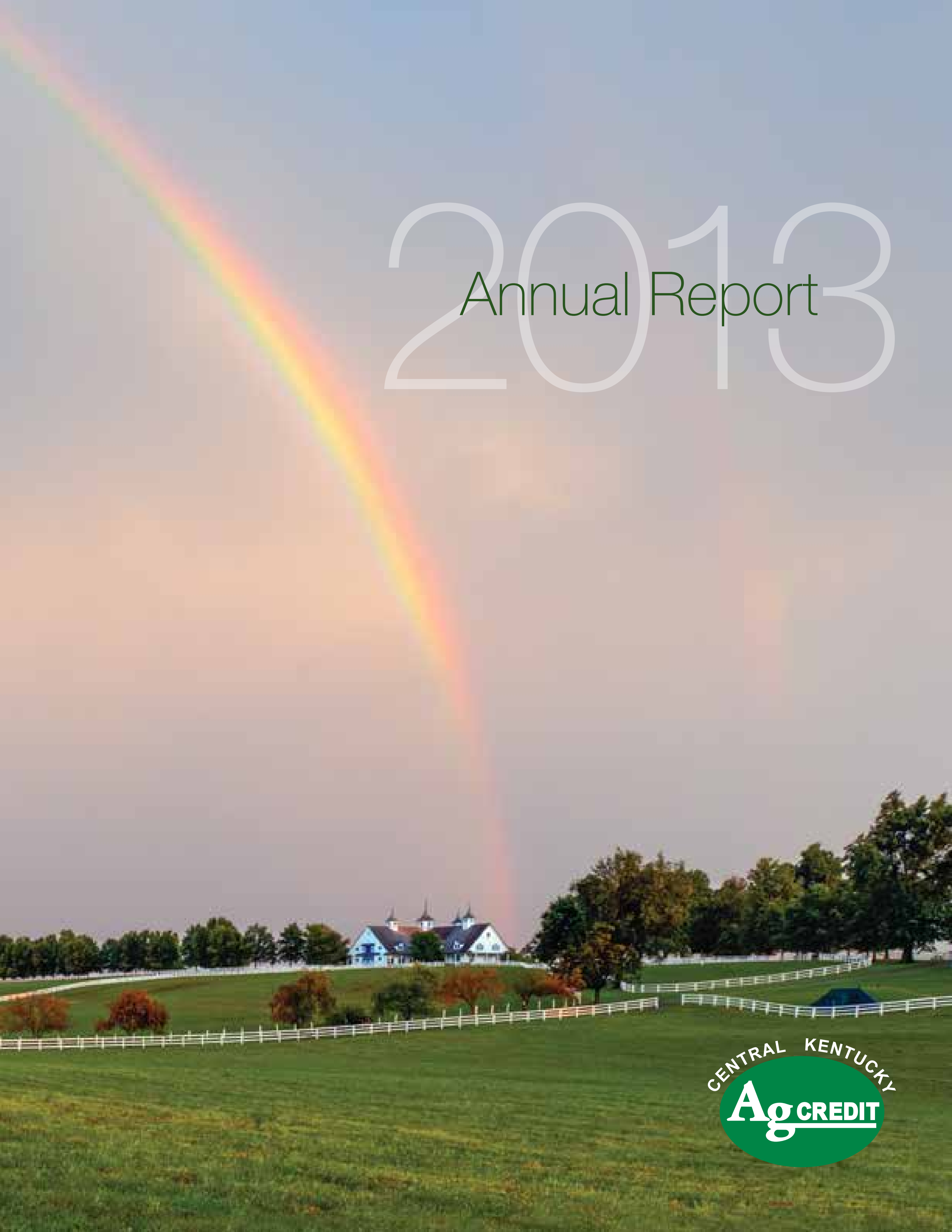

2013 Annual Report

Central Kentucky Ag Credit

CENTRAL KENTUCKY AGRICULTURAL CREDIT ASSOCIATION

2013 ANNUAL REPORT

Contents

Management

James W. Caldwell .... President and Chief Executive Officer
Robert G. Anderson .... Vice President Information Systems
Marcus G. Barnett .... Vice President and Chief Financial Officer
Jonathan T. Noe .... Vice President and Chief Lending Officer

Board of Directors

James Alvin Lyons .... Chairman
Steve Downs .... Vice Chairman
James L. May .... Director
James C. Rankin III .... Director
Jerry Rankin .... Director
David C. Sparrow .... Director
Lionel Williamson .... Director

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Message from the President

"A proud past and a bright future…"

What a way to turn 80! On February 5, 1934, the Central Kentucky Production Credit Association, predecessor to Central Kentucky Ag Credit, was organized at the Lafayette Hotel in Lexington. That means our cooperative association turned 80 on February 5, 2014. In typical cooperative fashion, the occasion was not marked with pomp and fanfare but with steady persistence – the same persistence that had just lead to another record year of performance in 2013. As you review the Annual Report, you will quickly see that Central Kentucky Ag Credit had strong performance for the fourth consecutive year. In many respects, 2013 was a record year as we surpassed previous peak performance levels, especially in the area of strong earnings.

The Association had net income of $10.45 million in 2013, eclipsing the $10 million mark for the first time in its 80 year history. The earnings success is a result of a combination of factors. Among these are the usual and expected factors such as a favorable interest rate environment and controlling operating expenses. But the results also point to the success of the cooperative model. Just as the farmers of Central Kentucky are the stockholder-owners of the Association, the Association is one of the owners of the AgFirst Farm Credit Bank. The AgFirst Farm Credit Bank Board has declared a "Special Distribution" for 2013 which resulted in a distribution of $4 million to Central Kentucky Ag Credit and boosted our earnings for the year. The AgFirst Special Distribution was the result of a number of factors, including extraordinarily good earnings, absence of asset growth, and improving credit quality. It is difficult to overstate the positive impact of this distribution, not only on our earnings, but ultimately on capital levels as well.

The Special Distribution is another example of how successful the federated cooperative model can be when we pay attention to core business principles.

The strong earnings year has translated into a strong patronage distribution in excess of $2.9 million. This level of patronage distribution represents another record for the Association. For the last seventeen years, Ag Credit has declared and paid a patronage distribution to its members. However, the dollar amount of the 2013 distribution surpasses them all. It bears mentioning here that the factors that aligned in 2013, including and specifically the AgFirst Special Distribution, probably will not be in play at these levels in future years. In many respects, the Special Distribution should be viewed as a special, non-recurring event. In any event, it is our goal to operate the Association efficiently and manage risk in a manner that will enable us to continue to return patronage distributions to you within a reasonable time.

Back to the 80 year milestone. On February 5, 1934, the Central Kentucky Production Credit Association, predecessor to Central Kentucky Ag Credit, was organized at the Lafayette Hotel in Lexington. Of the 34 incorporators assembled at the meeting, the following were elected to serve on the original Board of Directors: H.T. Asbury, Lexington; Dr. C.G. Stephenson, Winchester; Frank B. Kiser, Paris; R.F. Curd, Wilmore; F.L. Duffy, Cynthiana; C.K. Chenault, Georgetown; Ray Brown, Frankfort; Earnest McWilliams, Versailles; and W.K. Prewitt, Mt. Sterling. Luther B. Caldwell was employed as the first secretary-treasurer.

The Association remains today. I think this makes us one of the oldest continuing Farm Credit entities in the nation. For a financial institution to operate continuously for such a long period is quite an accomplishment and a credit to the early leadership of the Association who set the tone for sound, conservative lending practices. I am thankful to be part of this tradition and longstanding culture of service to the farmers of Central Kentucky.

Thanks to each of you for your role in making this a unique and successful cooperative organization with a proud past and a bright future.

James W. Caldwell
President

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 Central Kentucky Agricultural Credit Association (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 Central Kentucky Agricultural Credit Association 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.

James A. Lyons

James Alvin Lyons
Chairman of the Board

James W. Caldwell

James W. Caldwell
Chief Executive Officer

M. G. Barnett

Marcus G. Barnett
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.

James W. Caldwell

James W. Caldwell
Chief Executive Officer

Marcus G. Barnett
Chief Financial Officer

March 12, 2014

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	2013	2012	December 31, 2011	2010	2009
Balance Sheet Data					
Cash	$ 1,223	$ 1,013	$ 1,350	$ 2,038	$ 1,710
Loans	350,677	333,205	302,492	272,086	251,748
Less: allowance for loan losses	3,593	3,760	3,584	3,174	2,647
Net loans	347,084	329,445	298,908	268,912	249,101
Investments in other Farm Credit institutions	6,913	6,913	7,559	7,559	7,559
Other property owned	1,713	88	76	96	102
Other assets	22,529	24,978	30,472	35,152	39,347
Total assets	$ 379,462	$ 362,437	$ 338,365	$ 313,757	$ 297,819
Notes payable to AgFirst Farm Credit Bank*	$ 317,656	$ 309,630	$ 291,928	$ 271,222	$ 258,279
Accrued interest payable and other liabilities with maturities of less than one year	7,296	5,796	4,549	4,372	4,034
Total liabilities	324,952	315,426	296,477	275,594	262,313
Capital stock and participation certificates	6,676	6,590	6,219	6,091	6,185
Retained earnings					
Allocated	31,503	24,424	19,961	16,540	13,717
Unallocated	16,331	15,997	15,708	15,532	15,604
Total members' equity	54,510	47,011	41,888	38,163	35,506
Total liabilities and members' equity	$ 379,462	$ 362,437	$ 338,365	$ 313,757	$ 297,819
Statement of Income Data					
Net interest income	$ 9,462	$ 8,926	$ 7,899	$ 6,793	$ 5,836
Provision for loan losses	350	450	550	1,450	1,300
Noninterest income (expense), net	1,340	(1,294)	(1,911)	(1,207)	(2,287)
Net income	$ 10,452	$ 7,182	$ 5,438	$ 4,136	$ 2,249
Key Financial Ratios					
Rate of return on average:					
Total assets	2.86%	2.06%	1.69%	1.38%	0.80%
Total members' equity	20.45%	15.77%	13.31%	10.92%	6.27%
Net interest income as a percentage of average earning assets	2.70%	2.67%	2.56%	2.38%	2.18%
Net (chargeoffs) recoveries to average loans	(0.150)%	(0.085)%	(0.048)%	(0.352)%	(0.051)%
Total members' equity to total assets	14.37%	12.97%	12.38%	12.16%	11.92%
Debt to members' equity (:1)	5.96	6.71	7.08	7.22	7.39
Allowance for loan losses to loans	1.02%	1.13%	1.18%	1.17%	1.05%
Permanent capital ratio	15.99%	14.18%	14.05%	13.23%	11.73%
Total surplus ratio	14.62%	12.80%	12.63%	11.91%	10.58%
Core surplus ratio	14.62%	12.69%	12.30%	11.33%	9.82%
Net Income Distribution					
Estimated patronage refunds:					
Cash	$ 2,969	$ 1,889	$ 1,296	$ 852	$ 556
Nonqualified retained earnings	6,928	4,857	3,887	3,406	2,223

