Colonial Farm Credit, ACA • 2013 Annual Report

Core Purpose

The core purpose of Colonial Farm Credit is to assist farmers, growers and harvesters of forestry and aquatic products, agribusinesses, and rural residents in achieving success.

Core Values

We nurture customer relationships.

We strive to exceed our customers' expectations with superior products and services.

We provide courteous and prompt assistance.

We are honest and fair with everyone.

We are good corporate citizens.

We achieve success through teamwork.

We price our products and services equitably based on cost, risk, and competition.

We return as much of our profits as possible in patronage refunds.

Board of Directors

Front Row (from the left)

Jennifer U. Cuthbertson, Forrest C. Nuckols, Hugh S. Jones – Chairman, L. Wayne Kirby, A. Kevin Monahan

Middle Row (from the left)

John N. Mills, Jr., Frederick S. Richardson, Duane D. Gilliam, Clarke E. Fox, Stanley O. Forbes, Sr., John F. Davis, Susan D. Hance-Wells

Back Row (from the left)

Robert H. Spiers, Jr., Paul W. Rogers, Jr., Robert M. Jones, R. Kenneth Hatcher – Vice Chairman

Not pictured

J. Allen Swann

Leadership Team

Front Row (from the left)

Karen Suzanne Nicely
Vice President, Human Resources and Corporate Secretary

Greg B. Farmer
President and Chief Executive Officer

Diane S. Kersey
Chief Financial Officer

Back Row (from the left)

Ronnie G. Gill
Executive Vice President, Branch and Country Mortgages Operations

Paul B. Franklin
Chief Lending Officer

James S. Belfield
Chief Information Officer

Table of Contents

2
Message from the Chairman of the Board
and the Chief Executive Officer

4
Farmers' Markets

6
Report of Management

7
Report on Internal Control Over
Financial Reporting

8
Consolidated Five-Year Summary
of Selected Financial Data

9
Management's Discussion & Analysis of
Financial Condition & Results of Operations

20
Disclosure Required by Farm Credit
Administration Regulations

27
Report of the Audit Committee

28
Report of Independent Certified
Public Accountants

29
Consolidated Balance Sheets

30
Consolidated Statements of Income

31
Consolidated Statements of Comprehensive Income

32
Consolidated Statements of Changes in
Members' Equity

33
Consolidated Statements of Cash Flows

34
Notes to the Consolidated Financial Statements

Message from the Chairman of the Board and the Chief Executive Officer

Your cooperative experienced an exceptionally strong year in 2013!

Favorable weather conditions produced average or above average crop yields for most areas and commodities in Maryland and Virginia. Although commodity prices declined significantly during the year, the combination of good yields with wise marketing and risk management resulted in another year of profitability for most of our customers. The forestry and nursery industries continued to strengthen, as did the non-farm economy and real estate markets.

Beginning in the fourth quarter of 2012 and continuing throughout 2013, loan demand returned to pre-recession levels. Real estate sales rebounded, and agriculture and forestry equipment purchases were strong. Producers leveraged profits to upgrade their lines of equipment and to expand grain storage facilities.

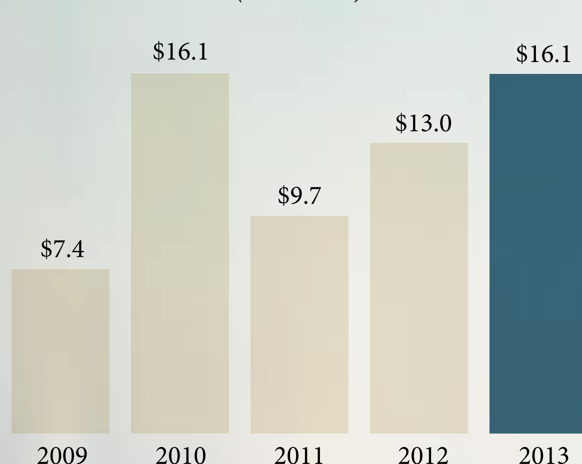
Loan quality, while never severely stressed, continued to improve during 2013. Non-earning assets (loans for which the accrual of interest has been stopped and properties acquired through foreclosure) declined to under 2 percent, a very manageable level. We remain in good standing with our federal regulator and with our funding bank.

