary forms of compensation: base pay in the form of a salary, non-equity incentive compensation, and retirement benefits.

Base Pay in the Form of a Salary

The base salary component of each Bank's and the Funding Corporation's CEO recognizes the individual's particular experience, skills, responsibilities, and knowledge. Each Bank's and the Funding Corporation's compensation committee or executive committee serving as the compensation committee of each entity's board of directors reviews the appropriate level of base salary and benefits generally on an annual basis. Each committee takes into consideration industry factors and the local market place. Each committee may also use independent consultants or other means to obtain external comparative data for the CEOs of similar financial institutions, based upon asset size and other factors.

Non-Equity Incentive Compensation

Each Bank and the Funding Corporation has some form of non-equity incentive compensation for its CEO. The overall objective of the incentive compensation is to align each CEO's performance objectives with the interests of the shareholders. The receipt of incentive compensation by each Bank CEO is based upon the performance of the Bank in achieving certain strategic and financial goals. In some cases, the Banks may have both short-term incentive compensation, which focuses on the current performance of the Bank, such as profitability, credit quality, capital adequacy and operating efficiency, and long-term incentive compensation, which focuses on the long-term success of the Bank, such as profitability, credit quality and capital adequacy. In the case of the Funding Corporation, the receipt of incentive compensation is based upon the performance of its specific functions noted previously. In addition, a portion of the incentive compensation may be based upon individual goals and performance. Also, in certain instances, the CEOs may be able to defer payment of a portion of the incentive compensation by directing the deferred amounts be invested in accordance with available options selected by retirement trust committees of the Banks or the Funding Corporation. For each Bank's and the Funding Corporation's CEO, a significant portion of their total compensation is "at-risk" in the form of incentive compensation.

Retirement Benefits

Each Bank and the Funding Corporation CEO participates in a defined benefit retirement plan or a defined contribution plan. However, most of the defined benefit retirement plans are closed to new participants. In addition, some of the Banks provide supplemental executive retirement plans or pension restoration plans for their CEOs. These plans provide for the portion of the CEO's benefit that cannot be paid from the retirement plan due to the pay and benefit limitations set by the Internal Revenue Code or provide enhanced retirement benefits to the CEO. Additional discussions of the retirement benefits for each Bank's and the Funding Corporation's CEO are set forth below.

Additional Information

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

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

Additional discussion of each Bank's compensation policies can be obtained by reference to the discussions provided in the Bank's annual report.

Summary Compensation Table

Name	Year	Salary	Non-Equity Incentive Plan Compensation	Change in Pension Value*	All Other Compensation	Total
AgFirst Farm Credit Bank						
Leon T. Amerson, President and CEO(1)	2013	\$ 630,024	\$ 469,676	\$ 157,034	\$ 34,919	\$1,291,653
	2012	526,799	363,082	1,016,556	29,535	1,935,972
F. A. Lowrey, CEO(2)	2012	327,962	500	1,403,484	869,240	2,601,186
	2011	636,824	257,213	339,604	161,471	1,395,112
AgriBank, FCB						
L. William York, CEO(3)	2013	607,495	970,437	194,904	61,575	1,834,411
	2012	580,412	815,307	188,739	53,133	1,637,591
	2011	551,250	593,983	153,838	60,669	1,359,740
CoBank, ACB						
Robert B. Engel, CEO(4)	2013	858,917	3,278,250	(89,279)	482,367	4,530,255
	2012	775,000	2,851,500	1,127,295	208,260	4,962,055
	2011	662,500	2,976,963	1,635,560	113,180	5,388,203
Farm Credit Bank of Texas						
Larry R. Doyle, CEO(5)	2013	1,250,048	1,000,000	(29,879)	17,543	2,237,712
	2012	1,250,048	1,000,000	178,046	21,063	2,449,157
	2011	1,250,048	1,250,000	116,660	20,868	2,637,576
Federal Farm Credit Banks Funding Corporation						
Tracey E. McCabe, President and CEO(6)	2013	800,000	800,000		422,750	2,022,750
	2012	766,667	700,000		418,000	1,884,667
Jamie B. Stewart, Jr., President and CEO(7)	2012	93,558		983,661	35,528	1,112,747
	2011	525,000	750,000	1,032,907	47,824	2,355,731

* While preferential earnings on nonqualified deferred compensation are required to be reported with the change in pension value, the CEOs did not receive any preferential earnings in 2013, 2012 and 2011.