* *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 Central Kentucky Agricultural Credit Association (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 Kentucky. 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 may be materially 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.agcreditonline.com***, or by calling 1-859-253-3249, extension 128, or writing Marcus G. Barnett, Central Kentucky Agricultural Credit Association, P. O. Box 1290, Lexington, KY 40588-1290. 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 according to generally accepted accounting principles and is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including current production and economic conditions, loan portfolio composition, collateral value, portfolio 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 2012 was selected by reference to analysis and yield curves of the plans' actuary and industry norms.

ECONOMIC CONDITIONS

The agricultural economy of the territory serviced by the Association is influenced by two industries: beef cattle and thoroughbred horses. On the supply side, cattle inventory levels remain very low historically and this results in upward pressure on prices. These market forces can benefit producers throughout the entire region, but are most beneficial to the cow/calf operations. The demand side of this equation is less predictable and relies somewhat on the strength of the overall economy. Stability in beef numbers will also depend on weather conditions both in Kentucky and other beef producing areas. The thoroughbred horse industry is showing some positive signs following several years of declining trends mirroring the overall economy. In the sales ring, positive results were observed in 2013, especially on the upper end of the market. Competition between states continues to be a challenge as more states offer incentive programs for breeding stock and race purses. In 2014, equine sales will likely continue to follow the overall U.S. economy with continued leveling or improvement expected.

Farm size varies and many borrowers in the region have diversified farming operations. This factor, along with numerous opportunities for non-farm employment in the area, significantly impacts the level of dependency on any given commodity. Farm real estate values are mixed with some indication that the market is tightening.

The Association's primary competition continues to come from several banks and one System institution. There has been little change in our market base over the past year. During 2013, the Association targeted certain areas of our business with hopes of increasing market share. Continued efforts are being made to expand services, increase public knowledge of our services and streamline our current delivery of products to enhance our existing portfolio.

LOAN PORTFOLIO

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	2013		December 31, 2012		2011	
			(dollars in thousands)			
Real estate mortgage	$ 219,454	62.58%	$ 209,926	63.00%	$ 190,848	63.09%
Production and intermediate-term	120,608	34.39	115,268	34.59	100,935	33.37
Processing and marketing	704	0.20	(5)	–	3,337	1.10
Rural residential real estate	9,355	2.67	7,360	2.21	5,733	1.90
Farm-related business	556	0.16	618	0.19	1,639	0.54
Lease receivables	–	–	38	0.01	–	–
Total	$ 350,677	100.00%	$ 333,205	100.00%	$ 302,492	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 for the past three years is as follows:

Branch/State	2013	December 31, 2012	2011
Lebanon	25.40%	23.06%	20.13%
Lexington	21.71	23.10	25.95
Paris	16.78	15.82	14.60
Danville	15.53	17.15	17.15
Stanford	11.40	11.65	11.60
Richmond	8.91	8.38	8.91
Participations Purchased	0.27	0.84	1.66
	100.00%	100.00%	100.00%

Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer.

The major commodities in the Association loan portfolio are shown below. The predominant commodities are beef cattle, horses, and tobacco, which constitute approximately 73 percent of the entire portfolio.

Commodity Group	2013		December 31, 2012		2011	
			(dollars in thousands)			
Beef Cattle	$ 155,488	44%	$ 147,182	44%	$ 133,163	44%
Horses	64,299	18	64,223	19	65,083	21
Tobacco	33,243	9	32,013	10	27,040	9
Row Crops	30,528	9	23,462	7	16,827	6
Hay/Pasture	26,291	8	23,503	7	19,815	7
Dairy	9,985	3	9,624	3	10,447	3
Ag Services	7,204	2	9,309	3	9,868	3
Other	23,639	7	23,889	7	20,249	7
Total	$ 350,677	100%	$ 333,205	100%	$ 302,492	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 beef cattle and horse 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 price of these commodities. At December 31, 2013, the Association's total commitments to its ten largest borrowers was $31,266, representing 8.92 percent of total loans. While remaining at the same general level as last year, the concentration of large loans has increased over the past several years. The agricultural enterprise mix of these loans however 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 and by the borrowers' ability to supplement with non-farm income.

The increase in gross loan volume for the twelve months ended December 31, 2013, is primarily attributed to increases in farm real estate loans as well as production loans. The Association has attracted some large real estate loans over the past few years in addition to normal business. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak balance in November and declines in the winter months as commodities are marketed and proceeds are applied to repay the operating loans.

During 2013, the Association continued activity in the selling of loan participations within and outside of the System. This provides a means for the Association to spread credit concentration risk.

The main commodity types in the Participations Purchased portfolio are ethanol and prepared feeds which account for 100% of the portfolio. While these participations help spread total portfolio concentration, they also possess unique risks that include exposure to general economic trends, changes in government policy and counterparty risk. The Association manages this risk through routine monitoring, borrowing base reporting and policy driven portfolio limits. Counterparty risk on the entire Participations Purchased portfolio is reduced by the inclusion of System institutions as the lead lender in 100% of the portfolio.

Loan Participations:	2013	December 31, 2012	2011
		(dollars in thousands)	
Participations Purchased – FCS Institutions	$ 971	$ 2,829	$ 4,530
Participations Purchased – Non-FCS Institutions	–	–	553
Participations Sold	(41,499)	(40,251)	(42,944)
Total	$ (40,527)	$ (37,422)	$ (37,861)

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 $13,544, which were sold into the secondary market.

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. At December 31, 2013, the guaranteed balance of designated loans under these agreements was $75,959.

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 Tobacco Buyout Program under the mission-related investments umbrella, as described below.

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, December 31, 2012, and December 31, 2011 the Association had $6,782, $13,185 and $19,199, 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 $100,000. 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	97.43%	96.16%	95.29%
Substandard	2.54%	3.80%	4.70%
Doubtful	0.00%	0.00%	0.00%
Loss	0.03%	0.04%	0.01%
Total	100.00%	100.00%	100.00%

Nonperforming Assets

The Association's loan portfolio is divided into performing and high-risk categories. The Administrative Office Credit Department monitors and works with loans classified as high-risk. The high-risk assets, including accrued interest, are detailed below:

High-risk Assets	December 31, 2013	2012	2011
	(dollars in thousands)		
Nonaccrual loans	$ 4,334	$ 6,361	$ 3,901
Restructured loans	–	–	–
Accruing loans 90 days past due	744	273	–
Total high-risk loans	5,078	6,634	3,901
Other property owned	1,713	88	76
Total high-risk assets	$ 6,791	$ 6,722	$ 3,977
Ratios			
Nonaccrual loans to total loans	1.24%	1.91%	1.29%
High-risk assets to total assets	1.79%	2.02%	1.18%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the full 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 $2,027 or 31.87 percent in 2013. This decrease and the corresponding increase in other property owned resulted primarily from the transfer of one large property from a nonaccrual loan into other property owned. Of the $4,334 in nonaccrual volume at December 31, 2013, $869 or 20.05 percent, compared to 6.51 percent and 6.38 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.

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:

Allowance for Loan Losses Activity:	Year Ended December 31, 2013	2012	2011
	(dollars in thousands)		
Balance at beginning of year	$ 3,760	$ 3,584	$ 3,174
Charge-offs:			
Real estate mortgage	(354)	(5)	–
Processing and marketing	–	–	–
Production and intermediate-term	(195)	(276)	(141)
Rural residential real estate	–	–	–
Total charge-offs	(549)	(281)	(141)
Recoveries:			
Real estate mortgage	1	–	–
Production and intermediate-term	31	7	1
Total recoveries	32	7	1
Net (charge-offs) recoveries	(517)	(274)	(140)
Provision for (reversal of allowance for) loan losses	350	450	550
Balance at end of year	$ 3,593	$ 3,760	$ 3,584
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.150)%	(0.085)%	(0.048)%

The net loan charge-offs were primarily associated charge-offs taken on two larger loan accounts. The decrease in provision for loan losses was primarily associated with a decrease in reserves placed on specific loans offset somewhat by an increase in reserves placed on the loan portfolio in general, including reserves placed on identified pools of loans felt to be at a higher level of risk – namely ethanol loans and real estate development/land in transition loans.