As interest rates finally began to increase during the year, indicating a strengthening economy, opportunities to reprice existing loans to more favorable rates declined. However, we still were able to reduce the contract interest rate on more than 200 loans (totaling more than $34 million), saving these customers several hundred thousand dollars in interest during the subsequent 12 months and substantially more over the remaining loan terms. During the last four years, we repriced more than 3,000 loans (totaling almost $500 million), reducing our customers' interest costs by millions of dollars.

Loan volume growth, improving credit quality, and an unanticipated special distribution from the AgFirst Farm Credit Bank (our funding bank) produced net income of $16 million, a 65 percent increase over 2012. This strong income, combined with an excellent capital position, allowed your board of directors to do some exciting things. First, a cash patronage refund equivalent to 24 percent of the interest earned on loan accounts during 2013, compared to 20 percent last year, will be distributed in May. This is the 16th consecutive year that we have returned a portion of our profits to our customers. Second, we have increased our target patronage refund to 20 percent of interest earned for 2014. Third, to better educate our next generation of rural leaders, we contributed $1.5 million to the Colonial Agricultural Educational Foundation. This will allow the Foundation to increase the 88 existing annual scholarships by $500 each and to create three new $5,000 scholarships for students, from farm families, pursuing agriculture or forestry degrees.

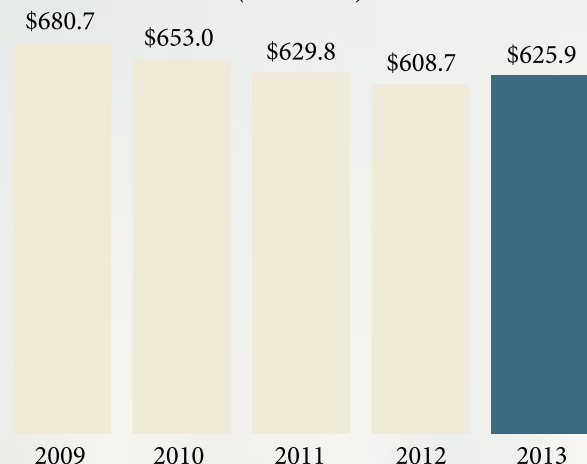
Net Income

(in millions)



Total Assets

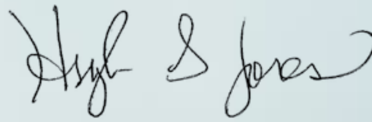
(in millions)



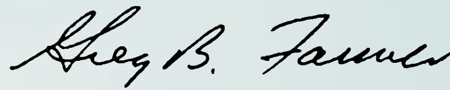
Our efforts in 2014 will focus on serving the credit needs of all eligible customers and implementing our succession plan (including training and developing our future leaders) as tenured employees approach retirement. Additionally, we will implement new federal regulations governing residential mortgage lending, senior officer compensation and standards of conduct.

Your cooperative is positioned to prosper in any foreseeable environment by virtue of our strong financial position, diverse and high quality loan portfolio, sound underwriting standards, excellent employees and exceptional governance.

As you can see from our results and actions, the cooperative business model is alive and well! Thank you for your loyalty and support. We look forward to serving your financial needs in 2014 and beyond.



Hugh S. Jones
Chairman of the Board



Greg B. Farmer
President and Chief Executive Officer

March 12, 2014

Farmers' Markets

Since 2012, Colonial Farm Credit has been proudly supporting local farmers' markets in our territory as another way to connect people to agriculture. Support typically includes monetary donations, reusable and paper shopping bags, market banners, roadside signage, and other market needs. In 2013, we supported and/or sponsored 27 markets across the territory and we plan to increase that number in 2014.

Lynchburg Community Market

Years in Operation: 230

The Lynchburg Community Market is the third oldest market in the country, offering locally produced fruit, vegetables, cheese, meat, baked goods, and specialty items. Farmers sell their products on Wednesdays and Saturdays year-round. Located inside the Market, the Heritage Crafters Gallery and Artist's Alley complement the two permanent shops, four locally-owned restaurants, and a bakery and cheese shop which also operate year-round.