- (1) The Compensation Committee of the Board of Directors reviews Mr. Amerson's performance annually, and the Board of Directors annually approves his compensation level, including base salary and incentive compensation. Mr. Amerson is employed pursuant to an employment and retention agreement. The agreement provides that if Mr. Amerson is terminated prior to June 30, 2014 for any reason other than disability, death or cause, he will receive a severance equal to two times his then current annual base salary.
- (2) The Compensation Committee of the Board of Directors reviewed Mr. Lowrey's performance annually, and the Board of Directors annually approved his compensation level, including base salary and incentive compensation. Mr. Lowrey was employed pursuant to a retirement agreement that expired June 30, 2012, his retirement date. The agreement provided benefits of a cash lump sum payment in the amount of \$570,000 and ownership and title to his company vehicle. Included in the "All Other Compensation" in the above table are the cash lump sum payment and the fair market value of the company vehicle as well as payment of accrued annual leave.
- (3) The Compensation Committee of the Board of Directors reviews Mr. York's performance annually, and the Board of Directors annually approves his compensation level, including base salary and incentive compensation. While being employed "at will," with no specified term of employment, the agreement provides that if Mr. York is terminated for any reason other than cause, his base salary and the employer-paid portion of medical and dental benefits will be continued for 12 months. In the event of a change in control and Mr. York is not named to the new CEO position, or a substantially similar role, in the successor organization, Mr. York will be given a severance payment equal to 24 months total compensation. Total compensation is defined as base pay plus annual incentive compensation. The annual incentive amount will be based on the average of the annual incentive earned for the two most recently completed annual incentive periods. In addition, the employer-paid portion of medical and dental benefits will be continued for 18 months.
- (4) The Compensation Committee of the Board of Directors reviews Mr. Engel's performance semi-annually, and the Board of Directors annually approves his compensation level, comprised of salary and supplemental compensation, including short-term and long-term incentive compensation. Mr. Engel is employed pursuant to an employment agreement that provides specified compensation and related benefits in the event that his employment is terminated, except for termination for cause. In the event of termination in 2014, except for cause, the employment agreement provides for the (a) payment of the prorated base salary and incentives through the date of the termination, (b) semi-monthly payments aggregating two times the sum of base salary and short-term incentives at target, (c) enhanced retirement benefits if the termination results from a change in control, (d) continued participation in the Bank's health and welfare benefits

over a two year period, and (e) certain other benefits over a two year period, to the same extent as such benefits were being provided on the date of termination. The employment agreement also provides certain limited payments upon death or disability. In 2013, the Board revised Mr. Engel's employment agreement to allow for an effective CEO retention and succession process over the next three years. The restated and amended CEO employment agreement provides for (a) a fixed term with an option for renewal at the sole discretion of the Board of Directors, (b) a reduction in the amount and term of severance payments and benefits at the end of each completed service year over the term of the agreement, (c) an indexed increase in the retirement benefit cap for each completed service year over the term of the agreement to minimize the reduction in present value at each year end, and establish a maximum value of \$900,000 in the last year of the agreement, and (d) eligibility for incentive payments totaling \$2,000,000 paid in installments over the term of the agreement based on the achievement of certain additional performance and retention objectives as established and measured by the Board of Directors. In order to receive these payments and other benefits, Mr. Engel must sign a release agreeing to give up any claims, actions or lawsuits against CoBank related to his employment. The agreement also provides for non-competition and non-solicitation by the CEO over the term of the payments.

- (5) The Compensation Committee of the Board of Directors reviews Mr. Doyle's performance annually, and the Board of Directors annually approves his compensation level, including base salary and incentive compensation.