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	$ 2,152	$ 1,900	$ 1,955
Production and intermediate-term	1,350	1,797	1,292
Agribusiness	12	5	290
Rural residential real estate	79	58	47
Total loans	$ 3,593	$ 3,760	$ 3,584

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	1.02%	1.13%	1.18%
Nonperforming loans	70.76%	56.68%	91.86%
Nonaccrual loans	82.90%	59.12%	91.86%

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

Net Interest Income

Net interest income was $9,462, $8,926 and $7,899 in 2013, 2012 and 2011, respectively. 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. 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	$ 701	$ (506)	$ 56	$ 251
Interest expense	(290)	575	–	285
Change in net interest income	$ 411	$ 69	$ 56	$ 536
12/31/12- 12/31/11				
Interest income	$ 1,324	$ (785)	$ 79	$ 618
Interest expense	(619)	1,028	–	409
Change in net interest income	$ 705	$ 243	$ 79	$ 1,027

* *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

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	Percentage Increase/(Decrease) 2013/2012	2012/2011
	(dollars in thousands)				
Loan fees	$ 432	$ 272	$ 294	58.82%	(7.48)%
Fees for financially related services	–	1	1	(100.00)	–
Patronage refund from other Farm Credit Institutions	7,033	3,344	3,063	110.32	9.17
Insurance Fund refund	–	676	–	(100.00)	100.00
Gains (losses) on other property owned, net	(113)	(19)	(11)	(494.74)	(72.73)
Gains (losses) on sales of rural home loans	4	(1)	2	500.00	(150.00)
Gains (losses) from sales of premises and equipment, net	–	–	–	–	–
Other noninterest income	47	40	24	17.50	66.67
Total noninterest income	$ 7,403	$ 4,313	$ 3,373	71.64%	27.87%

Regarding patronage refunds received from other Farm Credit Institutions, the Association received $2,577 in a patronage refund and $4,456 in a special distribution from the Bank for the year ended December 31, 2013, compared to $2,546 and $798 for 2011, and $2,358 and $705 for 2010. During 2012, the Association recorded $676 of insurance premium refund from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. This payment is nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.

Noninterest Expense

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

Noninterest Expense	For the Year Ended December 31, 2013	2012	2011	Percentage Increase/(Decrease) 2013/2012	2012/2011
	(dollars in thousands)				
Salaries and employee benefits	$ 4,253	$ 3,807	$ 3,592	11.72%	5.99%
Occupancy and equipment expense	376	430	419	(12.56)	2.63
Insurance Fund premium	270	130	141	107.69	(7.80)
Other operating expense	1,110	1,070	1,035	3.74	3.38
Total noninterest expense	$ 6,009	$ 5,437	$ 5,187	10.52%	4.82%

Salaries and employee benefits increased in 2013, as compared with 2012, primarily due to increased costs associated with merit and staffing increases, health insurance expense, and retirement expense. Occupancy and equipment expense decreased $54 or 12.56 percent in 2013 as compared with 2012. This decrease is primarily associated with decreased maintenance expense and decreased depreciation expense as some assets reached fully depreciated levels. Insurance Fund premiums increased $140 or 107.69 percent for the twelve months ended December 31, 2013, compared to the same period of 2012 due primarily to a large increase in rates charged by the Farm Credit System Insurance Corporation (FCSIC). Other operating expenses increased $40 or 3.74 percent in 2013 as compared with 2012. The increase is primarily associated with an increase in advertising and public relations expenses which were $192 in 2013, as compared with $142 in 2012.

Income Taxes

The Association recorded a provision for income taxes of $54 for the year ended December 31, 2013, as compared to a provision of $170 for 2012 and a provision of $97 for 2011. Refer to Note 2, *Summary of Significant Accounting Policies, 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	2.86%	2.06%	1.69%
Return on average members' equity	20.45%	15.77%	13.31%
Net interest income as a percentage of average earning assets	2.70%	2.67%	2.56%
Net (charge-offs) recoveries to average loans	(0.150)%	(0.085)%	(0.048)%

The primary factors influencing the increases in return on average assets and return on members' equity have been an increase in loan volumes, increase in net interest margins, and an increase in patronage refunds received from the Bank.

Key factors in the growth of net income for future years will be continued improvement in net interest and noninterest income along with reasonably moderate additional provisions made for loan losses. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. To meet this goal, the agricultural economy must continue improvement and the Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

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." 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, 1.56 percent for Prime-based loans, and the weighted average remaining maturities were 2.0 years and 2.3 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 2.52 percent and the weighted average remaining maturity was 9.4 years at December 31, 2013. The weighted average interest rate on all interest-bearing notes payable was 2.35 percent and the weighted average remaining maturity was 8.2 years at December 31, 2013.

Variable rate and fixed rate notes payable represent approximately 8.69 percent and 91.31 percent, respectively, of total notes payable at December 31, 2013.

Total notes payable to the Bank at December 31, 2013, was $317,656 as compared to $309,630 at December 31, 2012 and $291,928 at December 31, 2011. The increase of 2.59 percent compared to December 31, 2012 and the increase of 6.06 percent compared to December 31, 2011, was attributable to continued loan growth in the Association. The average volume of outstanding notes payable to the Bank was $310,602 and $299,572 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 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 investments and 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 had no lines of credit outstanding 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. The Association utilizes differential pricing for its loans based on credit risk, length of maturity, service cost, and market variables, thereby giving the Association the ability in large part to control its interest rate margins. Net interest income as a percentage of average earning assets was 2.70% for 2013, 2.67% for 2012, and 2.56% for 2011. The increase in net interest income as a percentage of average earning assets for 2013 as compared to the previous year is primarily due to increased returns on an increased loanable funds balance.

Relationship with the Bank

In both financial and non-financial areas, the Association has a materially interdependent 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 require additional capital contributions from the Association is discussed in Note 4, *Investment in Other Farm Credit Institutions*, included 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.

The Association receives a patronage refund from the Bank which it records on an accrual basis.

In addition to the financial relationships described, the Association may act as a service provider to the Bank on certain participation loans that the Association has sold to the Bank. The Bank also provides operational assistance to the Association in many areas including cash management, accounting and reporting, computer networks and technology.

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.

Total members' equity at December 31, 2013, increased 15.95 percent to $54,510 from the December 31, 2012, total of $47,010. At December 31, 2012, total members' equity increased 12.23 percent from the December 31, 2011 total of $41,888. The increase was primarily attributed to net income, partially offset by cash patronage.

Total capital stock and participation certificates were $6,676 on December 31, 2013, compared to $6,590 on December 31, 2012 and $6,219 on December 31, 2011. The increase was attributed to an increase in borrower purchases of stock and participation certificates.

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 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	15.99%	14.18%	14.05%	7.00%
Total surplus ratio	14.62%	12.80%	12.63%	7.00%
Core surplus ratio	14.62%	12.69%	12.30%	3.50%

The increase in the Association's permanent capital, total surplus, and core surplus for December 31, 2013 was attributed to moderate increases in loan volume, increases in earnings and loan guarantees. 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 to borrowers on a patronage basis all or any portion of its available patronage sourced 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) purchase money mortgages and sales contracts, (b) participation loans purchased, (c) loans specified in advance as non-patronage, (d) the Association's defined benefit retirement plan income, (e) extraordinary income resulting from a change in accounting procedure, and (f) other non-patronage income as allowed by law, including lease income, the 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 allocations. The Association declared total patronage allocations of $9,897 in 2013, $6,746 in 2012, and $5,183 in 2011. Of those amounts, the Association declared a cash patronage payable of $2,969 in 2013, $1,889 in 2012 and $1,296 in 2011. The remaining patronage allocations were in the form of allocated retained earnings. A few years ago, the Association reduced cash patronage payout percentages in favor of increasing retained surplus in support of enhancing the Association's capital levels. With the resulting improvements in earnings and capital levels, the Association increased its cash patronage payout percentage for 2012 and 2013.

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. Actual program results in 2013 were 100% of program goals or better in all but one category, number of small farmer loans, which was at 99% of program goal.

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

	As of December 31, 2013			
	Number of Loans		Amount of Loans	
	Actual	Goal	Actual	Goal
Young	859	793	$54,936	$52,445
Beginning	784	725	$52,018	$51,185
Small	3,064	3,100	$169,217	$168,915

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-NASS Ag census data has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory (counties) there were 15,420 reported farmers of which by definition 817 or 5.30 percent were Young, 4,378 or 28.39 percent were Beginning, and 14,761 or 95.73 percent were Small. Comparatively, as of December 31, 2013, the demographics of the Association's agricultural portfolio contained 2,161 farmers, of which by definition 494 or 22.86 percent were Young, 503 or 23.28 percent were Beginning and 1,692 or 78.30 percent were Small.

In addition to our marketing strategies, in 2013 the Association utilized the following strategies and outreach programs:

- Support of 4H, FFA and young farmer organizations through sponsorships and donations.
- Offering loan guarantees and interest rate subsidies through Preferred Lender and Interest Subsidy Programs with Farm Services Administration (FSA).
- Subsidize the FSA Loan Guarantee Fee.
- Reduced Rate Coordination Programs with the Kentucky Agricultural Finance Corporation

The Association met its 2013 goals in coordination of programs, FSA Guarantee Loan Volume, Reduced Rate Coordination Program, and statewide youth program advertising and sponsorships, while not meeting its goals in Leader Magazine advertising, FSA Fee Subsidy, and subsidized interest rate programs (due to the program being discontinued by FSA).

The Vice President of Information Systems coordinates the Association's efforts for YBS programs. The Association includes YBS goals in the annual strategic plan, and reports on those goals and achievements to the Board of Directors on a quarterly basis.

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.

Demographics

The Association has used the 2007 USDA-NASS Ag Census as our source of demographic data for the counties in our territory. There are several differences in the methods by which the demographic and YBS Farmer data is presented. Young farmers are defined by the FCA as 35 years old or less. The UDSA-NASS Ag Census demographic stratification breaks at 34 years old, which was used to compare to FCA's definition. Beginning farmers are defined by the FCA as having 10 years or less farming experience. There is no measurement matching this definition I the USDA-NASS Ag Census; however the census does identify farmers on their current farm less than 10 years. That statistic may include beginning farmers, but may also include experienced farmers who have recently changed farmsteads. As with the case of the Young information, the Beginning information in the USDA-NASS Ag Census is not an exact comparison to the FCA definition, but will be utilized as the best comparison available. The FCA Small definition matches with the USDA-NASS Ag Census delineation of farm entities with sales of less than $250 thousand. Other data differences: The farmers experience is as of the date of the USDA-NASS Ag Census, while the Association data is compiled as to the date the loan was made. Small farmers is by each individual farm entity from the USDA-NASS Ag Census data, while the Association data is compiled as of the date of the loan and represents the total value of sales of closely related entities rather than individual entities. The USDA-NASS Ag Census data reflects all farms whether they use debt or not. While the statistical results of the USDA-NASS Ag Census do not match the FCA definitions exactly and there are timing issues, they do provide a consistent source of measurement with which to assess Association targets and goals.

