2013 annual report

LENDING SUPPORT TO RURAL AMERICA™

FARM CREDIT OF THE VIRGINIAS, ACA

2013 ANNUAL REPORT

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Management

David E. Lawrence ... President and Chief Executive Officer
Bette B. Brand ... Chief Sales Officer
M. Kay Manchester ... Director of Human Resources and Training
David G. Sauer ... Chief Financial Officer
Al P. Saufley ... Chief Risk Officer

Board of Directors

Barry W. Shelor ... Chairman
Charles B. Leech, IV ... Vice Chairman
Ronald L. Bennett ... Director
Donna M. Brooke–Alt ... Director
William J. Franklin, Jr. ... Director
Bobby C. Gray ... Director
Paul M. House ... Director
Melody S. Jones ... Director
James A. Kinsey ... Director
Milton L. McPike, Jr. ... Director
Donald W. Reese ... Director
Wallace W. Sanford, III ... Director
Raymond L. Simms ... Director
Alfred W. Stephens, Jr. ... Director
Thomas V. Thacker ... Director
Joseph W. Wampler ... Director
John E. Wells ... Director

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Message from the Chief Executive Officer

2013 was highly successful year for your Farm Credit of the Virginias Association/Cooperative. Your cooperative continued to experience a slow recovery of our general economy that impacted the cooperative's new loan demand. The local economy in our footprint, while showing some signs of improvement, continues to bear the weight of the slow and prolonged recovery that we have experienced for the past several years. The majority of our customer/owners continue to weather the effects of the slow economy, but the unemployment coupled with a soft real estate market have caused some customer/owners to struggle in their business and in servicing their debt. The Association's team has continued to work hard with many customer/owners to help them through the difficult times they are experiencing. Additionally, the cooperative received a significant patronage refund from AgFirst Farm Credit Bank (AgFirst), our funding bank. The combination of our customer/owners efforts to meet their obligations, patronage refund from AgFirst and our Association team's efforts to provide exceptional customer service, makes it possible for me to report that Farm Credit of the Virginias (FCV) had another successful year with net earnings of $51 million, strengthened its capitalization position and is scheduled to double the amount of patronage refund paid to its customer/owners.

On behalf of the Board of Directors and the FCV Team, I would like to thank you, our customer/owners, for remaining loyal, continuing to use our products and services and recommending us to others who have a need for the financial services we provide. A primary goal is to generate sufficient profits that keep the Association/Cooperative financially strong and provide value to you, our customer/owners, by paying a patronage dividend. As a result of this commitment, your Board has approved a patronage dividend on the 2013 earnings. The dividend amount approved is estimated at $21 million and will be paid 100 percent in the form of cash. As in previous years, the customer/owners who were active borrowers during 2013 are receiving the checks.

Let's look deeper into some key areas where we are focusing our efforts for you.

Your Cooperative is financially strong.

It is very important that your Association/Cooperative continues to be financially strong so we are in a position to meet your lending needs during any economic environment, both now and for the future generations.

- Net Income of $51 million – record earnings
- Net loan chargeoffs rate of 0.10% continues to improve from the previous few years
- Return on Assets of 3.36% - higher than any of the previous five years
- Return on Equity of 17.04% - higher than any of the past five years
- Permanent Capital of 19.88% - increased 2.93% over the previous year (goal is 20%)
- Patronage refund of $21 million – double from last year's level

The results place your Association in a solid position to meet the lending needs of today and tomorrow's customers in our footprint.

The Board of Directors and team are committed everyday to carry out our mission.

Our mission statement is "Be an engaged partner in our rural community."

David E. Lawrence
Chief Executive Officer

March 12, 2014

Report of Management

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

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the Association are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Association maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Board of Directors.

The consolidated financial statements have been examined by independent certified public accountants, whose report appears elsewhere in this annual report. The Association is also subject to examination by the Farm Credit Administration.

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2013 Annual Report of Farm Credit of the Virginias, ACA, that the report has been prepared under the oversight of the audit committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Barry Shelor
Chairman of the Board

David E. Lawrence
Chief Executive Officer

David G. Sauer
Chief Financial Officer

March 12, 2014

Report on Internal Control Over Financial Reporting

The Association'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 Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated 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 Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

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

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

David E. Lawrence
Chief Executive Officer

David G. Sauer
Chief Financial Officer

March 12, 2014

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	December 31, 2013	2012	2011	2010	2009
Balance Sheet Data					
Cash	$ 5,617	$ 6,368	$ 4,806	$ 3,873	$ 4,001
Loans	1,483,454	1,466,371	1,455,114	1,462,585	1,424,174
Less: allowance for loan losses	11,878	9,968	7,754	9,318	10,730
Net loans	1,471,576	1,456,403	1,447,360	1,453,267	1,413,444
Investments in other Farm Credit institutions	25,707	27,589	34,350	35,777	37,937
Other property owned	2,337	3,657	3,882	4,387	5,796
Other assets	55,544	45,079	49,080	51,610	52,427
Total assets	$ 1,560,781	$ 1,539,096	$ 1,539,478	$ 1,548,914	$ 1,513,605
Notes payable to AgFirst Farm Credit Bank*	$ 1,209,905	$ 1,229,830	$ 1,253,612	$ 1,280,736	$ 1,268,040
Accrued interest payable and other liabilities with maturities of less than one year	40,266	28,870	30,304	29,574	30,677
Total liabilities	1,250,171	1,258,700	1,283,916	1,310,310	1,298,717
Capital stock and participation certificates	17,313	17,344	17,523	17,731	17,928
Retained earnings					
Allocated	92,568	92,568	89,469	84,840	78,806
Unallocated	200,739	170,501	148,576	136,033	118,150
Accumulated other comprehensive income (loss)	(10)	(17)	(6)	—	4
Total members' equity	310,610	280,396	255,562	238,604	214,888
Total liabilities and members' equity	$ 1,560,781	$ 1,539,096	$ 1,539,478	$ 1,548,914	$ 1,513,605
Statement of Income Data					
Net interest income	$ 43,916	$ 41,743	$ 39,956	$ 37,167	$ 34,328
Provision for loan losses	3,450	6,000	9,600	5,150	8,325
Noninterest income (expense), net	10,772	(50)	(2,394)	2,773	(4,051)
Net income	$ 51,238	$ 35,693	$ 27,962	$ 34,790	$ 21,952
Key Financial Ratios					
Rate of return on average:					
Total assets	3.36%	2.34%	1.82%	2.29%	1.45%
Total members' equity	17.04%	13.07%	11.07%	14.95%	10.33%
Net interest income as a percentage of average earning assets	2.98%	2.85%	2.71%	2.55%	2.38%
Net (chargeoffs) recoveries to average loans	(0.105)%	(0.259)%	(0.762)%	(0.455)%	(0.306)%
Total members' equity to total assets	19.90%	18.22%	16.60%	15.40%	14.20%
Debt to members' equity (:1)	4.02	4.49	5.02	5.49	6.04
Allowance for loan losses to loans	0.80%	0.68%	0.53%	0.64%	0.75%
Permanent capital ratio	19.88%	16.95%	15.08%	13.84%	12.08%
Total surplus ratio	18.68%	15.73%	13.85%	12.60%	10.79%
Core surplus ratio	18.68%	15.73%	13.85%	12.60%	10.79%
Net Income Distribution					
Estimated patronage refunds:					
Cash	$ 21,000	$ 10,565	$ 10,685	$ 10,877	$ 10,000
Nonqualified retained earnings	—	3,107	3,816	6,762	6,231

** General financing agreement is renewable on a one-year cycle. The next renewal date is January 1, 2015.*

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of Farm Credit of the Virginias, ACA, (Association) for the year ended December 31, 2013 with comparisons to the years ended December 31, 2012 and December 31, 2011. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 90 years. The System's mission is to maintain and improve the income and well-being of American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration, (FCA), which is an independent safety and soundness regulator.

The Association is a cooperative, which is owned by the members (also referred to throughout this Annual Report as stockholders or shareholders) served. The territory of the Association extends across a diverse agricultural region of Virginia, West Virginia and Maryland. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, ***www.agfirst.com,*** or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, **www.farmcreditofvirginias.com**, or by calling 1-540-886-3435, extension 5020, or writing David Sauer, Farm Credit of the Virginias, P.O. Box 899, Staunton, VA 24402-0899. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

This annual information statement contains 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 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 United States government support of the agricultural industry and the Farm Credit System, as a government-sponsored enterprise, as well as investor and rating-agency reactions to events involving other government-sponsored enterprises and other financial institutions; and
- actions taken by the Federal Reserve System in implementing monetary policy.

CRITICAL ACCOUNTING POLICIES

The 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 position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of

certain assets or liabilities. We consider these policies critical because management must make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements. The following is a summary of certain critical policies.

- *Allowance for loan losses* — The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic and political conditions, loan portfolio composition, credit quality and prior loan loss experience.

  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 encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by nature, contains elements of uncertainty and imprecision. Changes in the agricultural economy and their borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

  Management considers the following factors in determining and supporting the levels of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties in farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences. Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

- *Valuation methodologies* — Management applies 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. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, other property owned, pension and other postretirement benefit obligations, and certain 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 Association's results of operations.

- *Pensions* — The Bank and its related Associations participate in defined benefit retirement plans. These plans are noncontributory and benefits are based on salary and years of service. In addition, the Bank and its related Associations also participate in defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense for the defined benefit retirement plans is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of our future benefit obligations. The discount rate for 2013 was selected by reference to analysis and yield curves of the plans' actuary and industry norms.

ECONOMIC CONDITIONS

The general economy continued to improve during 2013 but was below expectations of most economic forecasts. Five years after the Great Recession, the economy is getting better, but it is still not great. Growth was been anemic, averaging about 2 percent per year since the recovery began in 2009. The unemployment rate decreased during 2013, but remains stubbornly high. The housing and real estate market had increased activity during the first half of the year but slowed during the second half as mortgage interest rates inched higher. Also, the housing market in the northern Virginia area, was negatively impacted by the federal government shutdown in October.

Of the major agricultural commodities served by the Association, most producers experienced a favorable year. After the major drought of 2012, which impacted the grain producing areas of the country and resulted in a spike in grain prices, the weather improved for 2013. The good weather resulted in a large increase in corn and other grain production. As a result, grain prices, especially corn and soybeans, decreased during the second half of the year. This had a positive impact on dairy, poultry and livestock producers in the Association's territory. The weather in the Association's territory was also very good during the year, which resulted in some grain producers having record yields and plenty of pasture and hay for livestock. For the most part, the prices the farmers received for their product either improved from last year or remained flat. Milk, beef, and poultry prices improved when compared to last year. For the forestry and timber industry, the demand for lumber and lumber prices both increased compared to 2012. The demand for lumber came from the increase in housing starts and a steady demand for logs and lumber in the export market. Overall, the agricultural commodities and farmers in the Association's territory had a good year.

LOAN PORTFOLIO

The Association loan volume was $1,483,454 at December 31, 2013 compared to $1,466,371 at December 31, 2012, an increase of $17,083 or 1.16 percent. Loan demand has remained steady during the year. The demand for real estate loans improved as there was an increase in activity in the real estate market.

During 2013, the Association continued to participate in the AgFirst's capitalized participation program although no additional loans were sold to the Bank under this program.

The Bank's capitalized participation pool program is designed to improve the Association's and Bank's capital positions. The Association sells a pool of loans to the Bank. The Bank maintains a separate patronage pool for these loans and the Bank expects to pay patronage to the Association in an amount that the Association would earn on these loans as if the loans remained with the Association. Under this program, the Association also increased its stock investment in the Bank. The sale of these loans does impact the loan volume of the Association but should not impact its net income. As of December 31, 2013, loans sold under this program totaled $108,117 compared to $126,960 at December 31, 2012. The decrease was primarily due to paydowns and amortization of principal.

Without the sale of these loans, loan volume would have been $1,591,571 at December 31, 2013 compared to $1,593,331 at December 31, 2012, a slight decrease of $1,760 or 0.11 percent.

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans through numerous product types.

The diversification of the Association loan volume by type for each of the past three years is shown below.

Loan Type	December 31, 2013		2012		2011	
	(dollars in thousands)					
Real estate mortgage	$ 1,023,966	69.03%	$ 975,246	66.51%	$ 945,638	64.99%
Production and intermediate-term	370,738	24.99	380,380	25.94	392,960	27.00
Processing and marketing	31,956	2.15	50,798	3.46	57,002	3.92
Rural residential real estate	37,574	2.53	35,880	2.45	38,827	2.67
Farm-related business	11,658	0.79	12,504	0.85	12,025	0.83
Communication	7,562	0.51	8,185	0.56	3,956	0.27
Loans to cooperatives	–	–	1,431	0.10	2,759	0.19
Energy	–	–	1,947	0.13	1,947	0.13
Total	$ 1,483,454	100.00%	$ 1,466,371	100.00	$ 1,455,114	100.00%

While 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 is diversified.

The geographic distribution of the loan volume by branch/state for the past three years is as follows:

Branch/State	December 31, 2013	2012	2011
Abingdon, VA	8%	8%	6%
Bedford, VA	3	3	4
Charlottesville, VA	4	4	5
Chatham, VA	4	3	3
Clarksburg, WV	2	2	2
Culpeper, VA	5	6	6
Elkins, WV	2	3	2
Gate City, VA	1	1	1
Halifax, VA	2	2	2
Harrisonburg, VA	14	14	13
Leesburg, VA	8	7	8
Lewisburg, WV	3	3	3
Lexington, VA	3	3	3
Oakland, MD	3	3	3
Orange, VA	7	6	7
Petersburg, WV	4	4	4
Ripley, WV	4	4	4
Roanoke, VA	3	2	2
Rocky Mount, VA	4	4	4
Romney, WV	1	1	1
Verona, VA	6	6	6
Warrenton, VA	6	6	7
Wytheville, VA	4	5	5
Agribusiness	5	5	6
Special Assets Group	1	2	1
Participation Loans Purchased	1	3	4
Participation Loans Sold	(8)	(10)	(12)
	100%	100%	100%

The major commodities in the Association loan portfolio are shown below. The predominant commodities are livestock, field crops, and timber, which constitute 65 percent of the entire portfolio.