In December 2013, a memorandum of understanding between the bank and the CEO was executed with an effective date of January 1, 2014, which supersedes the previous memorandum of understanding effective January 2, 2011. The memorandum of understanding was effective for a term of three years, until December 31, 2016. The base salary for each year of the three-year term for the CEO will be \$1,250,000. Bonus payments, if any, are at the sole discretion of the compensation committee. The employment relationship between the bank and CEO remains at-will, meaning the bank may terminate the CEO's employment at any time, and the CEO may choose to leave at any time.

- (6) The Compensation Committee of the Board of Directors reviews Ms. McCabe's performance annually and the Board of Directors annually approves the compensation level, including base salary and incentive compensation. Ms. McCabe is a participant in a defined contribution retirement plan subject to a five-year cliff-vesting period from employment date. While being employed at will, with no specified term of employment, the agreement provides that if Ms. McCabe is terminated for any reason other than "for cause", she will receive a severance benefit of not more than six months severance pay equal to her base salary.
- (7) The Compensation Committee of the Board of Directors reviewed Mr. Stewart's performance annually and the Board of Directors annually approved the compensation level, including base salary and incentive compensation. Mr. Stewart was employed pursuant to an agreement that provided that if Mr. Stewart was terminated for any reason, he would receive a severance benefit equal to six months base salary. The agreement expired in March 2012 upon his retirement.

Pensions Benefits for the Year Ended December 31, 2013

Additional information on each Bank's pension benefits can be obtained by reference to the discussions provided in the Bank's annual report.

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit
AgFirst Farm Credit Bank			
Leon T. Amerson, President and CEO(1) . .	AgFirst Farm Credit Retirement Plan	27.33	\$1,699,078
	AgFirst Farm Credit Bank Supplemental Retirement Plan	27.33	2,096,260
AgriBank, FCB			
L. William York, CEO(2)	AgriBank District Retirement Plan	23.89	481,552
	AgriBank District Restoration Plan	23.89	552,313
CoBank, ACB			
Robert B. Engel, CEO(3)	CoBank, ACB Retirement Plan	13.58	465,225
	Supplemental Executive Retirement Plan	13.58	3,458,055
	Executive Retirement Plan	13.58	5,337,978
Farm Credit Bank of Texas			
Larry R. Doyle, CEO(4)	Farm Credit Bank of Texas Pension Plan	39.9	1,395,335

- (1) Mr. Amerson participates in a defined benefit retirement plan. He is eligible to retire and begin drawing unreduced pension benefits at age 65 or when years of credited service plus age equal "85." Upon retirement, annual payout is equal to 2% times years of credited service times the high three-year average compensation, subject to the Internal Revenue Code limitation of \$380,000 for 2013. For purposes of determining the payout, "average compensation" is defined as regular salary (i.e., does not include bonuses or non-equity incentive plan compensation). Benefits under the plan are payable as a five-year certain and life annuity. Benefits under the plan are not subject to an offset for Social Security. Benefits that would have accrued in the absence of IRS limits are made up through a non-qualified supplemental executive retirement plan. Mr. Amerson also participates in a 401(k) defined contribution plan which has an employer matching contribution, and in a nonqualified deferred compensation plan that allows Mr. Amerson to defer compensation and which restores the benefits limited in the 401(k) plan as a result of restrictions in the Internal Revenue Code.