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, developments that had or could have a material impact on patronage or dividends, changes in patronage policies and practices, 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 Kentucky:

Location	Description	Form of Ownership
640 South Broadway Lexington	Administrative	Owned
640 South Broadway Lexington	Branch	Owned
485 N Danville Bypass Danville	Branch	Owned
1000 Ival James Boulevard Richmond	Branch	Owned
201 Commerce Drive Paris	Branch	Owned
842 W Main Lebanon	Branch	Owned
106 Agriculture Way Stanford	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 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.

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:

Senior Officer	Position
James W. Caldwell	*President and Chief Executive Officer* – since January, 2009
Jonathan T. Noe	*Vice President and Chief Lending Officer* – since September, 2008
Robert G. Anderson	*Vice President Information Systems* – since January, 1999
Marcus G. Barnett	*Vice President and Chief Financial Officer* – since August, 2004.

The business experience for the past five years for senior officers is with the Farm Credit System

The total amount of compensation earned by the CEO and the highest paid officers as a group during the years ended December 31, 2013, 2012 and 2011, is as follows:

Name of Individual or Number in Group	Year	Salary	Bonus	Deferred Comp.	Change in Pension**	Perq./ Other*	Total
James W. Caldwell	2013	$ 217,008	$ 4,150	$ –	$ 54,633	$ 5,114	$ 280,905
James W. Caldwell	2012	$ 190,007	$ 3,650	$ –	$	$ 5,190	$ 198,847
James W. Caldwell	2011	$ 175,007	$ 2,900	$ –	$	$ 5,114	$ 183,021
5	2013	$ 517,720	$ 45,137	$ –	$ (41,459)	$ –	$ 521,397
5	2012	$ 514,620	$ 37,341	$ –	$	$ –	$ 551,961
5	2011	$ 494,419	$ 35,026	$ –	$	$ –	$ 529,445

**The Perquisites/Other amount disclosed in the above chart includes automobile compensation, cost of group insurance in excess of $50,000, and spousal travel.*
***The Change in Pension amount disclosed in the above chart represents a new disclosure requirement for 2013, hence no amounts are provided for earlier reporting periods.*

Disclosure of information on the total compensation paid during 2013 to any senior officer, or to any other employee included in the aggregate group total as reported in the table above is available and will be disclosed to the shareholders of the institution upon request.

On October 3, 2012, FCA adopted a regulation that requires enhanced disclosures pertaining to Senior Officer compensation, specifically additional information pertaining to the present value of pension benefits and the change in the present value of pension benefits from the previous year. Factors that may lead to increases in present value of pension benefits include an additional year of service leading up to the earliest unreduced retirement date, increases in compensation, and decreases in the discount rate. Factors that may lead to decreases in the present value of pension benefits include an additional year of service past the unreduced retirement date and increases in the discount rate.

The institution's shareholders have the authority to petition for an advisory vote on CEO and senior officers' compensation in accordance with FCA regulations. For the year ended December 31, 2013, no advisory votes were held.

Additional information on pension benefits related to the CEO and the highest paid officers as a group for the year ended December 31, 2013 is as follows:

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2013
James W. Caldwell	2013	Independent Associations Retirement Plan	33	$1,317,604	$ –
5	2013	Independent Associations Retirement Plan	* 21	$1,734,257	$ –

- *Represents the average years of credited service for the group.*

In addition to a base salary, the branch lending staff can earn additional compensation under an incentive plan. There were no material changes to the incentive plan adopted for 2013 as the plan design continues to motivate new business development. In addition to this incentive plan for the lending staff, the entire Association staff, including senior officers, may receive a bonus at the discretion of the Board of Directors. While discretionary, these bonuses are generally based on the efforts of staff, including senior officers, in striving to accomplish business plan objectives such as profitability, growth, credit quality and overall performance. All but a small portion of these bonuses were paid in the 2013 calendar year. A small portion of the bonus was accrued to all full-time staff in 2013, but was not paid until January, 2014. Additionally, 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.

On October 3, 2012, FCA adopted a regulation that requires all System institutions to hold advisory votes on the compensation for all senior officers and/or the CEO when the 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 determining whether there is a 15 percent or greater increase 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 includes language prohibiting the FCA from using any funds available to "implement or enforce" the regulation. In addition, on February 7, 2014, the President signed into law the Agricultural Act of 2014. Section 5404 of the law directs FCA, within 60 days of enactment of the law, to "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.

Directors

Directors 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 $24,899 for 2013, $24,058 for 2012 and $19,661 for 2011.

Subject to approval by the board, the Association may allow the chairman of the board of directors and other director's honoraria of $500 and $450 respectively for attendance at meetings, committee meetings, or special assignments. Directors also receive $50 for participation in board or committee related conference calls. In 2013, total cash compensation paid to directors as a group was $50,950. No non-cash compensation was paid to directors in 2013.

The following represents certain information regarding the directors of the Association and their principal occupations:

James Alvin Lyons was re-elected to a four-year term on the Board of Directors at the 2012 Annual Meeting. His current term expires in 2016. He presently serves as Chairman of the Board, a position he has held since April 2011. During the past 5 years, Mr. Lyons has produced alfalfa, corn, soybeans, wheat, tobacco, has a commercial cow-calf program and backgrounds feeder cattle on his farming operation in Scott County. Mr. Lyons serves as a Board member of the Scott County Farm Bureau and is a member of the Scott County Beef Improvement Board. In addition, he serves as a member of the Scott County Rural Land Management Board and as a director of the Kentucky Ag Leadership Program Alumni. Mr. Lyons is also a Magistrate on the Scott County Fiscal Court. During 2013, Mr. Lyons served 11 days at Association Board meetings, 10 days in other official activities, participated in 2 conference calls, and was paid $10,600 in compensation.

Steve Downs was re-elected to a four-year term on the Board of Directors at the 2010 Annual Meeting. His current term expires in 2014. He presently serves as Vice Chairman of the Board, a position he has held since April 2011. In addition, he serves as Chairman of the Board of Directors Compensation Committee. During the past 5 years, Mr. Downs has produced tobacco, corn, soybeans, hay, has a commercial cow-calf program, and has a heifer development program on his farming operation in Marion County. Mr. Downs is a member and past president of the

Marion County Chamber of Commerce. He is also serves as Treasurer of the Marion County Cattlemen's Association. In 2013, Mr. Downs was elected to serve as President of the Kentucky Cattlemen's Association. He also serves as Marion County Extension District Chairman, and a Director on the Marion County Soil Conservation District Board. In addition, Mr. Downs serves on the Farm Bureau Labor Advisory Committee, the Premier Heifer Sale Committee, and the St. Francis Xavier Church Parish Council. During 2013, Mr. Downs served 11 days at Association Board meetings, 6 days in other official activities, participated in 1 conference call, and was paid $7,700 in compensation

James L. May was re-elected to a four-year term on the Board of Directors at the 2011 Annual Meeting. His current term expires in 2015. He served as Chairman of the Board from 1999 to 2011, and previously served as Vice Chairman of the Board from April 1991. During the past five years, Mr. May and his wife have owned Mayhaven Farm LLC in Lincoln County where they have produced corn, hay, soybeans, wheat, and have backgrounded feeder cattle in addition to operating a retail agricultural seed and metal sales business Since January, 2006, Mr. May has served as a director for the AgFirst Farm Credit Bank where he also serves as on the Credit Committee. His current term expires at the end of 2017. He also serves on the AgFirst Farm Credit Council Board and on the Retirement Committee for the Independent Associations Retirement Plan. During 2013, Mr. May served 11 days at Association Board meetings, 2 days in other official activities, participated in 1 conference call, and was paid $5,900 in compensation.

James C. ("Jim") Rankin III was elected to a four-year term on the Board of Directors at the 2012 Annual Meeting. His current term expires in 2016. During the past 5 years, Mr. Rankin has produced soybeans, wheat and alfalfa on his farming operation in Bourbon County. Mr. Rankin owns thoroughbred mares, and boards mares and foals. He also raises and trains thoroughbreds for racing. In addition, Mr. Rankin partners with his sons in the thoroughbred horse operation and in a cow/calf operation. During 2013, Mr. Rankin served 11 days at Association Board meetings, 3 days in other official activities, participated in 1 conference call, and was paid $6,350 in compensation.

Jerry Rankin was elected to a sixth continuous term on the Board of Directors at the 2013 Annual Meeting. His current term expires in 2017. During the past 5 years, Mr. Rankin has produced tobacco, corn, alfalfa hay, soybeans, backgrounded steers and has a purebred Angus cow herd on his farming operation in Boyle County. He also raises and sells bred pelvic measured heifers and fertility bulls. In addition, Mr. Rankin owns and operates the Farmers Tobacco Warehouse in Danville. Mr. Rankin is President of the Danville Tobacco Board of Trade. He also serves as a member of the American Angus Association and is a stockholder in the Central Kentucky Angus Association. Mr. Rankin is also a member of the Kentucky Beef Cattle Association. During 2013, Mr. Rankin served 10 days at Association Board meetings, 6 days in other official activities, participated in 1 conference call, and was paid $7,250 in compensation.