In 2013, Farm Credit member Paul Whittenhagen was a first-time vendor at the Lynchburg Community Market. Originally from Long Island, New York, Whittenhagen has been in Charlotte Court House, Virginia, for more than eight years, growing shitake mushrooms, peppers, zucchini, eggplants, sunflowers, and okra. His shitake mushrooms are one of the best offerings at the market, selling out early each day and drawing new and frequent customers from all over the area. "Everyone at this market is nice and friendly, and I've built up a nice clientele in just my first year here."

www.lynchburgva.gov/community-market

Williamsburg Farmers Market

Years in Operation: 12

The Williamsburg Farmers Market opened in historical Colonial Williamsburg on July 6, 2002 with only 16 vendors. Since then, the market has increased to more than 40 regular vendors, seven of which remain from its beginning. Vendors include producers of locally grown produce, seafood, cut flowers, organic vegetables, herbs, baked goods, pasture-raised meats, cheeses, herbal and goat's milk soap, fresh bread, pumpkins, honey, and eggs. The market's regular season runs from March through October, with holiday and winter markets being held November through December and February through March.

Amy Hicks and George Ferguson, of Amy's Garden, have been vendors at the Williamsburg Farmers Market since its inception. "We are grateful to Farm Credit for the support and opportunities they offer small, diversified farmers like ourselves, as well how much we appreciate their support of our local farmers' market. It really does mean a lot to us," stated Amy, a Farm Credit member. Based in Charles City County, Virginia, Amy's Garden (booth pictured on front cover) is a USDA Certified Organic farm growing produce and cut flowers.

www.williamsburgfarmersmarket.com

My Manakin Market

Years in Operation: 4

My Manakin Market, owned and operated by ChiknEGG Productions, is located in eastern Goochland County and operates Saturday mornings from May through October. The market offers a huge assortment of high quality local foods and sustainably made crafts from farmers and artisans all over Central Virginia, features live music, free kids' activities, special events, farm animals, wine tastings, and chef's demos. The company has now expanded with the addition of My Courthouse Market, which operates year-round in the Goochland Courthouse area.

"I really wanted to combine my past experiences in sales and marketing with education and my passion for farming and agriculture, so I started a farmers' market. Now, it's about building community and changing people's lives," says Lisa Dearden, market manager/owner and Farm Credit member. "Colonial Farm Credit has been there since the beginning by offering their support as a market sponsor. With their financial assistance, ChiknEGG has been able to produce quality marketing materials and promote both markets with a virtual and visual presence."

www.chiknegg.com

Smithfield Farmers Market

Years in Operation: 12

Proudly a Virginia Grown Market, the Smithfield Farmers Market was recently named one of the "Top 101 Farmers Markets in America" by TheDailyMeal.com, and was the only market on the list from Virginia. Offerings include locally grown produce, beef, pork, chicken, eggs, peanuts, plants, herbs, baked goods, coffee, cheese, honey, barbeque, wood-fired pizza, ham sandwiches, handcrafted items, and more. Located in historic Smithfield, Virginia, home of the Smithfield ham, this market also features live music and pets are always welcome.

The Smithfield Farmers Market operates from the first Saturday in April through the last Saturday in October. It boasts nearly 100 vendors that rotate throughout the season and customers come from as far away as Richmond and Virginia Beach. In 2013, they started a new Christmas tradition with the addition of a new event, the Evening Christmas Market, which was a huge success and drew thousands of customers from across the region.

www.smithfieldfarmersmarket.org

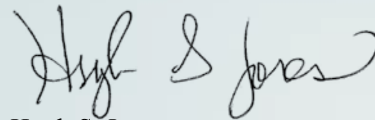
Report of Management

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

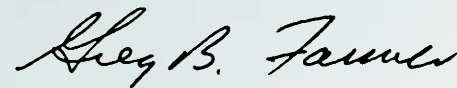
Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the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

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

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



Hugh S. Jones
Chairman of the Board



Greg B. Farmer
President and Chief Executive Officer

Diane S. Kersey
Chief Financial Officer

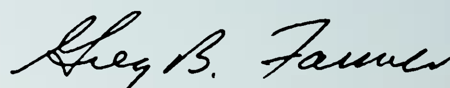
March 12, 2014

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.