- (2) The AgriBank CEO has a frozen benefit that he earned under the final average pay formula of the defined benefit retirement plan for his prior service with the AgriBank District. Upon his rehire, he began earning benefits under the cash balance defined benefit retirement plan formula; however, credit is provided for his prior service. His benefit is based on the Internal Revenue Code limitation of \$380,000 for 2013 at the contribution rate of 9%. In addition, he will receive an integrated contribution of 5% for all pay over the social security wage base of \$113,700 2013 up to the IRS compensation limit. Pay in excess of the IRS limit is excluded from his qualified retirement benefit.
- (3) The CoBank CEO participates in a final average pay defined benefit retirement plan (a noncontributory plan), an unfunded supplemental executive retirement plan and an unfunded executive retirement plan and is eligible to participate in the 401(k) retirement savings plan, which includes a matching contribution by the Bank. The CEO is also eligible to participate in a nonqualified deferred compensation plan that allows him to defer all or a portion of his incentive compensation. Additionally, the Bank makes contributions to this plan when his benefits under the 401(k) plan are limited due to Internal Revenue Code limits. Eligible compensation, as defined under the defined benefit plan final average pay formula, is the highest 60 consecutive-month average, which includes salary and incentive compensation measured over a period of one year or less, but excludes long-term incentive awards, expense reimbursements, taxable fringe benefits, relocation allowance, short- and long-term disability payments, nonqualified deferred compensation distributions, lump sum vacation payouts, and all severance payments. Compensation in excess of the Internal Revenue Code limits is covered through participation in the unfunded nonqualified supplemental executive retirement plan. Retirement benefits are calculated assuming payment in the form of a single life annuity with five years certain and retirement at Normal Retirement Age of 65. However, the actual form and timing of payments are based on participant elections. The plan requires five years of service to become vested. The benefit formula is the sum of 1.5 percent of eligible compensation up to Social Security covered compensation plus 1.75 percent of eligible compensation in excess of Social Security covered compensation, multiplied by years of eligible benefit service. Social Security covered compensation is the 35 year average of the Social Security taxable wage bases up to the participant's Social Security retirement age. In addition, an unfunded executive retirement plan has been adopted for the CEO. The CEO's agreement provides for a minimum retirement benefit of 50% of eligible compensation as of December 31, 2013, increasing to a maximum of 55% of eligible compensation as of December 31, 2015, with no reduction for early retirement. Further, the executive retirement plan benefit is limited so that the benefits provided from the three retirement plans do not exceed \$900,000 (expressed as a single life annuity with five years certain) as of the last year of the agreement. The CEO is also eligible for other postretirement benefits, primarily access to medical plans coverage. Participants in postretirement medical plans pay the premiums related to those plans.
- (4) The CEO participates in the Farm Credit Bank of Texas Pension Plan (the "Pension Plan"), which is a qualified defined benefit retirement plan. Compensation, as defined in the Pension Plan, includes wages, incentive and bonus compensation and deferrals to the 401(k) and flexible spending account plans, but excludes annual leave or sick leave that may be paid in cash at the time of termination, retirement, or transfer of employment, severance payments, retention bonuses, taxable fringe benefits, and any other payments. Pension Plan benefits are based on the average of monthly eligible compensation over the 60 consecutive months that produce the highest average after 1996 ("FAC60"). The Pension Plan's benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times "Years of Benefit Service" and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation times (ii) "Years of Benefit Service" (not to exceed 35). The CEO's Pension Plan benefit is offset by the CEO's pension benefits from another Farm Credit System institution. The present value of the CEO's accumulated Pension Plan benefit is calculated assuming retirement had occurred at the measurement date used for financial statement reporting purposes with retirement at age 61. The Pension Plan's benefit formula for the Normal Retirement Pension assumes that the CEO is married on the date the annuity begins, that the spouse is exactly 2 years younger than the CEO, and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit.

AUDIT COMMITTEE REPORT

The Farm Credit Administration regulations with respect to disclosure to investors in Systemwide Debt Securities require the board of directors of the Funding Corporation to establish and maintain a System Audit Committee. These regulations specify that the System Audit Committee may not consist of less than three members and at least one member must be a financial expert. A financial expert must be the chairman of the System Audit Committee. Every member must be free from any relationship that, in the opinion of the board of directors of the Funding Corporation, would interfere with the exercise of independent judgment as a System Audit Committee member. The System Audit Committee reports to the board of directors of the Funding Corporation. The charter can be found on the Funding Corporation's website at www.farmcreditfunding.com. The responsibilities of the System Audit Committee include:

- the oversight of the Funding Corporation's system of internal controls related to the preparation of the System's quarterly and annual information statements,
- the integrity of the System's quarterly and annual information statements,
- the review and assessment of the impact of accounting and auditing developments on the System's combined financial statements,
- the review and assessment of the impact of accounting policy changes related to the preparation of the System's combined financial statements,
- the appointment, compensation, retention and oversight of the System's independent auditors with the agreement of the Funding Corporation's board of directors,
- the pre-approval of allowable non-audit services at the System level,
- the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters at the System level,
- the receipt of various reports from management on internal controls, off-balance sheet arrangements, critical accounting policies, and material alternative accounting treatments,
- the review and approval of the scope and planning of the annual audit by the System's independent auditors,
- the approval of policies and procedures for the preparation of the System's quarterly and annual information statements, and
- the review and approval of the System's quarterly and annual information statements and financial press releases, after discussions with management and the independent auditors.

The System Audit Committee has reviewed and discussed the System's 2013 combined financial statements and the System's report on internal control over financial reporting, which were prepared under the oversight of the System Audit Committee, with senior management of the Funding Corporation and the independent auditors. In addition, the System Audit Committee discussed with the independent auditors the matters required to be discussed by PCAOB Auditing Standard No. 16, *Communications with Audit Committees*.

The System Audit Committee has also received the written disclosures and the letter from the independent auditors pursuant to PCAOB Rule 3526, *Communication with Audit Committee Concerning Independence* and has discussed with the independent auditors their independence.

Based on the review and discussions referred to above, the System Audit Committee recommended that the audited combined financial statements be included in the System's 2013 Annual Information Statement.

Norman N. Strauss (Chairman)
William F. Staats (Vice Chairman)
F. Gerald Byrne
Timothy Clayton
Amy K. Marsh
Robert M. Tetrault

AUDIT AND OTHER FEES

Audit Fees

The following table sets forth the aggregate fees billed for professional services rendered for the System by its independent auditor, PricewaterhouseCoopers LLP, in the years ended December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
	(in thousands)	
Audit	\$ 9,463	\$ 9,356
Audit-related	962	526
Tax	368	344
All Other	<u>547</u>	<u>251</u>
Total	<u>\$11,340</u>	<u>\$10,477</u>

The *Audit* fees were for professional services rendered for the audits of System entities and the audit of the System's internal control over financial reporting.

The *Audit-related* fees were for issuances of comfort letters for preferred stock offerings and subordinated debt issuances, and employee benefit plan audits.

Tax fees were for services related to tax compliance, including the preparation of tax returns and claims for refunds, and tax planning and tax advice.

All Other fees were for services rendered for other advisory and assistance services, which were approved by the appropriate audit committee.

Other Fees

As required by the Farm Credit Administration regulations, any monetary and nonmonetary resources used by the System Audit Committee in fulfilling their duties are to be reported on an annual basis. Administrative expenses for the System Audit Committee totaled \$29,000 for 2013 and \$32,800 for 2012. No resources, other than administrative expenses and fees paid to the auditor as described above, were used during 2013 and 2012.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of December 31, 2013, the Funding Corporation carried out an evaluation under the supervision and with the participation of the Funding Corporation's management, including the President and CEO and the Managing Director — Financial Management Division, of the effectiveness of the design and operation of the Funding Corporation's disclosure controls and procedures¹ with respect to this annual information statement. This evaluation relies upon the evaluations made by the individual Banks and the related certifications they provide to the Funding Corporation. Based upon and as of the date of the Funding Corporation's evaluation, the President and CEO and the Managing Director — Financial Management Division concluded that the disclosure controls and procedures are effective in alerting them on a timely basis of any material information relating to the System that is required to be disclosed by the System in the reports it files or submits to the Farm Credit Administration. There have been no significant changes in the System's internal control over financial reporting² that occurred during the quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, the System's internal control over financial reporting.

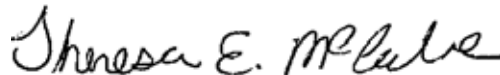
¹ For purposes of this discussion, "disclosure controls and procedures" are defined as controls and procedures of the System that are designed to ensure that the financial information required to be disclosed by the System in this annual information statement is recorded, processed, summarized and reported, within the time periods specified under the rules and regulations of the Farm Credit Administration.