Pursuant to the Agricultural Credit Act of 1987 and in compliance with Association Bylaws, the Association Board of Directors first elected during 2001 a member to the Board who is not a director, officer, employee or shareholder of any Farm Credit System institution (i.e. Outside Director).

David C. Sparrow was first elected as an Outside Director in 2001. His current term expires in April 2016. Mr. Sparrow retired from the University of Kentucky College of Agriculture where he served as County Extension Agent for Agriculture and 4-H, and as an Assistant to the Dean and Director at the college. In that latter role, his primary responsibility was serving as a public liaison working with commodity groups, farm organizations, and legislative officials. During the past 5 years, Mr. Sparrow has served as Superintendent of the North American Livestock Dairy Show, and as Co-Superintendent of the Kentucky State Fair Dairy Show. In addition, he serves as on the board of the Kentucky Agriculture Heritage Center, and on the Kentucky Cattlemen's Board. Mr. Sparrow is also a Deacon and Moderator of his church, serves on the Economic Development Committee for the Kentucky Farm Bureau Federation, serves as Chairman of the Kentucky Cattlemen's Foundation, and is Chairman of Regain Foundation. During 2013, Mr. Sparrow served 10 days at Association Board meetings, 4 days in other official activities, participated in 1 conference call, and was paid $6,350 in compensation.

Mr. Sparrow passed away on February 2, 2014. The Association Board of Directors will be actively working to fill the Outside Director vacancy brought about by Mr. Sparrow's passing.

Dr. Lionel Williamson was first elected as an Outside Director by the Association Board of Directors in 2005. His current term expires in April 2017. He also serves as Chairman of the Board of Directors Audit Committee. Dr. Williamson retired from the the University of Kentucky College of Agriculture where he served as an Extension Professor and Assistant Dean for Diversity. His extension work was with start-up cooperatives in Kentucky, assisting them with business plans, financial plans, budgets, start-up capital, and operating procedures. In addition, he worked with cooperative leaders at the state and national levels in planning, implementing and evaluating educational programs. He also taught an undergraduate course in agribusiness. During the past 5 years Dr. Williamson has served as a board member for the Kentucky Council of Cooperatives and The Kentucky Center for Agriculture and Rural Development (KCARD). He has also directed the statewide American Private Enterprise Program (APES) and the National (NICE) educational program aimed at high school juniors and seniors. He also served on several University level committees, including the Athletics Board. In 2010, Dr. Williamson was selected to serve on the Farm Credit System Diversity Workgroup. During 2013, Dr. Williamson served 11 days at Association Board meetings, 4 days in other official activities, participated in 1 conference call, and was paid $6,800 in compensation.

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 Consolidated Financial Statements included in this Annual Report. There have been no transactions between the Association and senior officers or directors which require reporting per FCA regulations.

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 matters 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.

Involvement in Unincorporated Business Entities

As of December 31, 2013 the Association holds an equity investment in two Unincorporated Business Entities (UBEs). Both UBEs were organized for the stated purpose of holding and managing unusual or complex collateral pertaining to former loans which were converted to Other Property Owned.

The Association holds a 19.685 percent ownership interest in RAAC, LLC. RAAC, LLC is a Tennessee Limited Liability Company that was organized for the above stated purpose until such time as the asset may be sold or otherwise disposed of pursuant to the terms of the Operating Agreement of RAAC, LLC.

The Association also holds a 37.3135 percent ownership interest in First Kentucky Land, LLC. First Kentucky Land, LLC is a Kentucky Limited Liability Company that was organized for the above stated purpose until such time as the asset may be sold or otherwise disposed of pursuant to the terms of the Operating Agreement of First Kentucky Land, LLC.

Relationship with Independent Certified Public Accountant

There were no changes in or material disagreements with our independent certified public accountant 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 accountant for the year ended December 31, 2013 were as follows:

	2013
Independent Certified Public Accountant	
PricewaterhouseCoopers LLP	
Audit services	$ 53,388
Total	$ 53,388

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 quarterly reports are available upon request free of charge by calling 1-859-253-3249, or writing Marcus G. Barnett, Chief Financial Officer, Central Kentucky Agricultural Credit Association, P.O. Box 1290, Lexington, Kentucky 40588-1290, or accessing the website, ***www.agcreditonline.com.*** The Association prepares an electronic version of the Annual Report which is available on the Association's 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 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 institution.

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 may 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 Central Kentucky Agricultural Credit Association (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 accountant 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:

Lionel Williamson

Dr. Lionel Williamson
Chairman of the Audit Committee

Members of Audit Committee

James Alvin Lyons
Steve Downs
James L. May
James C. Rankin III
David C. Sparrow
Jerry Rankin

March 12, 2014

Report of Independent Certified Public Accountants

pwc

Report of Independent Certified Public Accountants

To the Board of Directors and Members
of Central Kentucky Agricultural Credit Association

We have audited the accompanying consolidated financial statements of Central Kentucky Agricultural Credit Association 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 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 Central Kentucky Agricultural Credit Association 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	$ 1,223	$ 1,013	$ 1,350
Loans	350,677	333,205	302,492
Less: allowance for loan losses	3,593	3,760	3,584
Net loans	347,084	329,445	298,908
Loans held for sale	335	369	—
Other investments	6,782	13,185	19,199
Accrued interest receivable	4,213	3,949	3,794
Investments in other Farm Credit institutions	6,913	6,913	7,559
Premises and equipment, net	3,086	3,190	3,409
Other property owned	1,713	88	76
Due from AgFirst Farm Credit Bank	6,822	3,148	2,891
Other assets	1,291	1,137	1,179
Total assets	$ 379,462	$ 362,437	$ 338,365
Liabilities			
Notes payable to AgFirst Farm Credit Bank	$ 317,656	$ 309,630	$ 291,928
Accrued interest payable	673	653	709
Patronage refunds payable	3,069	1,994	1,424
Other liabilities	3,554	3,149	2,416
Total liabilities	324,952	315,426	296,477
Commitments and contingencies			
Members' Equity			
Capital stock and participation certificates	6,676	6,590	6,219
Retained earnings			
Allocated	31,503	24,424	19,961
Unallocated	16,331	15,997	15,708
Total members' equity	54,510	47,011	41,888
Total liabilities and members' equity	$ 379,462	$ 362,437	$ 338,365

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
Interest Income			
Loans	$ 16,656	$ 16,157	$ 15,245
Other investments	391	639	934
Total interest income	17,047	16,796	16,179
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	7,585	7,870	8,280
Net interest income	9,462	8,926	7,899
Provision for loan losses	350	450	550
Net interest income after provision for loan losses	9,112	8,476	7,349
Noninterest Income			
Loan fees	432	272	294
Fees for financially related services	—	1	1
Patronage refunds from other Farm Credit institutions	7,033	3,344	3,063
Gains (losses) on other property owned, net	(113)	(19)	(11)
Gains (losses) on sales of rural home loans, net	4	(1)	2
Insurance Fund refunds	—	676	—
Other noninterest income	47	40	24
Total noninterest income	7,403	4,313	3,373
Noninterest Expense			
Salaries and employee benefits	4,253	3,807	3,592
Occupancy and equipment	376	430	419
Insurance Fund premiums	270	130	141
Other operating expenses	1,110	1,070	1,035
Total noninterest expense	6,009	5,437	5,187
Income before income taxes	10,506	7,352	5,535
Provision for income taxes	54	170	97
Net income	10,452	7,182	5,438
Other comprehensive income	—	—	—
Comprehensive income	$ 10,452	$ 7,182	$ 5,438

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	Total Members' Equity
Balance at December 31, 2010	$ 6,091	$ 16,540	$ 15,532	$ 38,163
Comprehensive income			5,438	5,438
Capital stock/participation certificates issued/(retired), net	128			128
Patronage distribution				
Cash			(1,296)	(1,296)
Nonqualified retained earnings		3,887	(3,887)	—
Retained earnings retired		(526)		(526)
Patronage distribution adjustment		60	(79)	(19)
Balance at December 31, 2011	6,219	19,961	15,708	41,888
Comprehensive income			7,182	7,182
Capital stock/participation certificates issued/(retired), net	371			371
Patronage distribution				
Cash			(1,889)	(1,889)
Nonqualified retained earnings		4,857	(4,857)	—
Retained earnings retired		(503)		(503)
Patronage distribution adjustment		109	(147)	(38)
Balance at December 31, 2012	6,590	24,424	15,997	47,011
Comprehensive income			10,452	10,452
Capital stock/participation certificates issued/(retired), net	86			86
Patronage distribution				
Cash			(2,969)	(2,969)
Nonqualified retained earnings		6,928	(6,928)	—
Patronage distribution adjustment		151	(221)	(70)
Balance at December 31, 2013	$ 6,676	$ 31,503	$ 16,331	$ 54,510

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

Consolidated Statements of Cash Flows

	For the year ended December 31,		
(dollars in thousands)	**2013**	**2012**	**2011**
Cash flows from operating activities:			
Net income	$ 10,452	$ 7,182	$ 5,438
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	195	231	216
Premium amortization (discount accretion) on other investments	(391)	(639)	(934)
Provision for loan losses	350	450	550
(Gains) losses on other property owned	105	18	10
(Gains) losses on sales of rural home loans, net	(4)	1	(2)
Changes in operating assets and liabilities:			
(Increase) decrease in loans held for sale, net	38	(370)	2
(Increase) decrease in accrued interest receivable	(264)	(155)	(588)
(Increase) decrease in due from AgFirst Farm Credit Bank	(3,674)	(257)	(142)
(Increase) decrease in other assets	(154)	42	(79)
Increase (decrease) in accrued interest payable	20	(56)	3
Increase (decrease) in other liabilities	405	733	(300)
Total adjustments	(3,374)	(2)	(1,264)
Net cash provided by (used in) operating activities	7,078	7,180	4,174
Cash flows from investing activities:			
Net (increase) decrease in loans	(19,793)	(31,075)	(30,560)
(Increase) decrease in investment in other Farm Credit institutions	—	646	—
Purchases of other investments	—	(93)	(318)
Proceeds from payments received on other investments	6,794	6,746	6,633
Purchases of premises and equipment	(91)	(12)	(108)
Proceeds from sales of other property owned	74	58	24
Net cash provided by (used in) investing activities	(13,016)	(23,730)	(24,329)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	8,026	17,702	20,706
Capital stock and participation certificates issued/(retired), net	86	371	128
Patronage refunds and dividends paid	(1,964)	(1,357)	(841)
Retained earnings retired	—	(503)	(526)
Net cash provided by (used in) financing activities	6,148	16,213	19,467
Net increase (decrease) in cash	210	(337)	(688)
Cash, beginning of period	1,013	1,350	2,038
Cash, end of period	$ 1,223	$ 1,013	$ 1,350
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	$ 1,804	$ 88	$ 14
Estimated cash dividends or patronage distributions declared or payable	2,969	1,889	1,296
Supplemental information:			
Interest paid	$ 7,565	$ 7,926	$ 8,277
Taxes (refunded) paid, net	139	85	155

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:** Central Kentucky Agricultural Credit Association (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Anderson, Bourbon, Boyle, Clark, Fayette, Franklin, Garrard, Harrison, Jessamine, Lincoln, Madison, Marion, Mercer, Montgomery, Scott, Washington and Woodford in the state of Kentucky.