Greg B. Farmer
President and Chief Executive Officer

Diane S. Kersey
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	$ 90	$ 163	$ 215	$ 213	$ 215
Loans	600,983	587,959	604,880	628,154	658,336
Less: allowance for loan losses	3,865	5,563	6,095	6,898	7,080
Net loans	597,118	582,396	598,785	621,256	651,256
Investments in other Farm Credit institutions	6,257	6,527	8,905	9,390	9,825
Other property owned	1,915	2,459	4,281	2,076	406
Other assets	20,499	17,140	17,588	20,023	19,036
Total assets	$ 625,879	$ 608,685	$ 629,774	$ 652,958	$ 680,738
Notes payable to AgFirst Farm Credit Bank*	$ 455,980	$ 449,039	$ 478,790	$ 505,627	$ 543,357
Accrued interest payable and other liabilities with maturities of less than one year	14,545	13,730	12,626	13,601	13,334
Total liabilities	470,525	462,769	491,416	519,228	556,691
Capital stock and participation certificates	4,584	4,610	4,678	4,786	5,170
Unallocated retained earnings	150,678	141,323	133,984	129,187	119,017
Accumulated other comprehensive income (loss)	92	(17)	(304)	(243)	(140)
Total members' equity	155,354	145,916	138,358	133,730	124,047
Total liabilities and members' equity	$ 625,879	$ 608,685	$ 629,774	$ 652,958	$ 680,738
Statement of Income Data					
Net interest income	$ 17,553	$ 17,802	$ 19,624	$ 19,738	$ 19,131
Provision for (reversal of allowance for) loan losses	(1,199)	530	4,127	1,187	5,295
Noninterest income (expense), net	(2,654)	(4,266)	(5,754)	(2,415)	(6,485)
Net income	$ 16,098	$ 13,006	$ 9,743	$ 16,136	$ 7,351
Key Financial Ratios					
Rate of return on average:					
Total assets	2.64%	2.15%	1.51%	2.42%	1.07%
Total members' equity	10.54%	8.95%	7.03%	12.24%	5.83%
Net interest income as a percentage of average earning assets	2.95%	3.03%	3.14%	3.05%	2.85%
Net (chargeoffs) recoveries to average loans	(0.084)%	(0.181)%	(0.790)%	(0.212)%	(0.592)%
Total members' equity to total assets	24.82%	23.97%	21.97%	20.48%	18.22%
Debt to members' equity (:1)	3.03	3.17	3.55	3.88	4.49
Allowance for loan losses to loans	0.64%	0.95%	1.01%	1.10%	1.08%
Permanent capital ratio	23.62%	22.26%	20.04%	18.12%	16.27%
Total surplus ratio	22.90%	21.52%	19.32%	17.42%	15.54%
Core surplus ratio	22.90%	21.52%	19.32%	17.42%	15.54%
Net Income Distribution					
Estimated patronage refunds:					
Cash	$ 6,734	$ 5,646	$ 4,964	$ 5,969	$ 5,018

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

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

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

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

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, ***www.colonialfarmcredit.com***, or by calling 1-(804)-746-1252, or writing Diane S. Kersey, Colonial Farm Credit, ACA, 7104 Mechanicsville Turnpike, Mechanicsville, VA 23111. 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.

AGRICULTURAL OUTLOOK

The following United States Department of Agriculture (USDA) analysis provides a general understanding of the U.S. agricultural economic outlook. However, this outlook does not take into account all aspects of the Association's business. References to USDA information in this section refer to the U.S. agricultural market data and are not limited to information/data in the Association.

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

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

For 2014, the USDA projects crop receipts will decrease $26.7 billion, primarily due to an approximate $11.0 billion decline in corn receipts and a more than $6.0 billion decline in soybean receipts. Continued strong corn production is expected as U.S. farm operations rebound from the 2012 drought. As a result, the USDA expects the price of corn to decline significantly. Livestock receipts are predicted to increase in 2014 primarily due to increased dairy receipts.