² For purposes of this discussion, "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the System's principal executives and principal financial officers, or persons performing similar functions, and effected by the System's boards of directors, managements and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the System's combined financial statements for external purposes in accordance with generally accepted accounting principles and 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 System; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the System's combined financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the System are being made only in accordance with authorizations of managements and directors of the System; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the System's assets that could have a material effect on the System's combined financial statements.

CERTIFICATION

I, Theresa E. McCabe, certify that:

1. I have reviewed the *2013 Annual Information Statement* of the Farm Credit System.
2. Based on my knowledge, this annual information statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual information statement.
3. Based on my knowledge, the financial statements, and other financial information included in this annual information statement, fairly present in all material respects the financial condition, results of operations and cash flows of the System as of, and for, the periods presented in this annual information statement.
4. The System's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures¹ and internal control over financial reporting² for the System and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the System, including its combined entities, is made known to us by others within those entities, particularly during the period in which this annual information statement is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the System's disclosure controls and procedures and presented in this annual information statement our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual information statement based on such evaluation; and
 - (d) disclosed in this annual information statement any change in the System's internal control over financial reporting that occurred during the System's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the System's internal control over financial reporting.
5. The System's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the System's auditors and the System Audit Committee:
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the System's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the System's internal control over financial reporting.



Theresa E. McCabe
President and CEO

Date: February 28, 2014

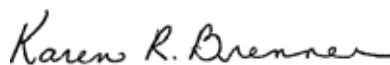
(1) See footnote 1 on page S-25.

(2) See footnote 2 on page S-25.

CERTIFICATION

I, Karen R. Brenner, certify that:

1. I have reviewed the *2013 Annual Information Statement* of the Farm Credit System.
2. Based on my knowledge, this annual information statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual information statement.
3. Based on my knowledge, the financial statements, and other financial information included in this annual information statement, fairly present in all material respects the financial condition, results of operations and cash flows of the System as of, and for, the periods presented in this annual information statement.
4. The System's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures¹ and internal control over financial reporting² for the System and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the System, including its combined entities, is made known to us by others within those entities, particularly during the period in which this annual information statement is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the System's disclosure controls and procedures and presented in this annual information statement our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual information statement based on such evaluation; and
 - (d) disclosed in this annual information statement any change in the System's internal control over financial reporting that occurred during the System's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the System's internal control over financial reporting.
5. The System's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the System's auditors and the System Audit Committee:
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the System's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the System's internal control over financial reporting.



Karen R. Brenner
Managing Director — Financial
Management Division

Date: February 28, 2014

(1) See footnote 1 on page S-25.

(2) See footnote 2 on page S-25.

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Actions	Pages 33, 85-86 and Note 20
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* As used herein, the references to “Notes” mean the Notes to Combined Financial Statements found on pages F-11 through F-74 of this annual information statement.

FARM CREDIT SYSTEM ENTITIES (As of January 1, 2014)

BANKS

AgFirst Farm Credit Bank
P.O. Box 1499
Columbia, SC 29202-1499
(803) 799-5000

AgriBank, FCB
30 East 7th Street
Suite 1600
St. Paul, MN 55101-4914
(651) 282-8800

CoBank, ACB
P.O. Box 5110
Denver, CO 80217-5110
(303) 740-4000

Farm Credit Bank of Texas
P.O. Box 202590
Austin, TX 78720-2590
(512) 465-0400

CERTAIN OTHER ENTITIES

Farm Credit Leasing Services Corporation
600 Highway 169 South, Suite 300
Minneapolis, MN 55426-1219
(952) 417-7800

Federal Farm Credit Banks
Funding Corporation
10 Exchange Place, Suite 1401
Jersey City, NJ 07302-3913
(201) 200-8000

FCS Building Association
1501 Farm Credit Drive
McLean, VA 22102-5090
(703) 883-4000