Commodity Group	December 31, 2013		2012		2011	
	(dollars in thousands)					
Livestock	$ 547,971	37%	$ 543,705	37%	$ 523,620	36%
Field Crops	255,244	17	238,552	16	240,251	17
Timber	168,788	11	169,691	12	172,471	12
Dairy	155,025	11	150,351	10	134,763	9
Poultry	116,521	8	119,122	8	106,944	7
Rural Home	41,209	3	40,703	3	40,904	3
Tobacco	17,870	1	16,278	1	17,594	1
Other	180,826	12	187,968	13	218,567	15
Total	$ 1,483,454	100%	$ 1,466,371	100%	$ 1,455,114	100%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration of livestock producers. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are diversified within their enterprise and/or with crop production that reduces overall risk exposure. Demand for beef, prices of field grains, and international trade are some of the factors affecting the prices of these commodities. To proactively reduce overall risk exposure, the concentration of large loans has decreased over the past couple years. The agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

During 2013, the Association continued to buy and sell loan participations within the System. Loan participations provide a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which may strengthen its capital position. Activity was reduced in buying loan participations during 2013 as part of the overall risk management program.

Loan Participations:	December 31, 2013	2012	2011
	(dollars in thousands)		
Participations Purchased			
– FCS Institutions	$ 20,004	$ 44,531	$ 60,168
Participations Sold	(121,667)	(146,171)	(170,120)
Total	$ (101,663)	$ (101,640)	$ (109,952)

The Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests for the period ended December 31, 2013.

The Association sells qualified long-term mortgage loans into the secondary market. For the period ended December 31, 2013, the Association originated loans for resale totaling $40,618, which were sold into the secondary market.

MISSION-RELATED INVESTMENTS

During 2005, the FCA initiated an investment program to stimulate economic growth and development in rural areas. The FCA outlined a program to allow System institutions to hold such investments, subject to approval by the FCA on a case-by-case basis. FCA approved the Rural America Bonds pilot and the Tobacco Buyout Program under the mission-related investments umbrella, as described below.

In October 2005, the FCA authorized AgFirst and the associations to make investments in Rural America Bonds under a three-year pilot period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. Effective December 31, 2014, the FCA will conclude each pilot program approved as part of the Investment in Rural America Bonds program. Each System institution participating in such programs may continue to hold its investment through the maturity dates for the investments, provided the institution continues to meet all approval conditions. Although the pilot programs are concluding, the FCA can consider future requests on a case-by-case basis.

These bonds may be classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. As of December 31, 2013, 2012, and 2011, the Association had $0, $0, and $1,568, respectively, in Rural America Bonds, and they are classified as Loans on the Consolidated Balance Sheets.

On October 22, 2004, Congress enacted the “Fair and Equitable Tobacco Reform Act of 2004” (Tobacco Act) as part of the “American Jobs Creation Act of 2004.” The Tobacco Act repealed the Federal tobacco price support and quota programs, provided for payments to tobacco “quota owners” and producers for the elimination of the quota and included an assessment mechanism for tobacco manufacturers and importers to pay for the buyout. Tobacco quota holders and producers will receive equal annual payments under a contract with the Secretary of Agriculture. The Tobacco Act also includes a provision that allows the quota holders and producers to assign to a “financial institution” the right to receive the contract payments (Successor-in-Interest Contracts (SIIC) so that they may obtain a lump sum or other payment. On April 4, 2005, the United States Department of Agriculture (USDA) issued a Final Rule implementing the “Tobacco Transition Payment Program” (Tobacco Buyout). At December 31, 2013, 2012, and 2011, the Association had $2,989, $5,838, and $8,549, respectively, in SIIC outstanding and these are classified as Other Investments on the Consolidated Balance Sheets.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association continues to review the credit quality of the loan portfolio on an ongoing basis. With the approval of the Association Board of Directors, the Association establishes underwriting standards and lending policies that provide direction to 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 – protection for the lender in the event of default and a potential secondary source of repayment
- Capital – ability of the operation to survive unanticipated risks
- Conditions – intended use of the loan funds

The credit risk management process begins with an analysis of the borrower’s credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower’s ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent 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. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

We review the credit quality of the loan portfolio on an ongoing basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System, which is used by all Farm Credit System institutions. Below are the classification definitions.

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

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

Credit Quality	2013	2012	2011
Acceptable & OAEM	95.48%	93.50%	94.91%
Substandard	4.48%	6.44%	4.96%
Doubtful	0.04%	0.06%	0.13%
Total	100.00%	100.00%	100.00%

Nonperforming Assets

The Association's loan portfolio is divided into performing and high-risk categories. A Special Assets Group is responsible for servicing loans classified as high-risk. The high-risk assets, including accrued interest, are detailed below:

		December 31,	
High-risk Assets	2013	2012	2011
		(dollars in thousands)	
Nonaccrual loans	$ 23,494	$ 39,710	$ 26,575
Restructured loans	382	–	–
Accruing loans 90 days past due	193	32	546
Total high-risk loans	24,069	39,742	27,121
Other property owned	2,337	3,657	3,882
Total high-risk assets	$ 26,406	$ 43,399	$ 31,003
Ratios			
Nonaccrual loans to total loans	1.58%	2.71%	1.83%
High-risk assets to total assets	1.69%	2.82%	2.01%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased $16,216 or 40.84 percent in 2013. The decrease was mainly due to receiving payments on the loans, having a few loans being reinstated back to accrual status, and having a few loans going through the foreclosure process and being transferred to other property owned. Of the $23,494 in nonaccrual volume at December 31, 2013, $10,278 or 43.75 percent, compared to 54.08 percent and 32.70 percent at December 31, 2012 and 2011, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

Loan restructuring is available to financially distressed borrowers. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the Association and the borrower.

Other property owned totaled $2,337 at December 31, 2013. This was a decrease of $1,320 as compared to 2012. During 2013, several loans went through the foreclosure process and were acquired by the Association. The Association actively markets these properties and several were sold during the year.

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio. The following table presents the activity in the allowance for loan losses for the most recent three years:

		Year Ended December 31,	
Allowance for Loan Losses Activity:	2013	2012	2011
		(dollars in thousands)	
Balance at beginning of year	$ 9,968	$ 7,754	$ 9,318
Charge-offs:			
Real estate mortgage	(1,207)	(3,253)	(6,314)
Production and intermediate-term	(1,103)	(1,081)	(1,665)
Agribusiness	(939)	(57)	(3,264)
Rural residential real estate	(94)	(33)	–
Total charge-offs	(3,343)	(4,424)	(11,243)
Recoveries:			
Real estate mortgage	1,704	439	51
Production and intermediate-term	27	193	28
Agribusiness	71	6	–
Rural residential real estate	1	–	–
Total recoveries	1,803	638	79
Net (charge-offs) recoveries	(1,540)	(3,786)	(11,164)
Provision for (reversal of allowance for) loan losses	3,450	6,000	9,600
Balance at end of year	$ 11,878	$ 9,968	$ 7,754
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.105)%	(0.259)%	(0.762)%

The recoveries on loans were mainly due to a large recovery on a real estate loan that was previously charged-off.

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

Allowance for Loan Losses by Type	December 31, 2013	2012	2011
	(dollars in thousands)		
Real estate mortgage	$ 5,184	$ 3,469	$ 2,408
Production and intermediate-term	4,967	4,621	4,380
Agribusiness	1,532	1,684	748
Rural residential real estate	195	194	203
Communication	–	–	15
Total Allowance	$ 11,878	$ 9,968	$ 7,754

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

Allowance for Loan Losses as a Percentage of:	December 31, 2013	2012	2011
Total loans	0.80%	0.68%	0.53%
Nonaccrual loans	50.56%	25.10%	29.18%

Please refer to Note 3, *Loans and Allowance for Loan Losses*, of the Notes to the Consolidated Financial Statements, for further information concerning the allowance for loan losses.

RESULTS OF OPERATIONS

The Association's net income was $51,238 for 2013, $35,693 for 2012, and $27,962 for 2011. The increase in net income for 2013 compared to 2012 was mainly due a large increase in the AgFirst patronage refund, lower provision for loan losses, and higher net interest income. The increase in net income for 2012 compared to 2011 was primarily due to lower provision for loan losses, an insurance premium refund from the Farm Credit System Insurance Corporation (Insurance Corporation), and higher net interest income.

Interest income was $77,759 for 2013, $78,814 for 2012, and $82,750 for 2011. The decrease in interest income over the past three years was primarily due to lower interest rates on our customers' loans. Although, interest rates have increased since June, 2013, the overall average interest rate on the Association's loan portfolio has decreased over the past three years. This has resulted in lower interest income to the Association.

Net Interest Income

Net interest income was $43,916 for 2013, $41,743 for 2012 and $39,956 for 2011. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. Net interest income increased during 2013 compared to 2012 mainly due to slightly higher spreads on loans and reduced borrowing from AgFirst. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual Income	Total
	(dollars in thousands)			
12/31/13 - 12/31/12				
Interest income	$ 305	$ (2,166)	$ 806	$ (1,055)
Interest expense	(812)	(2,416)		(3,228)
Change in net interest income	$ 1,117	$ 250	$ 806	$ 2,173
12/31/12 - 12/31/11				
Interest income	$ (383)	$ (3,468)	$ (85)	$ (3,936)
Interest expense	(1,039)	(4,684)	–	(5,723)
Change in net interest income	$ 657	$ 1,215	$ (85)	$ 1,787

* *Volume variances can be the result of increased/decreased loan volume or from changes in the percentage composition of assets and liabilities between periods.*

Noninterest Income

Total noninterest income for the period ended December 31, 2013, totaled $34,829, an increase of $12,580 or 56.54 percent, as compared to $22,249 for 2012.

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

Noninterest Income	For the Year Ended December 31, 2013	2012	2011	Increase/(Decrease) 2013/2012	2012/2011
	(dollars in thousands)				
Loan fees	$ 740	$ 948	$ 1,130	$ (208)	$ (182)
Fees for financially related services	159	93	213	66	(120)
Patronage refund from other Farm Credit Institutions	31,950	17,730	18,166	14,220	(436)
Gains (losses) on other property owned, net	991	(423)	(1,541)	1,414	1,118
Gains (losses) on sales of rural home loans	692	957	759	(265)	198
Gains (losses) on sales of premises and equipment, net	49	45	91	4	(46)
Insurance Fund refund	–	2,645	–	(2,645)	2,645
Other noninterest income	248	254	210	(6)	44
Total noninterest income	$ 34,829	$ 22,249	$ 19,028	$12,580	$ 3,221

Loan fees income decreased during 2013 compared to 2012 mainly due to a decrease in fee income from participation purchased loans.

Patronage refund from other Farm Credit Institutions increased $14,220 compared to last year. The patronage refund was from AgFirst. AgFirst increased their patronage refund due their strong financial position and having record earnings over the past few years.

The Association recorded net gains on other property owned for 2013, versus net losses for 2012. During 2013, several properties were sold during the year which resulted in net gains.

For 2012, the Insurance Corporation's Insurance Fund exceeded its statutory level, so the Association received a refund. For 2013, the Insurance Corporation's Insurance Fund did not exceed its statutory level, so it did not issue a refund.

Noninterest Expense

Total noninterest expense increased $1,734 or 7.79 percent for the year ended December 31, 2013, as compared to the same period for 2012.

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

	For the Year Ended December 31,			Increase/(Decrease)	
Noninterest Expense	2013	2012	2011	2013/ 2012	2012/ 2011
	(dollars in thousands)				
Salaries and employee benefits	$ 15,647	$ 15,074	$ 14,470	$ 573	$ 604
Occupancy and equipment	1,571	1,503	1,389	68	114
Insurance Fund premiums	1,216	640	776	576	(136)
Other operating expenses	5,569	5,052	4,718	517	334
Total noninterest expense	$ 24,003	$ 22,269	$ 21,353	$ 1,734	$ 916

Salaries and employee benefits increased mainly due to an increase in employees' salaries and an increase in the number of employees. The employees' salaries increased due to merit increases and promotions.

Insurance Fund premiums increased $576 for 2013 compared to 2012 due to higher premiums charged to associations in the Farm Credit System.

Other operating expenses increased $517 for 2013 compared to 2012. The increase was primarily due to spending more money on public and member relations and outside professional services.

Income Taxes

The Association recorded a provision for income taxes of $54 for the year ended December 31, 2013, as compared to a provision for income taxes of $30 for 2012 and a provision of $69 for 2011. Refer to Note 2, *Summary of Significant Accounting Policies*, and Note 12, *Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	For the 12 Months Ended 12/31/13	12/31/12	12/31/11
Return on average assets	3.36%	2.34%	1.82%
Return on average members' equity	17.04%	13.07%	11.07%
Net interest income as a percentage of average earning assets	2.98%	2.85%	2.71%
Net (charge-offs) recoveries to average loans	(0.105)%	(0.259)%	(0.762)%

Higher net income for 2013 drove the return on average assets and return on average members' equity higher when compared to last year. Net interest income as a percentage of average earning assets increased for 2013 compared to 2012 due to higher spreads on loans.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

Total notes payable to the Bank at December 31, 2013, was $1,209,905 as compared to $1,229,830 at December 31, 2012 and $1,253,612 at December 31, 2011. The average volume of outstanding notes payable to the Bank was $1,207,367 and $1,234,393 for the years ended December 31, 2013 and 2012, respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association's participation in the Farmer Mac, investments, and other secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association.

The Association did not have any lines of credit from third party financial institutions as of December 31, 2013.

Funds Management

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable and rising

earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 90-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

The majority of the interest rate risk in the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control risk associated with the loan portfolio.