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 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 general financing 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 concessions to the borrower such as a modification 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.

   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 Independent Associations' 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.

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 which are discussed in Note 8.

   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.

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	$ 219,455	$ 209,926	$ 190,848
Production and intermediate-term	120,608	115,268	100,935
Loans to cooperatives	43	–	–
Processing and marketing	703	(5)	3,337
Farm-related business	513	618	1,638
Rural residential real estate	9,355	7,360	5,734
Lease receivables	–	38	–
Total Loans	$ 350,677	$ 333,205	$ 302,492

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	$ –	$ 26,403	$ –	$ –	$ –	$ 1,363	$ –	$ 27,766
Production and intermediate-term	–	11,024	218	–	–	677	218	11,701
Processing and marketing	753	–	–	–	–	–	753	–
Farm-related business	–	2,031	–	–	–	–	–	2,031
Total	$ 753	$ 39,458	$ 218	$ –	$ –	$ 2,040	$ 971	$ 41,498

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	$ –	$ 30,273	$ –	$ –	$ –	$ 897	$ –	$ 31,170
Production and intermediate-term	2,162	10,305	667	–	–	700	2,829	11,005
Farm-related business	–	2,111	–	–	–	–	–	2,111
Total	$ 2,162	$ 42,689	$ 667	$ –	$ –	$ 1,597	$ 2,829	$ 44,286

December 31, 2011	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	$ –	$ 33,390	$ –	$ –	$ –	$ 630	$ –	$ 34,020
Production and intermediate-term	1,738	5,984	–	–	–	747	1,738	6,731
Processing and marketing	–	–	2,792	–	553	–	3,345	–
Farm-related business	–	2,193	–	–	–	–	–	2,193
Total	$ 1,738	$ 41,567	$ 2,792	$ –	$ 553	$ 1,377	$ 5,083	$ 42,944

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 at 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	$ 20,455	$ 50,841	$ 148,159	$ 219,455
Production and intermediate-term	30,714	55,460	34,434	120,608
Loans to cooperatives	43	–	–	43
Processing and marketing	55	648	–	703
Farm-related business	–	363	150	513
Rural residential real estate	1,289	500	7,566	9,355
Lease receivables	–	–	–	–
Total Loans	$ 52,556	$ 107,812	$ 190,309	$ 350,677
Percentage	14.99%	30.74%	54.287%	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	94.54%	94.19%	94.59%
OAEM	2.55	1.68	1.07
Substandard/doubtful/loss	2.91	4.13	4.34
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	96.33%	94.56%	94.37%
OAEM	1.74	2.11	0.66
Substandard/doubtful/loss	1.93	3.33	4.97
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	100.00%	100.00%	83.51%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	16.49
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%

	December 31,		
	2013	2012	2011
Rural residential real estate:			
Acceptable	96.85%	95.05%	92.62%
OAEM	–	0.72	–
Substandard/doubtful/loss	3.15	4.23	7.38
	100.00%	100.00%	100.00%
Lease receivables:			
Acceptable	–%	100.00%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	–%	100.00%	–%
Total Loans:			
Acceptable	95.24%	94.35%	94.39%
OAEM	2.19	1.81	0.90
Substandard/doubtful/loss	2.57	3.84	4.71
	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	$ 1,127	$ 2,530	$ 3,657	$ 218,068	$ 221,725	$ 742
Production and intermediate-term	496	1,464	1,960	120,567	122,527	2
Loans to cooperatives	–	–	–	44	44	–
Processing and marketing	–	–	–	705	705	–
Farm-related business	–	–	–	514	514	–
Rural residential real estate	262	72	334	9,041	9,375	–
Lease receivables	–	–	–	–	–	–
Total	$ 1,885	$ 4,066	$ 5,951	$ 348,939	$ 354,890	$ 744

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	$ 2,015	$ 3,851	$ 5,866	$ 206,103	$ 211,969	$ 249
Production and intermediate-term	316	2,252	2,568	114,586	117,154	24
Processing and marketing	–	–	–	(5)	(5)	–
Farm-related business	–	–	–	620	620	–
Rural residential real estate	–	107	107	7,270	7,377	–
Lease receivables	–	–	–	39	39	–
Total	$ 2,331	$ 6,210	$ 8,541	$ 328,613	$ 337,154	$ 273

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	$ 1,059	$ 1,432	$ 2,491	$ 190,377	$ 192,868	$ –
Production and intermediate-term	818	1,891	2,709	99,959	102,668	–
Processing and marketing	–	–	–	3,355	3,355	–
Farm-related business	–	–	–	1,643	1,643	–
Rural residential real estate	164	102	266	5,486	5,752	–
Total	$ 2,041	$ 3,425	$ 5,466	$ 300,820	$ 306,286	$ –

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

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

	December 31, 2013	2012	2011
Nonaccrual loans:			
Real estate mortgage	$ 2,305	$ 3,822	$ 1,553
Production and intermediate-term	1,859	2,432	2,246
Rural residential real estate	170	107	102
Total nonaccrual loans	$ 4,334	$ 6,361	$ 3,901
Accruing restructured loans:			
Total accruing restructured loans	$ –	$ –	$ –
Accruing loans 90 days or more past due:			
Real estate mortgage	$ 742	$ 249	$ –
Production and intermediate-term	2	24	–
Total accruing loans 90 days or more past due	$ 744	$ 273	$ –
Total nonperforming loans	$ 5,078	$ 6,634	$ 3,901
Other property owned	1,713	88	76
Total nonperforming assets	$ 6,791	$ 6,722	$ 3,977
Nonaccrual loans as a percentage of total loans	1.24%	1.91%	1.29%
Nonperforming assets as a percentage of total loans and other property owned	1.93%	2.02%	1.31%
Nonperforming assets as a percentage of capital	12.46%	14.30%	9.49%

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

	December 31, 2013	2012	2011
Impaired nonaccrual loans:			
Current as to principal and interest	$ 870	$ 415	$ 343
Past due	3,464	5,946	3,558
Total impaired nonaccrual loans	4,334	6,361	3,901
Impaired accrual loans:			
90 days or more past due	744	273	–
Total impaired accrual loans	744	273	–
Total impaired loans	$ 5,078	$ 6,634	$ 3,901

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	$ 460	$ 427	$ 46	$ 596	$ 17
Production and intermediate-term	1,194	1,269	240	1,545	45
Total	$ 1,654	$ 1,696	$ 286	$ 2,141	$ 62
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 2,587	$ 2,892	$ –	$ 3,347	$ 98
Production and intermediate-term	667	575	–	864	25
Rural residential real estate	170	178	–	220	7
Total	$ 3,424	$ 3,645	$ –	$ 4,431	$ 130
Total impaired loans:					
Real estate mortgage	$ 3,047	$ 3,319	$ 46	$ 3,943	$ 115
Production and intermediate-term	1,861	1,844	240	2,409	70
Rural residential real estate	170	178	–	220	7
Total	$ 5,078	$ 5,341	$ 286	$ 6,572	$ 192

	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	$ 2,047	$ 2,044	$ 8	$ 1,403	$ 46
Production and intermediate-term	2,048	2,341	705	1,403	46
Total	$ 4,095	$ 4,385	$ 713	$ 2,806	$ 92
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 2,024	$ 2,014	$ –	$ 1,386	$ 46
Production and intermediate-term	408	486	–	281	9
Rural residential real estate	107	108	–	74	3
Total	$ 2,539	$ 2,608	$ –	$ 1,741	$ 58
Total impaired loans:					
Real estate mortgage	$ 4,071	$ 4,058	$ 8	$ 2,789	$ 92
Production and intermediate-term	2,456	2,827	705	1,684	55
Rural residential real estate	107	108	–	74	3
Total	$ 6,634	$ 6,993	$ 713	$ 4,547	$ 150

	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	$ 848	$ 834	$ 157	$ 718	$ 9
Production and intermediate-term	1,779	1,841	420	1,507	19
Total	$ 2,627	$ 2,675	$ 577	$ 2,225	$ 28
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 705	$ 746	$ –	$ 597	$ 7
Production and intermediate-term	467	550	–	396	5
Rural residential real estate	102	98	–	86	1
Total	$ 1,274	$ 1,394	$ –	$ 1,079	$ 13
Total impaired loans:					
Real estate mortgage	$ 1,553	$ 1,580	$ 157	$ 1,315	$ 16
Production and intermediate-term	2,246	2,391	420	1,903	24
Rural residential real estate	102	98	–	86	1
Total	$ 3,901	$ 4,069	$ 577	$ 3,304	$ 41