The Farm Credit Council
50 F Street, N.W., Suite 900
Washington, DC 20001-1530
(202) 626-8710

ASSOCIATIONS

AgFirst District

AgCarolina Farm Credit, ACA
4000 Poole Road
Raleigh, NC 27610

AgChoice Farm Credit, ACA
900 Bent Creek Blvd.
Mechanicsburg, PA 17050-1860

Ag Credit, ACA
610 W. Lytle Street
Fostoria, OH 44830-3422

AgGeorgia Farm Credit, ACA
468 Perry Parkway
Perry, GA 31069

AgSouth Farm Credit, ACA
26 South Main Street
Statesboro, GA 30458

ArborOne, ACA
800 Woody Jones Blvd.
Florence, SC 29501

Cape Fear Farm Credit, ACA
333 East Russell Street
Fayetteville, NC 28301

Carolina Farm Credit, ACA
146 Victory Lane
Statesville, NC 28625

Central Kentucky, ACA
640 S. Broadway, Room 108
Lexington, KY 40588

Colonial Farm Credit, ACA
7104 Mechanicsville Turnpike
Mechanicsville, VA 23111

Farm Credit of Central Florida, ACA
115 S. Missouri Avenue, Suite 400
Lakeland, FL 33815

Farm Credit of Northwest Florida, ACA
5052 Highway 90 East
Marianna, FL 32446

Farm Credit of Florida, ACA
11903 Southern Blvd.
Suite 200
Royal Palm Beach, FL 33411

Farm Credit of the Virginias, ACA
106 Sangers Lane
Staunton, VA 24401

First South Farm Credit, ACA
574 Highland Colony Parkway, Suite 100
Ridgeland, MS 39157

MidAtlantic Farm Credit, ACA
45 Aileron Court
Westminster, MD 21157

Puerto Rico Farm Credit, ACA
213 Manuel V. Domenech Avenue
Hato Rey, PR 00918

River Valley AgCredit, ACA
328 East Broadway
Mayfield, KY 42066

Southwest Georgia Farm Credit, ACA
305 Colquitt Highway
Bainbridge, GA 39817

AgriBank District

1st Farm Credit Services, ACA
2000 Jacobssen Drive
Normal, IL 61761

AgCountry Farm Credit Services, ACA
1900 44th Street South
Fargo, ND 58108

AgHeritage Farm Credit Services, ACA
119 East Third Street, Suite 200
Little Rock, AR 72201

AgStar Financial Services, ACA
1921 Premier Drive
Mankato, MN 56001

Badgerland Financial, ACA
1430 North Ridge Drive
Prairie du Sac, WI 53578

Delta ACA
118 E. Speedway
Dermott, AR 71638

Farm Credit Midsouth, ACA
3000 Prosperity Drive
Jonesboro, AR 72404

Farm Credit Services of America, ACA
5015 South 118th Street
Omaha, NE 68137

Farm Credit Illinois, ACA
1100 Farm Credit Drive
Mahomet IL 61853

Farm Credit Services of Mandan, ACA
1600 Old Red Trail
Mandan, ND 58554-5001

Farm Credit Mid-America, ACA
1601 UPS Drive
Louisville, KY 40223

Farm Credit Services of North Dakota, ACA
3100 10th Street, SW
Minot, ND 58702-0070

Farm Credit Services of Western Arkansas, ACA
3115 West 2nd Court
Russellville, AR 72801

FCS Financial, ACA
1934 East Miller Street
Jefferson City, MO 65101-3881

GreenStone Farm Credit Services, ACA
3515 West Road
East Lansing, MI 48823

Progressive Farm Credit Services, ACA
1116 N. Main Street
Sikeston, MO 63801

United Farm Credit Services, ACA
4401 Highway 71 South
P.O. Box 1330
Willmar, MN 56201-1560