Relationship with the Bank

The Association's statutory obligation to borrow only from the Bank is discussed in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements in this annual report.

The Bank's ability to access capital of the Association is discussed in Note 4, *Investment in Other Farm Credit Institutions*, of the Notes to the Consolidated Financial Statements in this annual report.

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding" section of this Management's Discussion and Analysis and in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, included in this annual report.

CAPITAL RESOURCES

Capital serves to support asset growth and provide 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.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2013 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Members' equity at December 31, 2013, totaled $310,610, and increase of 10.78 percent compared to $280,396 at December 31, 2012. At December 31, 2012, total members' equity increased 9.72 percent from the December 31, 2011 total of $255,562. The increase was primarily attributed to the earnings of the Association offset by the cash profit-sharing distribution (patronage dividend) to the Association's member-stockholders. The Association plans to distribute approximately $21,000 of the 2013 net income in cash to its member-stockholders in second quarter of 2014.

Total capital stock and participation certificates were $17,313 on December 31, 2013, compared to $17,344 on December 31, 2012 and $17,523 on December 31, 2011. The decrease was attributed to the retirement of stock.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk adjusted asset base. Risk adjusted assets mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded the minimum regulatory standard for all the ratios.

The Association's capital ratios as of December 31 and the FCA minimum requirements follow:

	2013	2012	2011	Regulatory Minimum
Permanent capital ratio	19.88%	16.95%	15.08%	7.00%
Total surplus ratio	18.68%	15.73%	13.85%	7.00%
Core surplus ratio	18.68%	15.73%	13.85%	3.50%

The capital ratios increased for 2013 compared to 2012 due to an increase in members' equity.

There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements. See Note 7, *Members' Equity*, of the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions.

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

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing

credit to Young*, Beginning** and Small*** farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit. As a result, 2013 goals were established and met.

The following table outlines the loan volume and number of YBS loans in the loan portfolio for the Association.

	As of December 31, 2013	
(dollars in thousands)	Number of Loans	Amount of Loans
Young	2,261	$178,880
Beginning	3,456	$350,331
Small	11,732	$1,020,284

Note: For purposes of the above table, a loan could be classified in more than one category, depending upon the characteristics of the underlying borrower.

The 2007 USDA Ag census data has been used as a benchmark to measure penetration of the Association's marketing efforts. The Association currently has a high penetration in the Young, Beginning, and Small farm market. As of December 31, 2013, the Association was doing business with 72 percent of the Young farmers, 21 percent of the Beginning farmers, and 16 percent of Small farmers identified by the 2007 Ag census.

The following strategies and outreach programs have been conducted which allowed the Association to meet its objectives and goals in the young, beginning, and small farmer program:

- Support of 4-H, FFA, and Young farmer organizations through sponsorships and donations.
- Sponsor and host seminars on farm transition planning and financial management.
- Began in 2011, the sponsorship of the Ag Biz Planner financial training program for YBS farmers.
- Sponsor a one-day Young Farmer Institute facilitated by nationally recognized agricultural business consultant, Dr. David Kohl.
- Sponsor and host Dairy Management seminars.
- Support Young and Beginning farmers through a Youth Loan program.

The Association is committed to the future success of Young, Beginning and Small farmers.

* Young farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.

** Beginning farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.

*** Small farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than $250 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

REGULATORY MATTERS

For the twelve months ended December 31, 2013, the FCA took no enforcement action against the Association.

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

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

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

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

In light of the foregoing, it is difficult to predict at this time the extent to which the Dodd-Frank Act or the forthcoming implementing rules and regulations will have an impact on the

System. However, it is possible they could affect funding and hedging strategies and increase funding and hedging costs.

Farm Bill

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

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

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity, all of which are located in Virginia, West Virginia and Maryland:

Location	Description	Form of Ownership
106 Sangers Lane Augusta County, VA	Administrative	Owned
1237 W. Main Street Abingdon, VA	Branch	Owned
801-B Blue Ridge Ave. Bedford, VA	Branch	Rented *($1,200 per month)*
1445 E. Rio Road Suite 103 Charlottesville, VA	Branch	Rented *($2,040 per month)*
29 Military Drive Chatham, VA	Branch	Owned
I-79, Exit 115, Rt. 20 S. Clarksburg, WV	Branch	Rented *($2,510 per month)*
15574 Ira Hoffman Ln. Culpeper, VA	Branch	Owned
308 Railroad Ave. Elkins, WV	Branch	Rented *($650 per month)*
241 E. Jackson Street Gate City, VA	Branch	Owned
161 South Main St. Halifax, VA	Branch	Rented *($531 per month)*
4646 South Valley Pike. Harrisonburg, VA	Branch	Owned
27 Fort Evans Rd., NE Leesburg, VA	Branch	Owned
880 North Jefferson St. Lewisburg, WV	Branch	Owned
Rt. 39 Lexington, VA	Branch	Owned
Rt. 219 North Oakland, MD	Branch	Owned
Colonial Shopping Center Orange, VA	Branch	Rented *($1,575 per month)*
106 North Main Street Petersburg, WV	Branch	Owned
Route 33 West Ripley, WV	Branch	Rented *($2,801 per month)*
38 Murray Farm Road Roanoke, VA	Branch	Owned
670 Old Franklin Turnpike Rocky Mount, VA	Branch	Owned
452 North High Street Romney, WV	Branch	Owned
1557 Commerce Road Suite 202 Verona, VA	Branch	Rented *($1,806 per month)*
516 Fauquier Road Warrenton, VA	Branch	Owned
660 Pepper's Ferry Road Wytheville, VA	Branch	Owned

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

The description of liabilities, contingent liabilities and intrasystem financial assistance rights and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 6, 9 and 11 of the Consolidated Financial Statements included in this Annual Report.

Description of Unincorporated Business Entities

The Association in the course of carrying out it business may form unincorporated business entities. The following set forth certain information regarding unincorporated entities:

Ethanol Holding Company, LLC – The Association holds an equity investment in the limited liability corporation organized for the stated purpose of acquiring, holding, managing, and, if appropriate, operating the assets of BFE Operating Company, LLC, Buffalo Lakes Energy, LLC, Pioneer Trail Energy, LLC and Ethanol Holding Company Minnesota Sub, LLC and Ethanol Holding Company Nebraska Sub, LLC until such time as such assets may be sold or otherwise disposed of.

FLCA Project Armenia Trust - A trust established by the Association to administer funds from the United States

Department of Agriculture Foreign Agricultural Service and other private donors to help establish a farm credit type agricultural lending system in the Republic of Armenia

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

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

Senior Officers

The following represents certain information regarding the senior officers of the Association and their business experience for the past 5 years.

Senior Officer	Position
David E. Lawrence	*Chief Executive Officer* since 2003.
Bette B. Brand	*Chief Sales Officer* since 2005 and had previously served as a Regional Sales and Lending Manager. She currently serves on the Boards of Directors of the Virginia Agribusiness Council, Virginia Horse Council, State Fair of Virginia, Inc., Virginia Cooperative Council, and Virginia Foundation for Agriculture in the Classroom.
Dewey L. Brown	*Chief Reviewer* since 2000.
William A. Comstock	*Chief Relationship Officer* since December 2012 and had previously served as a Business line leader since 2011. He previously was employed by Wells Fargo Bank, as a Vice President, Senior Ag Industry Leader from 2010 to 2011. From 2007 to 2010, he was employed by AgChoice Farm Credit, ACA as Vice President.
William S. Davis	*Chief Credit Officer* since 2010 and had previously served as a Regional Sales and Lending Manager/Business Line Leader. Mr. Davis retired in 2013.
John S. Day	*Director of Loan Initiatives* since 2010 and had previously served as a Regional Sales and Lending Manager.
Charles P. Heldreth	*Chief Relationship Officer* since 2012 and had previously served as a Regional Sales and Lending Manager.
Carolyn L. Hite	*Corporate Secretary* since 2001.
Ronald C. Leathers	*Chief Marketing Officer* since 2003.
M. Kay Manchester	*Director of Human Resources and Training* since 2006.
David G. Sauer	*Chief Financial Officer* since 1998.
Al P. Saufley	*Chief Risk Off*icer since 2012 and had previously served as Business Line Leader and as Director of Risk Management and Underwriting.

Compensation Overview

The Association's compensation philosophy is to pay for performance that supports the Association's short-term and long-term business strategies and enhances the member-shareholders' value in the Association. The overall compensation programs which include base salary, incentive compensation and retirement benefits, are designed to offer competitive pay opportunities to employees and enable the Association to effectively attract, retain and motivate highly qualified employees.

The compensation programs for senior officers include both fixed and variable compensation components. The mix of fixed and variable components is designed to balance the need to motivate employees and the senior management to find new business opportunities and to promote the Association's mission to ensure a safe, sound, and dependable source of credit for agriculture and rural America. The fixed component of compensation is the base salary. The variable component of compensation is an incentive program. The incentive program is designed to promote pay for performance while balancing the needs of the Association to manage risk and promote sound credit decisions. The incentive compensation is paid in two parts. Part of the incentive is paid to employees shortly after the end of the year. This part is referred to as the short-term incentive. The remaining component of the incentive is paid after the completion of three more years and this is the long-term incentive.

The Chief Executive Officer (CEO) and the Internal Audit employees do not participate in the incentive program. Instead the Board of Directors, at its discretion, may award a bonus. Historically, the Board of Directors has used the results of the senior officer short-term and long-term incentive plan to determine the payout amount.

Base Salaries. The CEO, senior officers and all employees of the Association have a base salary as part of their compensation program. The base salary is determined based on position, responsibilities and performance. The Association strives to provide employees with base salaries that are competitive with respect to the position, as identified in compensation surveys conducted by external compensation consultants, and the need to maintain careful control of salaries and benefits expense. The Board of Directors has delegated the base salaries administration for senior officers to the CEO. The CEO's base salary is reviewed and approved by the Board of Directors.

Short-Term Incentive. The Association provides short-term incentive programs for senior officers and eligible employees. The short-term incentive programs are designed to promote new business development, increased loan volume and revenue growth, and increased Association's net income. These financial measures were selected since they align with our mission and enhance the Association's ability to pay a patronage refund to our member-stockholders. The senior officers' short-term incentive is based on the performance of the sales and lending team. Performance of the sales and lending team is based on the production of loans made during the year and the number of new customers who joined the Association. The senior officers' short term incentive is reduced if key financial business goals are below established targets. The short-term incentive programs are reviewed and approved annually by the Board of Directors.

The short-term incentive for 2013 was expensed during 2013 with the payment to be made in the first quarter of 2014.

Long-term Incentive. The Association provides a long-term incentive program for senior officers. The long-term incentive plan is designed to motivate and reward the senior officers to meet and exceed financial and performance goals of the Association. The financial and performance goals are return on equity, return on assets, loan portfolio credit

quality, loan delinquency rate, and level of nonaccrual loan volume. These performance areas are weighted equally. A target goal is set for each financial and performance goal. The incentive amount is determined by the Association's performance compared to the goals. The long-term incentive for 2013 will be paid during the first quarter of 2017. The payment can be reduced if the financial and performance results for the last year, 2016, are less than the target goals in the 2013 long-term incentive program. Since the 2013 long-term incentive will be paid out after three years, it will be expensed equally over the next three years. The long-term incentive program is reviewed and approved by the Board of Directors.

Retirement benefits. The Association provides retirement benefits to the CEO, senior management and employees to offer a competitive compensation program. The CEO and senior officers participate in a defined benefit retirement plan. Additional information on the Association's retirement plans can be found in Note 9, *Employee Benefit Plans*, of the Consolidated Financial Statements included in this Annual Report.

Defined Contribution-Type Plans

The Association sponsors a non-qualified deferred compensation plan for certain key employees. The purpose of the non-qualified plan is to allow these employees to defer income taxes on a portion of their compensation until retirement or separation from the Association. As a non-qualified plan, assets have been allocated and separately invested for this plan, but are not isolated from the general creditors of the Association.

Employees who choose to defer a portion of their compensation may defer part or all of their base salary, short term incentive, and long term incentive and or bonus. This is shown under the deferred compensation column in the Summary of Compensation table below.

The following Summary of Compensation table includes compensation paid to the CEO and the senior officers as a group, excluding the CEO, during the years ended December 31, 2013, 2012 and 2011:

Name of CEO	Year	Salary	Bonus Short Term	Bonus Long term	Deferred Comp.	Change in Pension Value *(1)*	Perq/ Other**(2)*	Total
David E. Lawrence, CEO	2013	$ 350,304	$ –	$ –	$ 70,958	$ (249,343)	$ 10,510	$ 182,429
David E. Lawrence, CEO	2012	$ 342,762	$ 58,270	$ 10,282	$ –	$	$ 12,163	$ 423,479
David E. Lawrence, CEO	2011	$ 330,013	$ –	$ –	$ 66,003	$	$ 10,044	$ 406,060

Aggregate No. of Senior Officers	Year	Salary	Short Term Incentive	Long Term Incentive	Deferred Comp.	Change in Pension Value *(1)*	Perq/ Other**(2)*	Total
11	2013	$ 1,403,095	$ 247,912	$ 183,815	$ 49,213	$ (77,963)	$ 50,134	$ 1,856,206
5	2012	$ 755,430	$ 106,031	$ 18,537	$ 27,504	$	$ 17,036	$ 924,538
5	2011	$ 734,212	$ 104,294	$ 17,982	$ 26,964	$	$ 21,068	$ 904,520

(1) Change in Pension Value was not required for 2012 and 2011.
(2) The Perquisites/Other amount disclosed in the above chart include group life insurance, automobile compensation, relocation reimbursements, and spousal expense reimbursements for attendance at Association meetings.