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	$ 435	$ 313	$ 215
Less: interest income recognized	159	109	24
Foregone interest income	$ 276	$ 204	$ 191

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*	Rural Residential Real Estate	Lease Receivables	Total
Allowance for credit losses:						
Balance at December 31, 2012	$ 1,900	$ 1,797	$ 5	$ 58	$ –	$ 3,760
Charge-offs	(354)	(195)	–	–	–	(549)
Recoveries	1	31	–	–	–	32
Provision for loan losses	605	(283)	7	21	–	350
Balance at December 31, 2013	$ 2,152	$ 1,350	$ 12	$ 79	$ –	$ 3,593
Balance at December 31, 2011	$ 1,955	$ 1,293	$ 289	$ 47	$ –	$ 3,584
Charge-offs	(8)	(273)	–	–	–	(281)
Recoveries	–	7	–	–	–	7
Provision for loan losses	(47)	770	(284)	11	–	450
Balance at December 31, 2012	$ 1,900	$ 1,797	$ 5	$ 58	$ –	$ 3,760
Balance at December 31, 2010	$ 2,031	$ 735	$ 379	$ 29	$ –	$ 3,174
Charge-offs	–	(141)	–	–	–	(141)
Recoveries	–	1	–	–	–	1
Provision for loan losses	(76)	698	(90)	18	–	550
Balance at December 31, 2011	$ 1,955	$ 1,293	$ 289	$ 47	$ –	$ 3,584
Loans individually evaluated for impairment	$ 46	$ 240	$ –	$ –	$ –	$ 286
Loans collectively evaluated for impairment	2,106	1,110	12	79	–	3,307
Balance at December 31, 2013	$ 2,152	$ 1,350	$ 12	$ 79	$ –	$ 3,593
Loans individually evaluated for impairment	$ 8	$ 705	$ –	$ –	$ –	$ 713
Loans collectively evaluated for impairment	1,892	$ 1,092	$ 5	$ 58	$ –	$ 3,047
Balance at December 31, 2012	$ 1,900	$ 1,797	$ 5	$ 58	$ –	$ 3,760
Loans individually evaluated for impairment	$ 157	$ 420	$ –	$ –	$ –	$ 577
Loans collectively evaluated for impairment	1,798	$ 873	$ 289	$ 47	–	3,007
Balance at December 31, 2011	$ 1,955	$ 1,293	$ 289	$ 47	$ –	$ 3,584
Recorded investment in loans outstanding:						
Loans individually evaluated for impairment	$ 4,400	$ 1,621	$ –	$ 170	$ –	$ 6,191
Loans collectively evaluated for impairment	217,325	120,906	1,263	9,205	–	348,699
Ending balance at December 31, 2013	$ 221,725	$ 122,527	$ 1,263	$ 9,375	$ –	$ 354,890
Loans individually evaluated for impairment	$ 5,351	$ 2,789	$ –	$ 107	$ –	$ 8,247
Loans collectively evaluated for impairment	206,618	$ 114,365	$ 615	$ 7,270	$ 39	$ 328,907
Ending balance at December 31, 2012	$ 211,969	$ 117,154	$ 615	$ 7,377	$ 39	$ 337,154
Loans individually evaluated for impairment	$ 3,713	$ 973	$ 1,029	$ 102	$ –	$ 5,817
Loans collectively evaluated for impairment	189,155	$ 101,695	$ 3,969	$ 5,650	–	300,469
Ending balance at December 31, 2011	$ 192,868	$ 102,668	$ 4,998	$ 5,752	$ –	$ 306,286

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 $75,959, $74,140, and $77,471 at December 31, 2013, 2012, and 2011, respectively. Fees paid for such guarantee commitments totaled $144, $176, and $161 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 years ended December 31, 2013 and 2011.

	Year Ended December 31, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 2,042	$ –	$ 2,042
Production and intermediate-term	–	381	–	381
Total	$ –	$ 2,423	$ –	$ 2,423

	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	$ –	$ 2,042	$ –	$ 2,042	$ –
Production and intermediate-term	–	381	–	381	–
Total	$ –	$ 2,423	$ –	$ 2,423	$ –

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during 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	$ 483	$ 2,030	$ –	$ 483	$ 2,030	$ –
Production and intermediate-term	170	378	–	170	378	–
Processing and marketing	–	–	–	–	–	–
Total Loans	$ 653	$ 2,408	$ –	$ 653	$ 2,408	$ –
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 required 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 $4,304 for 2013, $4,100 for 2012 and $4,746 for 2011.

The Bank has a reciprocal investment in the Association of $2,604 representing 520,798 shares of its nonvoting common stock.

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 they 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, 2011 and 2010, the Association held Tobacco Buyout SIIC of $6,782, $13,185 and $19,199, respectively, net of discount.

Note 5 — Real Estate and Other Property

Premises and Equipment

Premises and equipment consists of the following:

	December 31, 2013	2012	2011
Land	$ 725	$ 725	$ 722
Buildings and improvements	3,400	3,325	3,319
Furniture and equipment	1,206	1,206	1,212
	5,331	5,256	5,253
Less: accumulated depreciation	2,245	2,066	1,844
Total	$ 3,086	$ 3,190	$ 3,409

Other Property Owned

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

	December 31, 2013	2012	2011
Gains (losses) on sale, net	$ (33)	$ (18)	$ (3)
Carrying value unrealized gains (losses)	(72)	–	(7)
Operating income (expense), net	(8)	(1)	(1)
Gains (losses) on other property owned, net	$ (113)	$ (19)	$ (11)

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank
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 2.0 years and 2.3 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 2.52 percent and the weighted average remaining maturity was 9.4 years at December 31, 2013. The weighted average interest rate on all interest-bearing notes payable was 2.35 percent and the weighted average remaining maturity was 8.2 years at December 31, 2013.

Variable rate and fixed rate notes payable represent approximately 8.69 percent and 91.31 percent, respectively, of total notes payable at December 31, 2013.

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 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 in an amount equal to two percent of the loan amount or $3 thousand, whichever is less. The Association bylaws permit the Board of Directors, at their discretion, to establish an investment range between a minimum of two percent of the loan amount or $1 thousand, whichever is less, and a maximum not to exceed ten percent of the loan amount. 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	15.99%	14.18%	14.05%	7.00%
Total surplus ratio	14.62%	12.80%	12.63%	7.00%
Core surplus ratio	14.62%	12.69%	12.30%	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 nonvoting Class A Preferred Stock, nonvoting Class B Common Stock, voting Class C Common Stock, nonvoting Class C 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 Board, at its sole discretion, may declare dividends on either the Class A Preferred Stock alone, or on all classes of Stock and Participation certificates during any fiscal year. However, dividends shall not be paid on common stock or participation certificates in any year with respect to which the Association has obligated itself to distribute patronage refunds.

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

		Shares Outstanding	
Class	Protected	Number	Aggregate Par Value
A Preferred/Nonvoting	No	253	$ 1
C Common/Voting	No	787,964	3,940
Common Issued to Bank/Nonvoting	No	520,798	2,604
C Participation Certificates/Nonvoting	No	26,237	131
Total Capital Stock and Participation Certificates		1,335,252	$ 6,676

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. Unallocated retained earnings are maintained for each borrower to permit liquidation on a patronage basis.

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 $31,503 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 Patrons, on a patronage basis, all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patrons are defined as Members, Equityholders, and other customers, borrowers and financial institutions with which the Association shall conduct business as indentified by the Board in the obligation resolution. Patronage distributions are based on the proportion of the Patron'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. Amounts not distributed are retained as unallocated members' equity.

Transfer

Classes B and C Common Stock and Participation Certificates may be transferred to persons or entities eligible to purchase or hold such equities as provided in the Association's bylaws. Class A Preferred Stock may be transferred in the manner set forth in the resolution authorizing the issuance of such Stock.

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: Class B Common Stock, Class C Common Stock and unit of Participation Certificates.

1. Class B Common Stock, Class C Common Stock and unit of Participation Certificates
2. Class A 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. Class A Preferred Stock
2. Classes B and C Common Stock and Participation Certificates
3. Allocated retained earnings evidenced by qualified written notices of allocation, in the order of the year of issuance and pro-rata by year of issuance
4 Allocated retained earnings evidenced by nonqualified written notices of allocation, in the year of issuance and pro-rata by year of issuance
5 All unallocated retained earnings earned after April 1, 1995, shall be distributed to all Patrons from April 1, 1995, through the date of liquidation on a patronage basis.
6. Any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of stock and participation certificates in proportion to their ownership

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 1.68 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 an investment of $5 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. The Association has no Level 1 assets or liabilities measured at fair value on a recurring basis at December 31, 2013. 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 or liabilities measured at fair value on a recurring basis at December 31, 2013.

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	$ 5
Issuances	–
Settlements	(2)
Balance at December 31, 2013	$ 3

	Standby Letters Of Credit
Balance at January 1, 2012	$ 19
Issuances	–
Settlements	(14)
Balance at December 31, 2012	$ 5

	Standby Letters Of Credit
Balance at January 1, 2011	$ 17
Issuances	2
Settlements	–
Balance at December 31, 2011	$ 19

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.