The following table sets forth the commodity prices per bushel for certain crops and by hundredweight for beef cattle from December 31, 2010 to December 31, 2013:

Commodity	12/31/13	12/31/12	12/31/11	12/31/10
Corn	$4.41	$6.87	$5.86	$4.82
Soybeans	$13.00	$14.30	$11.50	$11.60
Wheat	$6.73	$8.30	$7.19	$6.45
Beef Cattle	$130.00	$124.00	$120.00	$98.10

The USDA's income outlook varies depending on farm size and commodity specialties. In 2013, the USDA revised its farm classification or typology to account for commodity price increases and shifts in production to larger farms. The USDA classifies all farms into four primary categories: small family farms (gross cash farm income (GCFI) less than $350 thousand), midsize family farms (GCFI between $350 thousand and under $1 million), large-scale family farms (GCFI of $1 million or more), and nonfamily farms (principal operator or individuals related to the operator do not own a majority of the business).

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

According to the USDA February 2014 forecast, the growth in the values of farm sector assets, debt, and equity are forecasted to slow in 2014. The slowdown in growth is a result of expected lower net income, higher borrowing costs, and moderation in the growth of farmland values. Farm sector assets are expected to rise from $2.93 trillion for 2013 to $3.00 trillion in 2014 (a 2.4 percent increase) primarily due to an increase in the value of farm real estate. Overall, farm sector debt is estimated to increase from $309.2 billion in 2013 to $316.2 billion in 2014 (a 2.3 percent increase). Farm business equity (assets minus debt) is expected to rise from $2.62 trillion in 2013 to $2.68 trillion in 2014 (a 2.4 percent increase).

Two measures of the financial health of the agricultural sector used by the USDA are the farm sector's debt-to-asset and debt-to-equity ratios. These ratios are expected to continue to decline as they have over the past five years, falling to 10.54 percent and 11.78 percent in 2014, respectively, from 10.55 percent and 11.80 percent in 2013, respectively. These decreases would result in the lowest value for both measures since 1954. The historically low levels of debt relative to assets and equity reaffirm the farm sector's strong financial position despite the slowdown in asset growth. As noted by USDA, the farm sector is better insulated from the risks associated with commodity production, changing macroeconomic conditions, as well as fluctuations in farm asset values.

As estimated by the USDA in February 2014, the System's market share of farm business debt (defined as debt incurred by those involved in on-farm agricultural production) grew to 40.7 percent at December 31, 2012 (the latest available data), as compared with 39.5 percent at December 31, 2011. As mentioned above, overall, farm sector debt is estimated to increase from $309.2 billion in 2013 to $316.2 billion in 2014.

In general, agriculture has experienced a sustained period of favorable economic conditions due to stronger commodity prices, higher farm land values, and, to a lesser extent, government support programs. The Association's financial results remain favorable as a result of these agricultural economic conditions. Production agriculture; however, remains a cyclical business that is heavily influenced by commodity prices and various other factors. In an environment of less favorable economic conditions in agriculture and without sufficient government support programs, the Association's financial performance and credit quality measures would likely be negatively impacted. Conditions in the general economy remain more volatile given the state of the global economy. Certain agriculture sectors, as described more fully in this *Management's Discussion and Analysis*, recently have experienced significant financial stress and could experience financial stress in 2014. Any negative impact from these less favorable conditions should be lessened by geographic and commodity diversification and the influence of off-farm income sources supporting agricultural-related debt. However, agricultural borrowers who are more reliant on off-farm income sources may be adversely impacted by the continuing weak general economy.

CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management must make judgments about

matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements. The following is a summary of certain critical policies.

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

  Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by nature, contain 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 level 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, 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. We selected the discount rate by reference to Hewitt's above-median corporate bond index, actuarial analyses and industry norms.

ECONOMIC CONDITIONS

Favorable weather conditions produced average or above average crop yields for most areas and commodities in Maryland and Virginia. Although commodity prices declined significantly during the year, the combination of good yields with wise marketing and risk management resulted in another year of profitability for most of our customers. The forestry and nursery industries continued to strengthen, as did the non-farm economy and real estate markets.

Beginning in the fourth quarter of 2012 and continuing throughout 2013, loan demand returned to pre-recession levels. Real estate sales rebounded, and agriculture and forestry equipment purchases were strong. Producers leveraged profits to upgrade their lines of equipment and to expand grain storage facilities.