Pension Benefits for the year ended December 31, 2013,

Pension Benefits Table
As of December 31, 2013

Name of CEO	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2013
David E. Lawrence, CEO	2013	AgFirst Retirement Plan	31	$ 2,507,233	$ –
				$ 2,507,233	$ –
Aggregate No. of Senior Officers					
11	2013	AgFirst Retirement Plan	*	$ 8,251,848	$ 87,298
				$ 8,251,848	$ 87,298

The disclosure of information on the total compensation paid during 2013 to any senior officer as reported in the table above is available and will be disclosed to the shareholders of the institution upon request.

On October 2, 2012, the Farm Credit Administration (FCA) adopted a regulation that requires all System institutions to hold advisory votes on the compensation of all senior officers and/or the CEO when compensation of either the CEO or the senior officer group increases by 15 percent or more from the previous reporting period. In addition, the regulation requires associations to hold an advisory vote on CEO and/or senior officer compensation when 5 percent of the voting stockholders petition for the vote and to disclose the petition authority in the

annual report to shareholders. The regulation became effective December 17, 2012, and the base year for the determining whether there is a 15 percent or greater increase in compensation was 2013. The Association held no advisory vote based on a stockholder petition in 2013.

On January 17, 2014, the President signed into law the Consolidated Appropriations Act which included language prohibiting the FCA from using any funds available to "implement or enforce" the regulation on advisory votes. In addition, on February 7, 2014, the President signed into law the Agricultural Act of 2014. Section 5014 of the law directs FCA 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." FCA has not yet taken any action with respect to their regulation in response to these actions.

Employee Travel Reimbursement

All employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

Defined Benefit-Type Plans

The Association sponsors a non-qualified defined benefit supplemental executive retirement plan for Donald L. Shiflet, retired CEO. The purpose of the non-qualified plan is to provide benefits that supplement the qualified defined benefit plan in which the Association's employees participate. For Mr. Shiflet, Compensation in excess of the 401(a)(17) limit and benefits in excess of the 415(b) limit in the qualified defined benefit plan will be made up through the non-qualified plan. As a non-qualified plan, assets have been allocated and separately invested for this plan, but are not isolated from the general creditors of the Association.

Directors

The following chart details the current term of each director and total cash compensation paid for 2013:

DIRECTOR	CURRENT TERM	TOTAL COMPENSATION PAID DURING 2013
Barry W. Shelor, ***Chairman***	2013-2016	$ 19,200
Charles B. Leech, IV, ***Vice Chairman***	2012-2015	13,700
Melody S. Jones , ***Chairman of Audit Committee***	2011-2014	13,100
Ronald L. Bennett	2010-2013	11,000
Donna M. Brooke-Alt	2010-2013	13,400
William J. Franklin, Jr.	2011-2014	15,800
Bobby C. Gray	2012-2014	17,900
Paul M. House	2013-2016	10,900
James A. Kinsey	2010-2013	11,100
Milton L. McPike, Jr.	2013-2016	13,100
Donald W. Reese	2010-2013	13,000
Wallace W. Sanford, III	2011-2014	14,700
Raymond L. Simms	2011-2014	20,200
Alfred W. Stephens, Jr.	2013-2016	14,500
Thomas V. Thacker	2010-2015	14,100
Joseph W. Wampler	2013-2016	14,200
John E. Wells	2012-2015	19,300
		$249,200

The following represents certain information regarding the directors of the Association, including their principal occupation for the past five years:

Barry W. Shelor, Chairman, operates a dairy farm. He serves on the Board of Directors for Shelor's Dairy, Inc. and Mountain Meadows Dairy, LLC. Mr. Shelor also serves on the Patrick County Farm Bureau Board as vice-president and serves on the Meadows of Dan Fire Department Board.

Charles B. Leech, IV, Vice Chairman, is an owner-operator of the family's dairy farm. He serves as a director on the Virginia State Dairymen's Association Board and as chairman on the Rockbridge Farmers' Cooperative Board.

Ronald L. Bennett operates a dairy farm. He serves on the Alleghany County Farm Bureau Board and on the Rockbridge/Alleghany/Bath FSA Committee.

Donna M. Brooke-Alt is President of Brookedale Farms, LLC and also owns/operates a greenhouse and Agri-tainment. She serves on the Mineral County FSA Board and also serves on the Mineral County Farmland Protection Board of Directors, the Mineral County Farm Bureau Board of Directors, and the Mineral County Family Resource Network Board. Ms. Brooke-Alt also serves on the Potomac State College Ag Advisory Committee.

William J. Franklin, Jr., is a livestock producer in Scott County, Va. He also produces hay and corn for his 100 brood cows. Mr. Franklin is employed off the farm at Scott County Telephone Cooperative where he serves as the Chief Executive Officer. He serves on the Carolina-Virginia's Telephone Membership Association Board, the TECO Board of the National Telecommunications Cooperative Association and serves as Governor for IRIS, a Tennessee LLC which provides regional networking. Mr. Franklin also serves on the Scott County Cattle Association Board and on the NTCA-Rural Broadband Association's Membership Committee.

Bobby C. Gray operates a diversified farm operation which includes raising dairy heifers, a beef cow herd, growing corn and hay on 1200 acres in Washington County, VA. Mr. Gray serves on the Advisory Committee for the Washington County School System.

Paul M. House is president of Kettle Wind Farm, LLC, a dairy, grain, and sod farm. He is also a shareholder in Dutchland Farm Inc., a family dairy farm. He serves on the AgFirst Farm Credit Bank Board.

Melody S. Jones is an outside director and is chairman of the Audit Committee. She is a self-employed sole practitioner Certified Public Accountant. She serves on the BC Bank, Inc. as Board chairperson. Ms. Jones also serves as treasurer for the Barbour County Chamber of Commerce and as treasurer for the Barbour County Office for Economic Development.

James A. Kinsey operates a forage based purebred Angus cattle operation. He serves on the CoBank, ACB Board.

Milton L. McPike, Jr. is an outside director. He is the Realibity Excellents Process Improvement Lead for Cargill, Inc. in Wichita, KS.

Donald W. Reese is a partner in Reese's Farm Fresh Produce, a retail produce operation and a partner and manager of Reese Farms, Inc., a family owned vegetable farm. He is serving on the Board of Directors for the Virginia Agribusiness Council.

Wallace W. Sanford, III, is a dairy and beef farmer in partnership with his family. He serves on the Maryland-Virginia Milk Producers Board and is director for Battlefield DHIA. Mr. Sanford serves as Board chairman for the Orange Madison Coop and is a director for the VA State Dairymen Association. Mr. Sanford is also Board member and chairman of Orange County Extension Leadership Council.

Raymond L. Simms is a beef cattle farmer. He serves on the Spotsylvania County Farm Bureau Board, the Tri-County/City Soil and Water Conservation Board, Virginia Soil and Water Conservation Board, and the Fredericksburg Feeder Calf.

Alfred W. Stephens, Jr. is a dairy and beef cow/calf farmer and has a small produce business. He serves as secretary-treasurer on the Wythe/Bland DHIA.

Thomas V. Thacker is a poultry farmer. He serves on the Weyers Cave Recreation Association Board and the Weyers Cave Community Center Board.

Joseph W. Wampler is a general livestock and poultry farmer.

John E. Wells is a full-time beef farmer. He is a member of the West Virginia Cattlemen's Association, Wirt County Farm Bureau, and is vice president of the Jackson County Calf Pool Cooperative and serves on the AgFirst Farm Credit Council Board.

Subject to approval by the board, the Association may allow directors honorarium of $400 for attendance at meetings, committee meetings, or special assignments, and $100 for telephone conferences. In addition to the honoraria, the board chairman was paid a quarterly retainer fee of $1,250, the audit committee chairman was paid a quarterly retainer fee of $1,125 and the directors were paid a quarterly retainer fee of $1,000.

The following chart details the number of meetings, other activities and additional compensation paid for other activities (if applicable) for each director:

	Days Served			**Compensation Paid For Other Activities****
Name of Director	**Regular Board Meetings**	**Other Official Activities***	**Committee Assignments**	
Barry W. Shelor, **Chairman**	13	22	Governance Committee and Chairman of Compensation Committee	$ 8,100
Charles B. Leech, IV, **Vice Chairman**	13	16	Compensation Committee and Governance Committee	4,400
Melody S. Jones, **Chairman of Audit Committee**	13	8	Chairman of Audit Committee	2,500
Ronald L. Bennett	13	10	Audit Committee	1,300
Donna M. Brooke-Alt	13	11	Audit Committee	3,700
William J. Franklin, Jr.	13	14	Compensation Committee and Chairman of Governance Committee	4,900
Bobby C. Gray	13	20	Risk Management Committee	7,300
Paul M. House **	13	4	Compensation Committee and Governance Committee	1,200
James A. Kinsey	12	4	Compensation Committee and Governance Committee	1,200
Milton L. McPike, Jr.	13	8	Risk Management Committee	2,800
Donald W. Reese	13	9	Audit Committee	2,900
Wallace W. Sanford, III	13	16	Risk Management Committee	5,400
Raymond L. Simms	13	27	Chairman of Communication Advocacy Program/Sales Committee	10,400
Alfred W. Stephens, Jr.	13	12	Chairman of Risk Management Committee	4,400
Thomas V. Thacker	13	13	Compensation Committee and Governance Committee	4,800
Joseph W. Wampler	13	14	Risk Management Committee	4,900
John E. Wells	13	22	Communication Advocacy Program/Sales Committee	8,400
				$78,600

* *Includes board committee meetings and other board activities other than regular board meetings.*

** *Does not include days served or compensation for days on the Agfirst Board of Directors.*

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $193,897 for 2013, $199,473 for 2012, and $141,668 for 2011.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 10, *Related Party Transactions*, of the Notes to the Consolidated Financial Statements in this Annual Report.

Transactions Other Than Loans

There have been no transactions that occurred at any time during the year ended December 31, 2013, between the Association and senior officers or directors, their immediate family members or any organizations with which they are affiliated, which require reporting per FCA regulations. There were no transactions with any senior officer or director related to the purchase or retirement of preferred stock of the Association, for the year ended December 31, 2013.

Involvement in Certain Legal Proceedings

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

Relationship with Independent Certified Public Accountants

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

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

(dollars in thousands)	2013
Independent Certified Public Accountants	
PricewaterhouseCoopers LLP Audit services	$ 75
Total	$ 75

Audit fees were for the annual audit of the consolidated financial statements.

Consolidated Financial Statements

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 12, 2014, and the report of management, which appear in this Annual Report, are incorporated herein by reference.

Copies of the Association's Annual and Quarterly reports are available upon request free of charge by calling 1-540-886-3435, extension 5020, or writing David Sauer, Farm Credit of the Virginias, P.O. Box 899, Staunton, VA 24402-0899 or accessing the web site, **www.farmcreditofvirginias.com**. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report which is available on the Association's website within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

Borrower Information Regulations

Since 1972, Farm Credit Administration (FCA) regulations have required that borrower information be held in strict confidence by Farm Credit System (FCS) institutions, their directors, officers and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

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

Credit and Services to Young, Beginning, and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products

Information to be disclosed in this section is incorporated herein by reference to the similarly named section in the Management's Discussion and Analysis of Financial Condition and Results of Operations section included in this annual report to the shareholders.

Shareholder Investment

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

Report of the Audit Committee

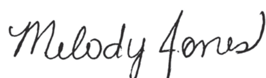
The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of Farm Credit of the Virginias, ACA (Association) and in the opinion of the Board of Directors, each is free of any relationship with the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

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

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

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

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



Melody S. Jones
Chairman of the Audit Committee

Members of Audit Committee

Ronald L. Bennett
Donna M. Brooke-Alt
Donald W. Reese

March 12, 2014

Report of Independent Certified Public Accountants

Report of Independent Certified Public Accountants

To the Board of Directors and Members
of Farm Credit of the Virginias, ACA

We have audited the accompanying consolidated financial statements of Farm Credit of the Virginias, ACA and its subsidiaries (the Association), which comprise the consolidated balance sheets as of December 31, 2013, 2012 and 2011, and the related consolidated statements of income, of comprehensive income, of changes in members' equity and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Certified Public Accountants' Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP

March 12, 2014

PricewaterhouseCoopers LLP, 401 E. Las Olas Blvd, Suite 1800, Fort Lauderdale, FL 33301
T: (954)764-7111, F: (954)525-4453, www.pwc.com/us

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2013	2012	2011
Assets			
Cash	$ 5,617	$ 6,368	$ 4,806
Loans	1,483,454	1,466,371	1,455,114
Less: allowance for loan losses	11,878	9,968	7,754
Net loans	1,471,576	1,456,403	1,447,360
Loans held for sale	722	2,158	1,751
Other investments	2,989	5,838	8,549
Accrued interest receivable	7,508	7,440	8,288
Investments in other Farm Credit institutions	25,707	27,589	34,350
Premises and equipment, net	7,754	7,880	8,056
Other property owned	2,337	3,657	3,882
Due from AgFirst Farm Credit Bank	31,023	16,609	17,246
Other assets	5,548	5,154	5,190
Total assets	$ 1,560,781	$ 1,539,096	$ 1,539,478
Liabilities			
Notes payable to AgFirst Farm Credit Bank	$ 1,209,905	$ 1,229,830	$ 1,253,612
Accrued interest payable	2,858	2,924	3,374
Patronage refunds payable	21,161	10,670	10,787
Other liabilities	16,247	15,276	16,143
Total liabilities	1,250,171	1,258,700	1,283,916
Commitments and contingencies			
Members' Equity			
Capital stock and participation certificates	17,313	17,344	17,523
Retained earnings			
Allocated	92,568	92,568	89,469
Unallocated	200,739	170,501	148,576
Accumulated other comprehensive income (loss)	(10)	(17)	(6)
Total members' equity	310,610	280,396	255,562
Total liabilities and members' equity	$ 1,560,781	$ 1,539,096	$ 1,539,478