CoBank District

AgPreference, ACA
3120 North Main
Altus, OK 73521

American AgCredit, ACA
200 Concourse Boulevard
Santa Rosa, CA 95403

Chisholm Trail Farm Credit, ACA
805 Chisholm Trail
Enid, OK 73701

Farm Credit East, ACA
240 South Road
Enfield, CT 06082

Farm Credit of Central Oklahoma, ACA
509 W. Georgia Avenue
Anadarko, OK 73005

Farm Credit of Enid, ACA
1605 W. Owen K. Garriott Road
Enid, OK 73703

Farm Credit of Ness City, FLCA
19332 State Highway 96
Ness City, KS 67560

Farm Credit of New Mexico, ACA
5651 Balloon Fiesta Parkway NE
Albuquerque, NM 87113

Farm Credit of Southern Colorado, ACA
5110 Edison Avenue
Colorado Springs, CO 80915

Farm Credit of Southwest Kansas, ACA
1606 E. Kansas Avenue
Garden City, KS 67846

Farm Credit of Western Kansas, ACA
1190 South Range Avenue
Colby, KS 67701

Farm Credit of Western Oklahoma, ACA
3302 Williams Avenue
Woodward, OK 73801

Farm Credit Services of Colusa-Glenn, ACA
605 Jay Street
Colusa, CA 95932

Farm Credit Services of East Central
Oklahoma, ACA
601 E. Kenosha Street
Broken Arrow, OK 74012

Farm Credit Services of Hawaii, ACA
99-860 Iwaena Street, Suite A
Aiea, HI 96701

Farm Credit Services Southwest, ACA
3003 S. Fair Lane
Tempe, AZ 85282

Farm Credit West, ACA
1478 Stone Point Drive, Suite 450
Roseville, CA 95661

Fresno-Madera Farm Credit, ACA
4635 West Spruce Ave.
Fresno, CA 93722

Frontier Farm Credit, ACA
2009 Vanesta Place
Manhattan, KS 66503

Golden State Farm Credit, ACA
1580 Ellis Street
Kingsburg, CA 93631

High Plains Farm Credit, ACA
605 Main Street
Larned, KS 67550

Idaho Agricultural Credit Association
188 West Judicial
Blackfoot, ID 83221

Northwest Farm Credit Services, ACA
1700 South Assembly Street
Spokane, WA 99224

Premier Farm Credit, ACA
202 Poplar Street
Sterling, CO 80751

Western AgCredit, ACA
10980 South Jordan Gateway
South Jordan, UT 84095

Yankee Farm Credit, ACA
289 Hurricane Lane, Suite 102
Williston, VT 05495

Yosemite Farm Credit, ACA
800 West Monte Vista Avenue
Turlock, CA 95382

Texas District

Ag New Mexico, Farm Credit Services, ACA
233 Fairway Terrace North
Clovis, NM 88101

AgTexas Farm Credit Services
6901 Quaker Avenue, Suite 300
Lubbock, TX 79413

Alabama Ag Credit, ACA
2660 Eastchase Lane
Montgomery, AL 36117

Alabama Farm Credit, ACA
1740 Eva Road NE
Cullman, AL 35055

Capital Farm Credit, ACA
3000 Briarcrest Drive, Suite 601
Bryan, TX 77802

Central Texas Farm Credit, ACA
215 W. Elm Street
Coleman, TX 76834

Great Plains Ag Credit, ACA
5701 I-40 West
Amarillo, TX 79106

Heritage Land Bank, ACA
4608 Kinsey Drive, Suite 100
Tyler, TX 75703

Legacy Ag Credit, ACA
303 Connally Street
Sulphur Springs, TX 75482

Lone Star, ACA
1612 Summit Avenue, Suite 300
Fort Worth, TX 76102

Louisiana Land Bank, ACA
2413 Tower Drive
Monroe, LA 71201

Mississippi Land Bank, ACA
5509 Highway 51 North
Senatobia, MS 38668

Panhandle-Plains Land Bank, FLCA
5700 Southwest 45th
Amarillo, TX 79109-5204

Southern AgCredit, ACA
402 West Parkway Place
Ridgeland, MS 39157

Texas AgFinance, Farm Credit Services
545 South Highway 77
Robstown, TX 78380