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 certain System financial instruments, as described 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	$ 6,651	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 forecasts
		Probability of default
		Loss severity

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

	At 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:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Standby letters of credit	$ 3	$ –	$ –	$ 3	$ 3	
Recurring Liabilities	$ 3	$ –	$ –	$ 3	$ 3	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 4,792	$ –	$ –	$ 4,792	$ 4,792	$ (90)
Other property owned	1,713	–	–	1,859	1,859	(105)
Nonrecurring Assets	$ 6,505	$ –	$ –	$ 6,651	$ 6,651	$ (195)
Other Financial Instruments						
Assets:						
Cash	$ 1,223	$ 1,223	$ –	$ –	$ 1,223	
Loans	342,627	–	–	338,385	338,385	
Other investments	6,782	–	–	6,790	6,790	
Other Assets	$ 350,632	$ 1,223	$ –	$ 345,175	$ 346,398	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 317,656	$ –	$ –	$ 313,017	$ 313,017	
Other Liabilities	$ 317,656	$ –	$ –	$ 313,017	$ 313,017	

	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:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Standby letters of credit	$ 5	$ –	$ –	$ 5	$ 5	
Recurring Liabilities	$ 5	$ –	$ –	$ 5	$ 5	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 5,921	$ –	$ –	$ 5,921	$ 5,921	$ (409)
Other property owned	88	–	–	89	89	(18)
Nonrecurring Assets	$ 6,009	$ –	$ –	$ 6,010	$ 6,010	$ (427)
Other Financial Instruments						
Assets:						
Cash	$ 1,013	$ 1,013	$ –	$ –	$ 1,013	
Loans	323,893	–	–	323,833	323,833	
Other investments	13,185	–	–	13,479	13,479	
Other Assets	$ 338,091	$ 1,013	$ –	$ 337,312	$ 338,325	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 309,630	$ –	$ –	$ 310,449	$ 310,449	
Other Liabilities	$ 309,630	$ –	$ –	$ 310,449	$ 310,449	

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
Liabilities:				
Standby letters of credit	$ –	$ –	$ 19	$ 19
Total Liabilities	$ –	$ –	$ 19	$ 19

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	$ –	$ –	$ 2,049	$ 2,049	$ (580)
Other property owned	$ –	$ –	$ 81	$ 81	$ (10)

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	$ 1,350	$ 1,350
Loans, net of allowance	$ 298,908	$ 300,474
Other investments	$ 19,199	$ 19,895
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	$ 291,928	$ 295,843

Note 9 — Employee Benefit Plans

The Association participates in four District sponsored benefit plans. These plans include two multiemployer defined benefit pension plans, the Independent Associations Retirement Plan which is a final average pay plan (IAR) 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 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 periods ended December 31, are 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
Independent Associations Retirement Plan	82.47%	74.04%	74.24%	$833	$696	$577	20.26%	20.36%	20.13%
AgFirst Farm Credit Cash Balance Retirement Plan	95.06%	86.01%	81.77%	$2	$3	$1	0.13%	0.20%	0.09%

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%	$60	$36	$41	0.87%	0.58%	0.69%

The District's multiemployer plans are not subject to ERISA and no Form 5500 is required. 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 defined benefit IAR Plan with three other District associations or the CB Plan. These two plans are noncontributory and include eligible District employees. For participants hired prior to January 1, 2009, benefits are provided under the IAR Plan and are based on eligible compensation and years of service. For participants hired on or after January 1, 2009, benefits are provided under the CB Plan and are determined using a percent of eligible compensation formula. The employer contribution under 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 $725 for 2013, $665 for 2012, and $627 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 $111 for 2013, $95 for 2012, and $113 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. This 401(k) requires the Association to match 100 percent of employee optional contributions up to a maximum employee contribution of 6 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 $148, $138, and $129 for the years ended December 31, 2013, 2012, and 2011, respectively.

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 and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons at December 31, 2013 amounted to $2,698. During 2013, $7,143 of new loans were made and repayments totaled $8,017. In the opinion of management, none of these loans outstanding at December 31, 2013 involved more than a normal risk of collectibility.

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, $40,166 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 $100 with an expiration date of April 18, 2016. The maximum potential amount of future payments that may be required under these guarantees was $100.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31, 2013	2012	2011
Current:			
Federal	$ 54	$ 170	$ 97
State	–	–	–
	54	170	97
Deferred:	–	–	–
Total provision (benefit) for income taxes	$ 54	$ 170	$ 97

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	$ 3,677	$ 2,500	$ 1,882
Patronage distributions	(1,039)	(813)	(441)
Tax-exempt FLCA earnings	(2,668)	(1,680)	(1,357)
Change in deferred tax asset valuation allowance	90	115	64
Other	(6)	48	(51)
Provision (benefit) for income taxes	$ 54	$ 170	$ 97

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

	December 31, 2013	2012	2011
Deferred income tax assets:			
Allowance for loan losses	$ 543	$ 456	$ 417
Annual leave	88	88	85
Nonaccrual loan interest	50	53	26
Pensions and other postretirement benefits	437	407	387
Other	–	–	3
Gross deferred tax assets	1,118	1,004	918
Less: valuation allowance	(753)	(663)	(548)
Gross deferred tax assets, net of valuation allowance	365	341	370
Deferred income tax liabilities:			
Pensions and other postretirement benefits	(353)	(306)	(294)
Depreciation	(12)	(35)	(76)
Other	–	–	–
Gross deferred tax liability	(365)	(341)	(370)
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2013, deferred income taxes have not been provided by the Association on approximately $6 million of its investment in the Bank. Management expects that these earnings will not be converted to cash.

The Association recorded a valuation allowance of $753, $663 and $548 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	$ 2,275	$ 2,298	$ 2,433	$ 2,456	$ 9,462
Provision for (reversal of allowance for) loan losses	–	200	150	–	350
Noninterest income (expense), net	(726)	(487)	(666)	3,219	1,340
Net income (loss)	$ 1,549	$ 1,611	$ 1,617	$ 5,675	$ 10,452

	2012				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,205	$ 2,164	$ 2,278	$ 2,279	$ 8,926
Provision for (reversal of allowance for) loan losses	–	–	350	100	450
Noninterest income (expense), net	(660)	141	(618)	(157)	(1,294)
Net income (loss)	$ 1,545	$ 2,305	$ 1,310	$ 2,022	$ 7,182

	2011				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,861	$ 1,915	$ 2,026	$ 2,097	$ 7,899
Provision for (reversal of allowance for) loan losses	150	200	200	–	550
Noninterest income (expense), net	(652)	(403)	(526)	(330)	(1,911)
Net income (loss)	$ 1,059	$ 1,312	$ 1,300	$ 1,767	$ 5,438

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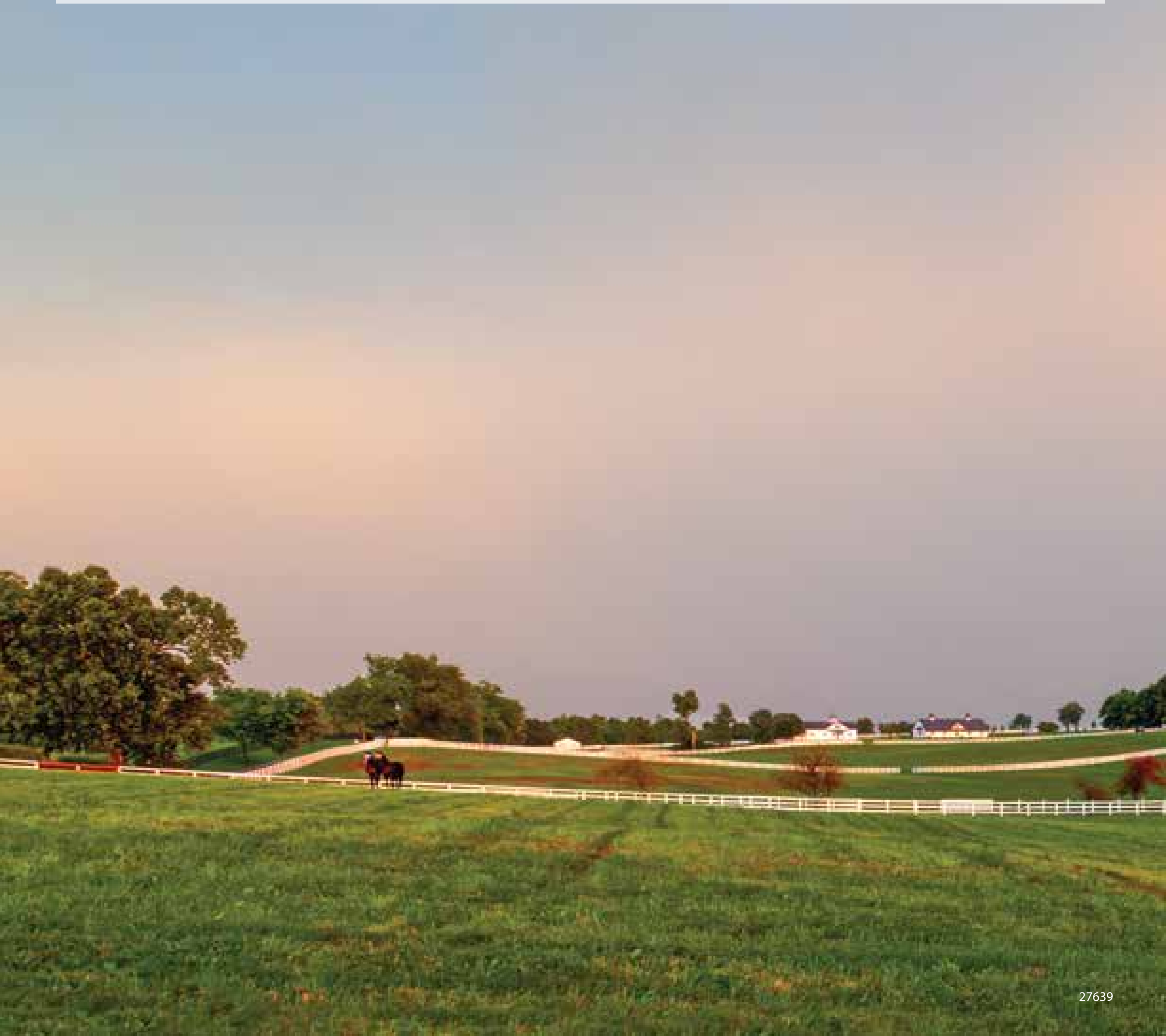

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