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

Consolidated Statements of Income

(dollars in thousands)	For the year ended December 31, 2013	2012	2011
Interest Income			
Loans	$ 77,614	$ 78,530	$ 82,328
Other investments	145	284	422
Total interest income	77,759	78,814	82,750
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	33,843	37,071	42,794
Net interest income	43,916	41,743	39,956
Provision for loan losses	3,450	6,000	9,600
Net interest income after provision for loan losses	40,466	35,743	30,356
Noninterest Income			
Loan fees	740	948	1,130
Fees for financially related services	159	93	213
Patronage refunds from other Farm Credit institutions	31,950	17,730	18,166
Gains (losses) on other property owned, net	991	(423)	(1,541)
Gains (losses) on sales of rural home loans, net	692	957	759
Gains (losses) on sales of premises and equipment, net	49	45	91
Insurance Fund refunds	—	2,645	—
Other noninterest income	248	254	210
Total noninterest income	34,829	22,249	19,028
Noninterest Expense			
Salaries and employee benefits	15,647	15,074	14,470
Occupancy and equipment	1,571	1,503	1,389
Insurance Fund premiums	1,216	640	776
Other operating expenses	5,569	5,052	4,718
Total noninterest expense	24,003	22,269	21,353
Income before income taxes	51,292	35,723	28,031
Provision for income taxes	54	30	69
Net income	$ 51,238	$ 35,693	$ 27,962

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2013	2012	2011
Net income	$ 51,238	$ 35,693	$ 27,962
Other Comprehensive Income Net of Tax			
Employee benefit plans adjustments (Note 7)	7	(11)	(6)
Comprehensive income	$ 51,245	$ 35,682	$ 27,956

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2010	$ 17,731	$ 84,840	$ 136,033	$ —	$ 238,604
Comprehensive income			27,962	(6)	27,956
Capital stock/participation certificates issued/(retired), net	(208)				(208)
Patronage distribution					
Cash			(10,685)		(10,685)
Nonqualified retained earnings		3,816	(3,816)		—
Patronage distribution adjustment		813	(918)		(105)
Balance at December 31, 2011	17,523	89,469	148,576	(6)	255,562
Comprehensive income			35,693	(11)	35,682
Capital stock/participation certificates issued/(retired), net	(179)				(179)
Patronage distribution					
Cash			(10,565)		(10,565)
Nonqualified retained earnings		3,107	(3,107)		—
Patronage distribution adjustment		(8)	(96)		(104)
Balance at December 31, 2012	17,344	92,568	170,501	(17)	280,396
Comprehensive income			51,238	7	51,245
Capital stock/participation certificates issued/(retired), net	(31)				(31)
Patronage distribution					
Cash			(21,000)		(21,000)
Balance at December 31, 2013	$ 17,313	$ 92,568	$ 200,739	$ (10)	$ 310,610

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2013	2012	2011
Cash flows from operating activities:			
Net income	$ 51,238	$ 35,693	$ 27,962
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	791	747	648
Amortization (accretion) of net deferred loan origination costs (fees)	(711)	(906)	(764)
Premium amortization (discount accretion) on investments	(145)	(284)	(422)
Provision for loan losses	3,450	6,000	9,600
(Gains) losses on other property owned	(1,192)	362	1,083
(Gains) losses on sales of premises and equipment, net	(49)	(45)	(91)
(Gains) losses on sales of rural home loans, net	(692)	(957)	(759)
Changes in operating assets and liabilities:			
(Increase) decrease in loans held for sale, net	2,128	550	448
(Increase) decrease in accrued interest receivable	(68)	848	(404)
(Increase) decrease in due from AgFirst Farm Credit Bank	(14,414)	637	73
(Increase) decrease in other assets	(394)	36	830
Increase (decrease) in accrued interest payable	(66)	(450)	(285)
Increase (decrease) in other liabilities	978	(878)	1,205
Total adjustments	(10,384)	5,660	11,162
Net cash provided by (used in) operating activities	40,854	41,353	39,124
Cash flows from investing activities:			
Net (increase) decrease in loans	(22,297)	(15,947)	(9,626)
(Increase) decrease in investment in other Farm Credit institutions	1,882	6,761	1,427
Proceeds from payments received on other investments	2,994	2,995	2,994
Purchases of premises and equipment	(685)	(573)	(889)
Proceeds from sales of premises and equipment	69	47	102
Proceeds from sales of other property owned	6,897	1,673	6,119
Net cash provided by (used in) investing activities	(11,140)	(5,044)	127
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	(19,925)	(23,782)	(27,124)
Capital stock and participation certificates issued/(retired), net	(31)	(179)	(208)
Patronage refunds and dividends paid	(10,509)	(10,786)	(10,986)
Net cash provided by (used in) financing activities	(30,465)	(34,747)	(38,318)
Net increase (decrease) in cash	(751)	1,562	933
Cash, beginning of period	6,368	4,806	3,873
Cash, end of period	$ 5,617	$ 6,368	$ 4,806
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	$ 4,385	$ 1,810	$ 6,697
Estimated cash dividends or patronage distributions declared or payable	21,000	10,565	10,685
Employee benefit plans adjustments (Note 7)	(7)	11	6
Supplemental information:			
Interest paid	33,909	37,521	43,079
Taxes (refunded) paid, net	50	(11)	123

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Farm Credit of the Virginias, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in forty-six counties in the state of Virginia, forty-eight counties in the state of West Virginia, and two counties in the state of Maryland as follows:

Virginia: Counties of Albemarle, Alleghany, Arlington, Augusta, Bath, Bedford, Bland, Botetourt, Buchanan, Carroll, Craig, Culpeper, Dickenson, Fairfax, Fauquier, Floyd, Franklin, Giles, Grayson, Greene, Halifax, Henry, Highland, Lee, Loudoun, Madison, Montgomery, Nelson, Orange, Patrick, Pittsylvania, Prince William, Pulaski, Rappahannock, Roanoke, Rockbridge, Rockingham, Russell, Scott, Smyth, Spotsylvania, Stafford, Tazewell, Washington, Wise, and Wythe;

West Virginia: Counties of Barbour, Boone, Braxton, Cabell, Calhoun, Clay, Doodridge, Fayette, Gilmer, Grant, Greenbrier, Hampshire, Hardy, Harrison, Jackson, Kanawha, Lewis, Lincoln, Logan, Marion, Mason, McDowell, Mercer, Mineral, Mingo, Monongalia, Monroe, Nicholas, Pendleton, Pleasants, Pocahontas, Preston, Putnam, Raleigh, Randolph, Ritchie, Roane, Summers, Taylor, Tucker, Tyler, Upshur, Wayne, Webster, Wetzel, Wirt, Wood, and Wyoming; and

Maryland: Counties of Allegany and Garrett.

The Association is a lending institution in the Farm Credit System (System), a nationwide network of cooperatively owned banks and associations. It 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 System specializes in providing financing and related services to qualified borrowers for agricultural and rural purposes.

The nation is served by three Farm Credit Banks (FCBs) and one Agricultural Credit Bank (ACB), (collectively, the System Banks) each of which has specific lending authorities within its chartered territory. The ACB also has additional specific nationwide lending authorities.

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

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of the associations and certain actions by the associations are subject to the prior approval of the FCA and the supervising bank.

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

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

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

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

funded. By match-funding the Association loans, the Associations' exposure to interest rate risk is minimized.

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

The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments, and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses.

The Association may sell to any System borrowing member, on an optional basis, credit or term life insurance appropriate to protect the loan commitment in the event of death of the debtor(s). The sale of other insurance necessary to protect a member's farm or aquatic unit is permitted, but limited to hail and multi-peril crop insurance, and insurance necessary to protect the facilities and equipment of aquatic borrowers.

Note 2 — Summary of Significant Accounting Policies

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

The accompanying consolidated financial statements include the accounts of the ACA, PCA and FLCA. Certain amounts in the prior year financial statements may have been reclassified to conform to the current period presentation. Such reclassifications had no effect on net income or total capital as previously reported.

A. **Cash:** Cash represents cash on hand and on deposit at banks.

B. **Loans and Allowance for Loan Losses:** The Association is authorized to make long-term real estate loans with maturities of 5 to 40 years and certain short- and intermediate-term loans for agricultural production or operating purposes with maturities of not more than 10 years. Loans are carried at their principal amount outstanding adjusted for charge-offs, premiums, discounts, deferred loan fees or costs, and derivative instruments and hedging valuation adjustments, if any. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. The difference in the total investment in a loan and its principal amount may be deferred as part of the carrying amount of the loan and the net difference amortized over the life of the related loan as an adjustment to interest income using the effective interest method.

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

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

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

Loans are charged-off, wholly or partially, as appropriate, at the time they are determined to be uncollectible.

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

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified. The allowance for loan losses is a valuation account used to reasonably estimate loan losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant

judgment about when a loss has been incurred and the amount of that loss.

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

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

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

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

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

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

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

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

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

E. **Premises and Equipment:** Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized.

F. **Investments:** The Association holds investments as described below.

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

As discussed in Note 8, certain investments, consisting primarily of mutual funds, are held in trust accounts and are reported at fair value. Holding period gains and losses are included within other noninterest income on the consolidated statements of comprehensive income and the balance of these investments, totaling $1,083, is included in other assets on the accompanying consolidated balance sheet as of December 31, 2013.

Investment in Other Farm Credit Institutions
The Association is required to maintain ownership in the Bank in the form of Class B and Class C stock, as presented on the consolidated balance sheet as investments in Other Farm Credit Institutions. Accounting for this investment is on the cost plus allocated equities basis.

G. **Voluntary Advance Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as other liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.

H. **Employee Benefit Plans:** The Association participates in District and multi-District sponsored benefit plans. These plans include a defined benefit final average pay retirement plan, a defined benefit cash balance retirement plan, a defined benefit other postretirement benefits plan, and a defined contribution 401(k) plan.

Multi-Employer Defined Benefit Plans

Substantially all employees may participate in either the AgFirst Farm Credit Retirement Plan or the AgFirst Farm Credit Cash Balance Retirement Plan (collectively referred to as the "Plans"), which are defined benefit plans and considered multi-employer under FASB accounting guidance. The Plans are noncontributory and include eligible Association and District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. The actuarially-determined costs of the Plans are allocated to each participating entity by multiplying the Plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all Plan participants. The cumulative excess of amounts funded by the Association over the cost allocated to the Association is reflected as prepaid retirement expense, a component of other assets in the Association's Consolidated Balance Sheets.

In addition to pension benefits, the Association provides certain health care and life insurance benefits for retired employees (other postretirement benefits) through a multi-District sponsored retiree healthcare plan. Substantially all employees are eligible for those benefits when they reach early retirement age while working for the Association. Certain charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability. Authoritative accounting guidance requires the accrual of the expected cost of providing these benefits to an employee, their beneficiaries and covered dependents during the years the employee renders service necessary to become eligible for benefits. The cumulative excess of cost allocated to the Association over the amounts funded by the Association is reflected as postretirement benefits other than pensions, a component of Other Liabilities in the Association's Consolidated Balance Sheets.

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

Additional information for the above may be found in Note 9 and the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' Annual Report.

Single Employer Defined Benefit Plans

The Bank also sponsors a single employer defined benefit supplemental retirement plan and offers a FCBA supplemental 401(k) plan for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the Bank's Consolidated Balance Sheets in Other Liabilities.

The foregoing defined benefit plan is considered single employer, therefore the Bank applies the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements. See Note 9 for additional information.

Defined Contribution Plans

Substantially all employees are eligible to participate in the defined contribution Farm Credit Benefit Alliance (FCBA) 401(k) Plan, subsequently referred to as the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. Company contributions to the 401(k) Plan are expensed as funded.

Additional information for the above may be found in Note 9 and the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' Annual Report.

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

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

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

The Association records a valuation allowance at the balance sheet dates against that portion of the Association's deferred tax assets that, based on management's best estimates of

future events and circumstances, more likely than not (a likelihood of more than 50 percent) will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of our expected patronage program, which reduces taxable earnings.

J. **Due from AgFirst Farm Credit Bank:** The Association records patronage refunds from the Bank on an accrual basis.

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

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

Examples of items for which management may utilize significant estimates and assumptions include: impaired loans, other property owned, pension and other postretirement benefit obligations, certain derivatives, certain investment securities and other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing, and liquidation values. The use of different assumptions could produce significantly different asset or liability values, which could have material positive or negative effects on the Association's results of operations.

The Association may use the Bank or third parties to obtain fair value prices. Quoted market prices are referred to when estimating fair values for any assets or liabilities for which observable, active markets exist.

Please see further discussion in Note 8.

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

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

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

M. **Subsequent Events:** The Association evaluates subsequent events and has determined there are none requiring disclosure through March 12, 2014, which is the date the financial statements were issued.

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

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

In January 2013, the FASB issued ASU 2013-01 "Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." The ASU clarifies that ordinary trade receivables and payables are not in the scope of ASU 2011-11, "Balance Sheet (Topic 210): Disclosures about

Offsetting Assets and Liabilities." Specifically, ASU 2011-11 applies only to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria or subject to a master netting arrangement or similar agreement. The effective date is the same as that for ASU 2011-11.

In December 2011, the FASB issued ASU 2011-11, "Balance Sheet (Topic 220) - Disclosures about Offsetting Assets and Liabilities." The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in accordance with accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance, in conjunction with ASU 2013-01 above, did not impact the Association's financial condition or its results of operations, but did result in additional disclosures.

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

In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." This amendment is intended to increase the prominence of other comprehensive income in financial statements. The current option that permits the presentation of other comprehensive income in the statement of changes in equity has been eliminated. The main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements: (1) A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income; (2) In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. With either approach, an entity is required to present reclassification adjustments for items reclassified from other comprehensive income to net income in the statement(s). This guidance is to be applied retrospectively. For public entities, it is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance did not impact the Association's financial condition or results of operations, but resulted in changes to the presentation of comprehensive income. In December 2011, the FASB issued guidance (ASU 2011-12; Topic 220) to defer the new requirement to present components of accumulated other comprehensive income reclassified as components of net income on the face of the financial statements. All other requirements in the guidance for comprehensive income are required to be adopted as set forth in the June 2011 guidance. The deferral is effective at the same time the new standard on comprehensive income is adopted. The FASB finalized this guidance in January 2013 with the issuance of ASU 2013-02, which took effect for public companies in interim and annual reporting periods beginning after December 15, 2012.

In May 2011, the FASB issued ASU 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following: (1) Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets (does not apply to financial assets and liabilities); (2) Aligns the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities. As a result, an entity should measure the fair value of its own equity instruments from the perspective of a market participant that holds the instruments as assets; (3) Clarifies that a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy; (4) An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to those risks; (5) Clarifies that the application of premiums and discounts in a fair value measurement is related to the unit of account for the asset or liability being measured at fair value. Premiums or discounts related to size as a characteristic of the entity's holding (that is, a blockage factor) instead of as a characteristic of the asset or liability (for example, a control premium), are not permitted. A fair value measurement that is not a Level 1 measurement may include premiums or discounts other than blockage factors when market participants would incorporate the premium or discount into the measurement at the level of the unit of account specified in other guidance; (6) Expansion of the disclosures about fair value measurements. The most significant change will require entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used, a description of

the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed. The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early application was not permitted. The adoption of this guidance did not impact the Association's financial condition or results of operations, but resulted in additional disclosures.

Note 3 — Loans and Allowance for Loan Losses

A summary of loans outstanding at period end follows:

	December 31, 2013	December 31, 2012	December 31, 2011
Real estate mortgage	$ 1,023,966	$ 975,246	$ 945,638
Production and intermediate-term	370,738	380,380	392,960
Loans to cooperatives	–	1,431	2,759
Processing and marketing	31,956	50,798	57,002
Farm-related business	11,658	12,504	12,025
Communication	7,562	8,185	3,956
Energy and water/waste disposal	–	1,947	1,947
Rural residential real estate	37,574	35,880	38,827
Total Loans	$ 1,483,454	$ 1,466,371	$ 1,455,114

A substantial portion of the Association's lending activities is collateralized and the Association's exposure to credit loss associated with lending activities is reduced accordingly.

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are collateralized by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in the loan to value ratios in excess of the regulatory maximum.

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. The following tables present participation loan balances at periods ended:

December 31, 2013	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ 111,881	$ –	$ –	$ –	$ –	$ –	$ 111,881
Production and intermediate-term	6,881	9,508	588	–	–	–	7,469	9,508
Processing and marketing	3,373	–	–	–	–	–	3,373	–
Farm-related business	1,578	278	–	–	–	–	1,578	278
Communication	7,584	–	–	–	–	–	7,584	–
Total	$ 19,416	$ 121,667	$ 588	$ –	$ –	$ –	$ 20,004	$ 121,667

December 31, 2012	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ 135,187	$ –	$ –	$ –	$ –	$ –	$ 135,187
Production and intermediate-term	12,359	10,665	404	–	–	–	12,763	10,665
Loans to cooperatives	1,435	–	–	–	–	–	1,435	–
Processing and marketing	19,496	–	8	–	–	–	19,504	–
Farm-related business	674	319	–	–	–	–	674	319
Communication	8,208	–	–	–	–	–	8,208	–
Energy and water/waste disposal	1,947	–	–	–	–	–	1,947	–
Total	$ 44,119	$ 146,171	$ 412	$ –	$ –	$ –	$ 44,531	$ 146,171

(dollars in thousands)	December 31, 2011 Within AgFirst District Participations Purchased	Within AgFirst District Participations Sold	Within Farm Credit System Participations Purchased	Within Farm Credit System Participations Sold	Outside Farm Credit System Participations Purchased	Outside Farm Credit System Participations Sold	Total Participations Purchased	Total Participations Sold
Real estate mortgage	$ –	$ 156,685	$ –	$ –	$ –	$ –	$ –	$ 156,685
Production and intermediate-term	25,921	13,435	419	–	–	–	26,340	13,435
Loans to cooperatives	2,664	–	102	–	–	–	2,766	–
Processing and marketing	24,131	–	17	–	–	–	24,148	–
Farm-related business	989	–	–	–	–	–	989	–
Communication	3,978	–	–	–	–	–	3,978	–
Energy and water/waste disposal	1,947	–	–	–	–	–	1,947	–
Total	$ 59,630	$ 170,120	$ 538	$ –	$ –	$ –	$ 60,168	$ 170,120

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

	December 31, 2013 Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 25,463	$ 57,214	$ 941,289	$ 1,023,966
Production and intermediate-term	128,996	138,089	103,653	370,738
Processing and marketing	22,888	5,063	4,005	31,956
Farm-related business	2,539	6,798	2,321	11,658
Communication	–	4,824	2,738	7,562
Rural residential real estate	2,422	1,754	33,398	37,574
Total Loans	$ 182,308	$ 213,742	$ 1,087,404	$ 1,483,454
Percentage	12.29%	14.41%	73.30%	100.00%

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

	December 31, 2013	2012	2011
Real estate mortgage:			
Acceptable	92.93%	91.96%	92.36%
OAEM	3.14	3.05	3.97
Substandard/doubtful/loss	3.93	4.99	3.67
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	90.92%	88.59%	87.38%
OAEM	4.89	5.21	6.55
Substandard/doubtful/loss	4.19	6.20	6.07
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	–%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	–%	100.00%	100.00%
Processing and marketing:			
Acceptable	69.21%	58.77%	75.74%
OAEM	9.03	5.88	6.39
Substandard/doubtful/loss	21.76	35.35	17.87
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	71.81%	69.95%	66.07%
OAEM	–	0.62	1.99
Substandard/doubtful/loss	28.19	29.43	31.94
	100.00%	100.00%	100.00%

	December 31, 2013	2012	2011
Communication:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Energy and water/waste disposal:			
Acceptable	–%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	–%	100.00%	100.00%
Rural residential real estate:			
Acceptable	95.32%	92.53%	92.36%
OAEM	1.57	3.62	3.93
Substandard/doubtful/loss	3.11	3.85	3.71
	100.00%	100.00%	100.00%
Total Loans:			
Acceptable	91.84%	89.83%	90.19%
OAEM	3.63	3.67	4.72
Substandard/doubtful/loss	4.53	6.50	5.09
	100.00%	100.00%	100.00%

The following tables provide an age analysis of past due loans and related accrued interest as of:

December 31, 2013	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 9,029	$ 5,757	$ 14,786	$ 1,013,832	$ 1,028,618	$ 193
Production and intermediate-term	1,687	5,331	7,018	366,390	373,408	–
Processing and marketing	–	–	–	31,994	31,994	–
Farm-related business	–	–	–	11,674	11,674	–
Communication	–	–	–	7,562	7,562	–
Rural residential real estate	924	32	956	36,750	37,706	–
Total	$ 11,640	$ 11,120	$ 22,760	$ 1,468,202	$ 1,490,962	$ 193

December 31, 2012	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 13,821	$ 9,763	$ 23,584	$ 956,013	$ 979,597	$ 16
Production and intermediate-term	2,912	4,174	7,086	376,066	383,152	16
Loans to cooperatives	–	–	–	1,431	1,431	–
Processing and marketing	–	272	272	50,682	50,954	–
Farm-related business	–	100	100	12,425	12,525	–
Communication	–	–	–	8,186	8,186	–
Energy and water/waste disposal	–	–	–	1,950	1,950	–
Rural residential real estate	1,016	641	1,657	34,359	36,016	–
Total	$ 17,749	$ 14,950	$ 32,699	$ 1,441,112	$ 1,473,811	$ 32

December 31, 2011	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 14,736	$ 6,702	$ 21,438	$ 929,097	$ 950,535	$ 168
Production and intermediate-term	5,302	4,314	9,616	386,319	395,935	378
Loans to cooperatives	–	–	–	2,768	2,768	–
Processing and marketing	–	269	269	56,945	57,214	–
Farm-related business	–	3,843	3,843	8,211	12,054	–
Communication	–	–	–	3,957	3,957	–
Energy	–	–	–	1,949	1,949	–
Rural residential real estate	1,827	445	2,272	36,718	38,990	–
Total	$ 21,865	$ 15,573	$ 37,438	$ 1,425,964	$ 1,463,402	$ 546

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

Nonperforming assets (including related accrued interest) and related credit quality statistics at period end were as follows:

	December 31, 2013	December 31, 2012	December 31, 2011
Nonaccrual loans:			
Real estate mortgage	$ 13,060	$ 20,454	$ 13,883
Production and intermediate-term	6,437	9,217	5,146
Processing and marketing	–	5,484	2,711
Farm-related business	3,291	3,686	3,843
Rural residential real estate	706	869	992
Total nonaccrual loans	$ 23,494	$ 39,710	$ 26,575
Accruing restructured loans:			
Real estate mortgage	$ 382	$ –	$ –
Total accruing restructured loans	$ 382	$ –	$ –
Accruing loans 90 days or more past due:			
Real estate mortgage	$ 193	$ 16	$ 168
Production and intermediate-term	–	16	378
Total accruing loans 90 days or more past due	$ 193	$ 32	$ 546
Accruing impaired loans:			
Processing and marketing	$ 6,100	$ –	$ –
Total performing impaired loans	$ 6,100	$ –	$ –
Total nonperforming loans	$ 30,169	$ 39,742	$ 27,121
Other property owned	2,337	3,657	3,882
Total nonperforming assets	$ 32,506	$ 43,399	$ 31,003
Nonaccrual loans as a percentage of total loans	1.58%	2.71%	1.83%
Nonperforming assets as a percentage of total loans and other property owned	2.19%	2.95%	2.12%
Nonperforming assets as a percentage of capital	10.47%	15.48%	12.13%

The following table presents information relating to impaired loans (including accrued interest) as defined in Note 2:

	December 31, 2013	December 31, 2012	December 31, 2011
Impaired nonaccrual loans:			
Current as to principal and interest	$ 10,278	$ 21,477	$ 8,689
Past due	13,216	18,233	17,886
Total impaired nonaccrual loans	$ 23,494	$ 39,710	$ 26,575
Impaired accrual loans:			
Performing	6,100		
Restructured	382	–	–
90 days or more past due	193	32	546
Total impaired accrual loans	6,675	32	546
Total impaired loans	$ 30,169	$ 39,742	$ 27,121

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

	December 31, 2013			Year Ended December 31, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 3,137	$ 3,219	$ 902	$ 3,353	$ 169
Production and intermediate-term	2,868	3,051	1,293	3,066	154
Processing and marketing	6,100	6,099	950	6,520	329
Farm-related business	3,291	3,604	261	3,518	177
Rural residential real estate	221	267	20	237	12
Total	$ 15,617	$ 16,240	$ 3,426	$ 16,694	$ 841
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 10,498	$ 12,776	$ –	$ 11,223	$ 565
Production and intermediate-term	3,569	6,347	–	3,816	193
Processing and marketing	–	–	–	–	–
Farm-related business	–	–	–	–	–
Rural residential real estate	485	617	–	518	26
Total	$ 14,552	$ 19,740	$ –	$ 15,557	$ 784
Total impaired loans:					
Real estate mortgage	$ 13,635	$ 15,995	$ 902	$ 14,576	$ 734
Production and intermediate-term	6,437	9,398	1,293	6,882	347
Processing and marketing	6,100	6,099	950	6,520	329
Farm-related business	3,291	3,604	261	3,518	177
Rural residential real estate	706	884	20	755	38
Total	$ 30,169	$ 35,980	$ 3,426	$ 32,251	$ 1,625

	December 31, 2012			Year Ended December 31, 2012	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 7,039	$ 9,188	$ 1,311	$ 6,485	$ 156
Production and intermediate-term	5,509	5,703	1,322	5,075	122
Processing and marketing	2,735	2,754	801	2,520	60
Farm-related business	3,686	3,825	358	3,396	81
Rural residential real estate	290	338	44	267	6
Total	$ 19,259	$ 21,808	$ 3,836	$ 17,743	$ 425
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 13,431	$ 16,376	$ –	$ 12,373	$ 295
Production and intermediate-term	3,724	5,447	–	3,431	82
Processing and marketing	2,749	2,955	–	2,533	61
Farm-related business	–	–	–	–	–
Rural residential real estate	579	659	–	534	13
Total	$ 20,483	$ 25,437	$ –	$ 18,871	$ 451
Total impaired loans:					
Real estate mortgage	$ 20,470	$ 25,564	$ 1,311	$ 18,858	$ 451
Production and intermediate-term	9,233	11,150	1,322	8,506	204
Processing and marketing	5,484	5,709	801	5,053	121
Farm-related business	3,686	3,825	358	3,396	81
Rural residential real estate	869	997	44	801	19
Total	$ 39,742	$ 47,245	$ 3,836	$ 36,614	$ 876

	December 31, 2011			Year Ended December 31, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 2,058	$ 2,040	$ 485	$ 2,696	$ 76
Production and intermediate-term	2,157	2,348	1,380	2,825	79
Processing and marketing	–	–	–	–	–
Farm-related business	3,843	4,012	48	5,035	141
Rural residential real estate	112	128	54	147	4
Total	$ 8,170	$ 8,528	$ 1,967	$ 10,703	$ 300
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 11,993	$ 25,403	$ –	$ 15,711	$ 440
Production and intermediate-term	3,367	8,210	–	4,413	124
Processing and marketing	2,711	2,772	–	3,551	100
Farm-related business	–	–	–	–	–
Rural residential real estate	880	989	–	1,153	32
Total	$ 18,951	$ 37,374	$ –	$ 24,828	$ 696
Total impaired loans:					
Real estate mortgage	$ 14,051	$ 27,443	$ 485	$ 18,407	$ 516
Production and intermediate-term	5,524	10,558	1,380	7,238	203
Processing and marketing	2,711	2,772	–	3,551	100
Farm-related business	3,843	4,012	48	5,035	141
Rural residential real estate	992	1,117	54	1,300	36
Total	$ 27,121	$ 45,902	$ 1,967	$ 35,531	$ 996

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

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

	Year Ended December 31,		
	2013	2012	2011
Interest income which would have been recognized under the original loan terms	$ 3,173	$ 2,923	$ 3,443
Less: interest income recognized	1,563	740	825
Foregone interest income	$ 1,610	$ 2,183	$ 2,618

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Allowance for credit losses:							
Balance at December 31, 2012	$ 3,469	$ 4,621	$ 1,684	$ –	$ –	$ 194	$ 9,968
Charge-offs	(1,207)	(1,103)	(939)	–	–	(94)	(3,343)
Recoveries	1,704	27	71	–	–	1	1,803
Provision for loan losses	1,218	1,422	716	–	–	94	3,450
Balance at December 31, 2013	$ 5,184	$ 4,967	$ 1,532	$ –	$ –	$ 195	$ 11,878
Balance at December 31, 2011	$ 2,408	$ 4,379	$ 748	$ 15	$ –	$ 204	$ 7,754
Charge-offs	(3,253)	(1,081)	(57)	–	–	(33)	(4,424)
Recoveries	439	193	6	–	–	–	638
Provision for loan losses	3,875	1,130	987	(15)	–	23	6,000
Balance at December 31, 2012	$ 3,469	$ 4,621	$ 1,684	$ –	$ –	$ 194	$ 9,968
Balance at December 31, 2010	$ 4,482	$ 3,551	$ 1,049	$ 17	$ –	$ 219	$ 9,318
Charge-offs	(6,314)	(1,665)	(3,264)	–	–	–	(11,243)
Recoveries	51	28	–	–	–	–	79
Provision for loan losses	4,189	2,465	2,963	(2)	–	(15)	9,600
Balance at December 31, 2011	$ 2,408	$ 4,379	$ 748	$ 15	$ –	$ 204	$ 7,754
Loans individually evaluated for impairment	$ 902	$ 1,293	$ 1,211	$ –	$ –	$ 20	$ 3,426
Loans collectively evaluated for impairment	4,282	3,674	321	–	–	175	8,452
Balance at December 31, 2013	$ 5,184	$ 4,967	$ 1,532	$ –	$ –	$ 195	$ 11,878
Loans individually evaluated for impairment	$ 1,311	$ 1,322	$ 1,159	$ –	$ –	$ 44	$ 3,836
Loans collectively evaluated for impairment	2,158	3,299	525	–	–	150	6,132
Balance at December 31, 2012	$ 3,469	$ 4,621	$ 1,684	$ –	$ –	$ 194	$ 9,968
Loans individually evaluated for impairment	$ 485	$ 1,380	$ 48	$ –	$ –	$ 54	$ 1,967
Loans collectively evaluated for impairment	1,923	2,999	700	15	–	150	5,787
Balance at December 31, 2011	$ 2,408	$ 4,379	$ 748	$ 15	$ –	$ 204	$ 7,754
Recorded investment in loans outstanding:							
Loans individually evaluated for impairment	$ 14,195	$ 6,439	$ 9,391	$ –	$ –	$ 821	$ 30,846
Loans collectively evaluated for impairment	1,014,423	366,969	34,277	7,562	–	36,885	1,460,116
Ending balance at December 31, 2013	$ 1,028,618	$ 373,408	$ 43,668	$ 7,562	$ –	$ 37,706	$ 1,490,962
Loans individually evaluated for impairment	$ 21,925	$ 9,728	$ 9,170	$ –	$ –	$ 891	$ 41,714
Loans collectively evaluated for impairment	957,672	373,424	55,740	8,186	1,950	35,125	1,432,097
Ending balance at December 31, 2012	$ 979,597	$ 383,152	$ 64,910	$ 8,186	$ 1,950	$ 36,016	$ 1,473,811
Loans individually evaluated for impairment	$ 15,351	$ 5,765	$ 6,872	$ –	$ –	$ 1,086	$ 29,074
Loans collectively evaluated for impairment	935,184	390,170	65,164	3,957	1,949	37,904	1,434,328
Ending balance at December 31, 2011	$ 950,535	$ 395,935	$ 72,036	$ 3,957	$ 1,949	$ 38,990	$ 1,463,402

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

To mitigate risk of loan losses, the Association may enter into guarantee arrangements with certain GSEs, including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was $58,135, $62,597, and $71,764 at December 31, 2013, 2012, and 2011, respectively. Fees paid for such guarantee commitments totaled $146, $189, and $257 for 2013, 2012, and 2011, respectively. These amounts are classified as noninterest expense.

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

There were no TDRs that occurred during the year ended December 31, 2011.

	Year Ended December 31, 2013			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 520	$ 378	$ –	$ 898
Rural residential real estate	–	50	–	50
Total	$ 520	$ 428	$ –	$ 948

	Year Ended December 31, 2013				
	Post-modification Outstanding Recorded Investment				Effects of Modification
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Troubled debt restructurings:					
Real estate mortgage	$ 520	$ 378	$ –	$ 898	$ –
Rural residential real estate	–	50	–	50	–
Total	$ 520	$ 428	$ –	$ 948	$ –

	Year Ended December 31, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 2,322	$ –	$ 2,322
Production and intermediate-term	–	25	–	25
Farm-related business	–	3,721	–	3,721
Total	$ –	$ 6,068	$ –	$ 6,068

	Year Ended December 31, 2012				
	Post-modification Outstanding Recorded Investment				Effects of Modification
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Troubled debt restructurings:					
Real estate mortgage	$ –	$ 2,270	$ –	$ 2,270	$ –
Production and intermediate-term	–	25	–	25	–
Farm-related business	–	3,721	–	3,721	–
Total	$ –	$ 6,016	$ –	$ 6,016	$ –

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

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the periods presented. Payment default is defined as a payment that was thirty days or more past due.

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

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2013	2012	2011	2013	2012	2011
Real estate mortgage	$ 955	$ 1,996	$ –	$ 573	$ 1,996	$ –
Production and intermediate-term	28	29	–	28	29	–
Farm related business	3,291	3,586	–	3,291	3,586	–
Rural residential real estate	46	–	–	46	–	–
Total Loans	$ 4,320	$ 5,611	$ –	$ 3,938	$ 5,611	$ –
Additional commitments to lend	$ –	$ –	$ –			

Note 4 — Investments

Investment in Other Farm Credit Institutions

Investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. The Association is required to maintain ownership in the Bank in the form of Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. Accounting for this investment is on the cost plus allocated equities basis. The Association's investment in the Bank totaled $25,707 for 2013, $27,589 for 2012 and $34,350 for 2011.

Other Investments

On October 22, 2004, Congress enacted the "Fair and Equitable Tobacco Reform Act of 2004" (Tobacco Act) as part of the "American Jobs Creation Act of 2004." The Tobacco Act repealed the Federal tobacco price support and quota programs, provides for payments to tobacco "quota owners" and producers for the elimination of the quota, and provides an assessment mechanism for tobacco manufacturers and importers to pay for the buyout. Tobacco quota holders and producers will receive 10 equal annual payments under a contract with the Secretary of Agriculture. The Tobacco Act also includes a provision that allows the quota holders and producers to assign to a "financial institution" the right to receive the contract payments so that the quota holder or producer may obtain a lump sum or other payment. On April 4, 2005, the USDA issued a Final Rule implementing the "Tobacco Transition Payment Program" (Tobacco Buyout).

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

For the years ended December 31, 2013, 2012 and 2011, the Association held Tobacco Buyout SIIC of $2,989, $5,838 and $8,549, respectively, net of discount.

Final payments to financial institutions under SIIC arrangements are scheduled for January 2014.

Note 5 — Real Estate and Other Property

Premises and Equipment

Premises and equipment consists of the following:

	December 31, 2013	2012	2011
Land	$ 2,901	$ 2,897	$ 2,897
Buildings and improvements	6,428	6,367	6,319
Furniture and equipment	4,684	4,330	4,036
	14,013	13,594	13,252
Less: accumulated depreciation	6,259	5,714	5,196
Total	$ 7,754	$ 7,880	$ 8,056

Other Property Owned

Net gains (losses) on other property owned consist of the following:

	December 31, 2013	2012	2011
Gains (losses) on sale, net	$ 1,411	$ (31)	$ (200)
Carrying value unrealized gains (losses)	(219)	(331)	(883)
Operating income (expense), net	(201)	(61)	(458)
Gains (losses) on other property owned, net	$ 991	$ (423)	$ (1,541)

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The GFA has a one year term and is renewable each year. The current agreement expires on December 31, 2013, and the Association has no reason to believe the GFA will not be renewed upon expiration.

The Association's indebtedness to the Bank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving lines of credit are governed by a General Financing Agreement (GFA). Interest rates on both variable and fixed rate notes payable are generally established loan-by-loan based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. In the event of prepayment of any portion of a fixed rate advance, the Association may incur a prepayment penalty in accordance with the terms of the GFA and which will be included in interest expense.

The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and the Association.

The weighted average interest rates on the variable rate notes were 1.45 percent for LIBOR-based loans and 1.56 percent for Prime-based loans, and the weighted average remaining maturities were 4.6 years and 9.7 years, respectively, at December 31, 2013. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) notes payable which are match funded by the Bank was 2.92 percent and the weighted average remaining maturity was 11.4 years at December 31, 2013. The weighted average interest rate on all interest-bearing notes payable was 2.60 percent and the weighted average remaining maturity was 10.1 years at December 31, 2013.

Variable rate and fixed rate notes payable represent approximately 5.67 percent and 94.33 percent, respectively, of total notes payable at December 31, 2013.

The weighted average loan maturities described above are related to matched-funded loans; the direct note itself has an annual maturity as prescribed in the GFA.

Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2013, the Association's notes payable were within the specified limitations.

Note 7 — Members' Equity

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

A. **Capital Stock and Participation Certificates**

In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C Common Stock for agricultural loans or Participation Certificates in the case of rural home and farm related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be a minimum of 2% percent of the loan amount or $1 thousand, or such higher amount as determined by the Board. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

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

B. **Regulatory Capitalization Requirements and Restrictions**

FCA regulations require that certain minimum standards for capital be achieved and maintained. These standards are measured based on capital as a percentage of risk-adjusted assets and off-balance-sheet commitments and surplus levels as a percentage of risk-adjusted assets.

Failure to meet the capital requirements can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met.

The Association's capital ratios as of December 31 and the FCA minimum requirements follow:

	2013	2012	2011	Regulatory Minimum
Permanent capital ratio	19.88%	16.95%	15.08%	7.00%
Total surplus ratio	18.68%	15.73%	13.85%	7.00%
Core surplus ratio	18.68%	15.73%	13.85%	3.50%

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

There are currently no prohibitions in place that would prevent the Association from retiring stock, distributing earnings, or paying dividends per the statutory and regulatory restrictions, and the Association has no reason to believe any such restrictions may apply in the future.

C. **Description of Equities**

The Association is authorized to issue or have outstanding Class D Preferred Stock, Classes A and C Common Stock, Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association's business. All stock and participation certificates have a par or face value of five dollars ($5.00) per share.

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

		Shares Outstanding	
Class	Protected	Number	Aggregate Par Value
A Common/Nonvoting	No	775,680	$ 3,878
C Common/Voting	No	2,544,091	12,721
Participation Certificates/Nonvoting	No	142,726	714
Total Capital Stock and Participation Certificates		3,462,497	$ 17,313

At-risk common stock and participation certificates are retired at the sole discretion of the Board at book value not to exceed par or face amounts, provided the minimum capital adequacy standards established by the Board are met.

Retained Earnings

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

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

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

Allocated equities shall be retired solely at the discretion of the Board provided that minimum capital standards established by the FCA and the Board are met. Nonqualified retained surplus is considered to be permanently invested in the Association and as such, there is no plan to revolve or retire this surplus. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2013, allocated members' equity consisted of $92,568 of nonqualified retained surplus.

Patronage Distributions

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

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members' equity account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash.

The patronage distributions accrued at year-end are based on estimates. The actual amounts distributed may vary from these estimates. Differences are reflected as distribution adjustments in the Consolidated Statements of Changes in Members' Equity.

Dividends

Dividends may be paid on stock and participation certificates as determined by the Board's resolution. Dividends may not be paid on common stock and participation certificates during any fiscal year with respect to which the Association has obligated itself to distribute earnings on a patronage basis pursuant to the bylaws. The rate of dividend paid on Class D Preferred Stock for any fiscal year may not be less than the rate of dividend paid on common stock or participation certificates for such year. All dividends shall be paid on a per share basis. Dividends on common stock and participation certificates shall be noncumulative without preference between classes.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. No dividends were declared by the Association for any of the periods included in these Consolidated Financial Statements.

Transfer

Common stocks and participation certificates may be transferred to persons or entities eligible to purchase or hold such equities under the bylaws. Class D Preferred Stock may be transferred in the manner set forth in the resolution authorizing its issuance.

Impairment

Any net losses recorded by the Association shall first be applied against unallocated members' equity. To the extent that such losses would exceed unallocated members' equity, such losses would be applied consistent with the Association's bylaws and distributed pro rata to each share and/or unit outstanding in the class, in the following order:

1. Nonqualified allocated members equity beginning with the most recent allocation
2. Qualified allocated members equity beginning with the most recent allocation
3. Classes A and C Common Stock and Participation Certificates
4. Class D Preferred Stock

Liquidation

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities should be distributed to the holders of the outstanding stock and participation certificates in the following order:

1. Holders of Class D Preferred Stock until an amount equal to the aggregate par value of shares of Class D Preferred Stock then outstanding has been distributed to the holders;
2. Holders of Class A Stock, Class C Stock, and Participation Certificates pro rata in proportion to the number of shares or units each such class of stock and participation certificates then outstanding until an amount equal to the aggregate par value (or face value) of such shares or units has been distributed to the holders;
3. Holders of Allocated Surplus to the extent evidenced by qualified written notices of allocation, pro rata, on the basis of the oldest allocations first, until an amount equal to the total account has been distributed to such holders;

4. Holders of Allocated Surplus to the extent evidenced by nonqualified written notice of allocation, pro rata, on the basis of the oldest allocations first, until an amount equal the total account has been distributed to such holders;
5. Any remaining assets of the Association after such distributions shall be distributed to Patrons, past and present, in proportion to which the aggregate patronage of each such Patron bears to the total patronage of all such parties insofar as practicable, unless as otherwise provided by law.

D. **Accumulated Other Comprehensive Income**

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

	Changes in Accumulated Other Comprehensive Income by Component *(a)*		
	Year to Date		
	2013	2012	2011
Employee Benefit Plans:			
Balance at beginning of period	$ (17)	$ (6)	$ –
Other comprehensive income before reclassifications	7	(11)	(6)
Amounts reclassified from AOCI	–	–	–
Net current period other comprehensive income	7	(11)	(6)
Balance at end of period	$ (10)	$ (17)	$ (6)

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*			
	Year to Date			
	2013	2012	2011	Income Statement Line Item
Defined Benefit Pension Plans:				
Periodic pension costs	$ –	$ –	$ –	See Note 9.
Net amounts reclassified	$ –	$ –	$ –	

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

Note 8 — Fair Value Measurement

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

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

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 10.06 percent of the issued stock of the Bank as of December 31, 2013 net of any reciprocal investment. As of that date, the Bank's assets totaled $28.8 billion and shareholders' equity totaled $2.1 billion. The Bank's earnings were $457 million at December 31, 2013. In addition, the Association has no investments related to other Farm Credit institutions.

The classifications of the Association's financial instruments within the fair value hierarchy are as follows:

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Assets held in trust funds, related to deferred compensation plans, and assets held in mutual funds, related to the Association's Corporate Giving Fund, are classified as level 1. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly obserbable in the marketplace.

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

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability.

The Association had no Level 2 assets and liabilities measured at fair value on a recurring basis.

Level 3

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

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

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

The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

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

For commitments to extend credit, the estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics; therefore, the related credit risk is not significant.

For other investments, which consist of Tobacco Buyout SIIC, fair value is determined by discounting the expected future cash flows using prevailing rates for similar assets.

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

	Standby Letters Of Credit
Balance at January 1, 2013	$ 71
Issuances	–
Settlements	(1)
Balance at December 31, 2013	$ 70

	Standby Letters Of Credit
Balance at January 1, 2012	$ 49
Issuances	22
Settlements	–
Balance at December 31, 2012	$ 71

	Standby Letters Of Credit
Balance at January 1, 2011	$ 172
Issuances	–
Settlements	(123)
Balance at December 31, 2011	$ 49

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

Other Property Owned/Impaired loans

Other property owned and impaired loans are valued using appraisals, market comparable sales, replacement costs, and income and expense (cash flow) techniques. Certain

unobservable inputs are used within these techniques to determine the level 3 fair value of these properties. The significant unobservable inputs are primarily sensitive only to industry, geographic and overall economic conditions, and/or specific attributes of each property.

Inputs to Valuation Techniques

Management determines the Association's valuation policies and procedures. The Bank performs the majority of the Association's valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 29,314	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

** Ranges for this type of input are not useful because each collateral property is unique.*

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Other investments	Discounted cash flow	Prepayment rates
		Risk adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment rates
		Probability of default
		Loss severity

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

	At or for the Year ended December 31, 2013					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 1,083	$ 1,083	$ –	$ –	$ 1,083	
Recurring Assets	$ 1,083	1,083	$ –	$ –	$ 1,083	
Liabilities:						
Standby letters of credit	$ 70	$ –	$	$ 70	$ 70	
Recurring Liabilities	$ 70	$ –	$ –	$ 70	$ 70	
			–			
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 26,743	$ –	$ –	$ 26,743	$ 26,743	$ (181)
Other property owned	2,337	–	–	2,571	2,571	1,192
Nonrecurring Assets	$ 29,080	$ –	$ –	$ 29,314	$ 29,314	$ 1,011
Other Financial Instruments						
Assets:						
Cash	$ 5,617	$ 5,617	$ –	$ –	$ 5,617	
Loans	1,445,555	–	–	1,424,610	1,424,610	
Other investments	2,989	–	–	2,992	2,992	
Other Financial Assets	$ 1,454,161	$ 5,617	$ –	$ 1,427,602	$ 1,433,219	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,209,905	$ –	$ –	$ 1,182,134	$ 1,182,134	
Other Financial Liabilities	$ 1,209,905	$ –	$ –	$ 1,182,134	$ 1,182,134	

	At or for the Year ended December 31, 2012					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 968	$ 968	$ –	$ –	$ 968	
Recurring Assets	$ 968	968	$ –	$ –	$ 968	
Liabilities:						
Standby letters of credit	$ 71	$ –	$ –	$ 71	$ 71	
Recurring Liabilities	$ 71	$ –	$ –	$ 71	$ 71	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 35,906	$ –	$ –	$ 35,906	$ 35,906	$ (5,655)
Other property owned	3,657	–	–	4,022	4,022	(362)
Nonrecurring Assets	$ 39,563	$ –	$ –	$ 39,928	$ 39,928	$ (6,017)
Other Financial Instruments						
Assets:						
Cash	$ 6,368	$ 6,368	$ –	$ –	$ 6,368	
Loans	1,422,655	–	–	1,432,050	1,432,050	
Other investments	5,838	–	–	5,940	5,940	
Other Financial Assets	$ 1,434,861	$ 6,368	$ –	$ 1,437,990	$ 1,444,358	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,229,830	$ –	$ –	$ 1,235,589	$ 1,235,589	
Other Financial Liabilities	$ 1,229,830	$ –	$ –	$ 1,235,589	$ 1,235,589	

The following table presents the assets and liabilities that are measured at fair value on a recurring basis at December 31, 2011:

	December 31, 2011			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	$ 806	$ –	$ –	$ 806
Total Assets	$ 806	$ –	$ –	$ 806
Liabilities:				
Standby letters of credit	$ –	$ –	$ 49	$ 49
Total Liabilities	$ –	$ –	$ 49	$ 49

Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2011 are summarized below.

	December 31, 2011				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 4,844	$ 4,844	$ (8,779)
Other property owned	$ –	$ –	$ 4,095	$ 4,095	$ (1,083)

The estimated fair values of the Association's financial instruments at December 31, 2011 are as follows:

	December 31, 2011	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash	$ 4,806	$ 4,806
Loans, net of allowance	$ 1,449,111	$ 1,468,277
Other investments	$ 8,549	$ 8,830
Assets held in trust funds	$ 806	$ 806
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	$ 1,253,612	$ 1,266,671

Note 9 — Employee Benefit Plans

The Association participates in four District sponsored benefit plans. These plans include two multiemployer defined benefit pension plans, the AgFirst Farm Credit Retirement Plan which is a final average pay plan (FAP) and the AgFirst Farm Credit Cash Balance Retirement Plan which is a cash balance plan (CB). In addition, the Association participates in a multiemployer defined benefit other postretirement employee benefits plan (OPEB), the Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plan and a defined contribution 401(k) plan. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

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

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

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

The Association's participation in the multiemployer defined benefit plans for the annual period endeds December 31 is outlined in the table below. The "Percentage Funded to Projected Benefit Obligation" or "Percentage Funded to Accumulated Postretirement Benefit Obligation" represents the funded amount for the entire plan and the "Contributions" and "Percentage of Total Contributions" columns represent the Association's respective amounts.

Pension Plan	Percentage Funded to Projected Benefit Obligation			Contributions			Percentage of Total Contributions		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
AgFirst Farm Credit Retirement Plan	89.47%	77.35%	74.82%	$3,513	$3,130	$2,625	6.98%	6.87%	6.62%
AgFirst Farm Credit Cash Balance Retirement Plan	95.06%	86.01%	81.77%	$104	$80	$50	5.86%	5.86%	6.06%

Other Postretirement Benefit Plan	Percentage Funded to Accumulated Postretirement Benefit Obligation			Contributions			Percentage of Total Contribution		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plans	0.00%	0.00%	0.00%	$410	$357	$342	5.91%	5.74%	5.73%

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

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

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

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

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

Substantially all employees of the Association are eligible to participate in either the FAP Plan or the CB Plan. These two Plans are noncontributory and include eligible Association and other District employees. For participants hired prior to January 1, 2003, benefits are provided under the FAP Plan and are based on eligible compensation and years of service. For participants hired on or after January 1, 2003, benefits are provided under the CB Plan and are determined using a percent of eligible compensation formula. The employer contribution into the CB Plan is based on a formula of 3.00-5.00 percent of eligible compensation (depending on years of service) and interest credits as allocated to an employee's theoretical account balance. The actuarially-determined costs of these plans are allocated to each participating entity, including the Association, by multiplying the plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all plan participants. Plan expenses included in employee benefit costs were $3,517 for 2013, $3,394 for 2012, and $3,355 for 2011. The cumulative excess of amounts funded by the Association over the cost allocated to the Association is reflected as prepaid retirement expense, a component of Other Assets in the Consolidated Balance Sheets.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. Certain Association charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability. This plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs

were $656 for 2013, $521 for 2012, and $656 for 2011. The cumulative excess of cost allocated to the Association over the amounts funded by the Association is reflected as postretirement benefits other than pensions, a component of other liabilities in the Association's Consolidated Balance Sheets.

The Association also participates in the defined contribution Farm Credit Benefit Alliance (FCBA) 401(k) Plan (401(k) Plan), which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $391, $390, and $370 for the years ended December 31, 2013, 2012, and 2011, respectively.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2013, 2012, and 2011, $7, $(11) and $(6), respectively, has been recognized as a net credit and net debits to AOCI to reflect these elements.

The supplemental retirement plan is unfunded and had a projected benefit obligation of $112 and a net under-funded status of $112 at December 31, 2013. Net periodic pension cost was $5, $6, and $6 for 2013, 2012, and 2011, respectively. Assumptions used to determine the projected benefit obligation as of December 31, 2013 included a discount rate of 5.00 percent and a rate of compensation increase of 3.90 percent.

Additional financial information for the four District sponsored multi-employer plans may be found in the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' 2013 Annual Report.

Note 10 — Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedule, and collateral, as those prevailing at the time for comparable transactions with unaffiliated borrowers.

Total loans to such persons at December 31, 2013 amounted to $7,529. During 2013, $3,469 of new loans were made and repayments totaled $2,253. In the opinion of management, none of these loans outstanding at December 31, 2013 involved more than a normal risk of collectability.

Note 11 — Commitments and Contingencies

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

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

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. 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.

At December 31, 2013, $196,254 of commitments to extend credit and no commercial letters of credit were outstanding.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2013, standby letters of credit outstanding totaled $718 with expiration dates ranging from January 15, 2014 to September 30, 2022. The maximum potential amount of future payments that may be required under these guarantees was $718.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31, 2013	2012	2011
Current:			
Federal	$ 45	$ 24	$ 59
State	9	6	10
	54	30	69
Deferred:			
Federal	–	–	–
State	–	–	–
	–	–	–
Total provision (benefit) for income taxes	$ 54	$ 30	$ 69

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

	December 31, 2013	2012	2011
Federal tax at statutory rate	$ 17,952	$ 12,146	$ 9,530
State tax, net	11	6	7
Patronage distributions	(7,350)	(3,592)	(3,633)
Tax-exempt FLCA earnings	(11,103)	(8,917)	(5,308)
Change in valuation allowance	765	284	(607)
Other	(221)	103	80
Provision (benefit) for income taxes	$ 54	$ 30	$ 69

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

	December 31, 2013	2012	2011
Deferred income tax assets:			
Allowance for loan losses	$ 2,458	$ 1,913	$ 1,807
Other property owned valuation allowance	47	71	13
Annual leave	457	428	428
Nonaccrual loan interest	510	448	392
Pensions and other postretirement benefits	3,533	2,979	3,188
Deferred incentive	164	492	307
Gross deferred tax assets	7,169	6,331	6,135
Less: valuation allowance	(5,759)	(4,994)	(4,710)
Gross deferred tax assets, net of valuation allowance	1,410	1,337	1,425
Deferred income tax liabilities:			
Loan origination fees	(169)	(118)	(109)
Pensions and other postretirement benefits	(1,214)	(1,147)	(1,217)
Depreciation	(27)	(72)	(99)
Gross deferred tax liability	(1,410)	(1,337)	(1,425)
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2013, deferred income taxes have not been provided by the Association on approximately $1.6 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of $5,759, $4,994, and $4,710 as of December 31, 2013, 2012 and 2011, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2013 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2010 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

Quarterly results of operations follow:

	2013				
	First	Second	Third	Fourth	Total
Net interest income	$ 10,733	$ 11,170	$ 10,996	$ 11,017	$ 43,916
Provision for (reversal of allowance for) loan losses	500	1,100	1,000	850	3,450
Noninterest income (expense), net	(2,256)	(943)	(1,579)	15,550	10,772
Net income (loss)	$ 7,977	$ 9,127	$ 8,417	$ 25,717	$ 51,238

	2012				
	First	Second	Third	Fourth	Total
Net interest income	$ 10,535	$ 10,326	$ 10,483	$ 10,399	$ 41,743
Provision for (reversal of allowance for) loan losses	1,000	500	2,500	2,000	6,000
Noninterest income (expense), net	(1,981)	2,127	(1,619)	1,423	(50)
Net income (loss)	$ 7,554	$ 11,953	$ 6,364	$ 9,822	$ 35,693

	2011				
	First	Second	Third	Fourth	Total
Net interest income	$ 9,814	$ 10,030	$ 10,163	$ 9,949	$ 39,956
Provision for (reversal of allowance for) loan losses	–	3,000	4,000	2,600	9,600
Noninterest income (expense), net	(2,619)	(462)	(1,040)	1,727	(2,394)
Net income (loss)	$ 7,195	$ 6,568	$ 5,123	$ 9,076	$ 27,962