Loan quality, while never severely stressed, continued to improve during 2013. Non-earning assets (loans for which the accrual of interest has been stopped and properties acquired through foreclosure) declined to under 2 percent, a very manageable level.

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	December 31, 2013		2012		2011	
	(dollars in thousands)					
Real estate mortgage	$386,811	64.36 %	$ 361,786	61.53 %	$ 355,279	58.73%
Production and intermediate-term	147,607	24.56	169,837	28.89	186,397	30.82
Loans to cooperatives	398	0.07	3,200	0.55	4,093	0.68
Processing and marketing	29,280	4.87	17,708	3.01	23,343	3.86
Farm-related business	9,879	1.64	9,255	1.57	9,146	1.51
Communication	1,959	0.33	–	–	–	–
Energy	1,834	0.31	(3)	–	1,185	0.20
Rural residential real estate	23,215	3.86	26,176	4.45	25,437	4.20
Total	$600,983	100.00 %	$ 587,959	100.00 %	$ 604,880	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 Association has a regional office in Hughesville, Maryland. All other regional offices are in the state of Virginia. The geographic distribution of the loans by regional office for the past three years is as follows:

Regional Office	December 31, 2013	2012	2011
Mechanicsville	28.85%	28.07%	28.37%
Tappahannock	10.17	9.20	10.01
Hughesville	8.82	8.98	8.87
Windsor	24.12	25.02	24.38
Farmville	28.03	28.73	28.37
	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. As an additional hedge against credit risk, over 59 percent of the Association's loans at December 31, 2013 were made to borrowers whose repayment capacity was highly dependent upon off-farm income.

Commodity Group	Percent of Portfolio 2013	2012	2011
Part-time Farmers and Other	26%	28%	28%
Timber	27	26	25
Field Crops	25	24	24
Livestock	16	16	17
Rural Home	6	6	6
Total	100%	100%	100%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers, including part-time farmers. The Association's loan portfolio contains a concentration of field crops such as cash grains, peanuts, tobacco, and cotton; timber products; and livestock operations including poultry, dairy, beef cattle, swine, and horses. 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, supply, weather, and international trade are some of the factors affecting the prices of these commodities. Even though the concentration of large loans has increased over the past several years, the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

The increase in gross loan volume for the twelve months ended December 31, 2013, is attributed to increased real estate and farm equipment sales.

For the past few years, the Association experienced a shift in loan assets. The long-term volume trend has been upward while the short and intermediate-term loan volume trend has been downward. The majority of purchased participation loans are held in the long-term portfolio. The short-term portfolio, which is comprised heavily of working capital loans, normally reaches a peak balance in late summer and rapidly declines in the fall months as commodities are marketed and proceeds are applied to these loans.

During 2013, the Association continued buying loan participations within the System on a limited basis. This provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income. Total volume declined as a result of limited high quality offerings and paydowns on existing loans.

Loan Participations:	December 31, 2013	2012	2011
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 53,168	$ 56,134	$ 69,125
Participations Purchased – Non-FCS Institutions	–	–	–
Participations Sold	–	–	–
Total	$ 53,168	$ 56,134	$ 69,125

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 residential mortgage loans into the secondary market. For the years ended December 31, the Association originated loans for resale totaling $50,111 in 2013, $48,962 in 2012, and $38,252 in 2010, which were sold into the secondary market.

MISSION-RELATED INVESTMENTS

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

In October 2005, the FCA authorized AgFirst and the Associations to make investments in Rural America Bonds under a three-year pilot period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. These bonds may be classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. The Association had no Rural America Bonds at December 31, 2013, December 31, 2012, and at December 31, 2011.

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 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 $369, $719, and $1,050, respectively, in SIIC outstanding and these are classified as Other Investments on the Consolidated Balance Sheets.

INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for the purposes of reducing interest rate risk and managing surplus short-term funds. The Bank is responsible for approving the investment policies of the Association. The Bank annually reviews the investment portfolio of every Association that it funds. The Association held no investment securities at December 31, 2013, December 31, 2012, and at December 31, 2011.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association continues to review the credit quality of the loan portfolio on an ongoing basis. With the approval of the Association Board of Directors, the Association establishes underwriting standards and lending policies that provide direction to loan officers. Underwriting standards include, among other things, an evaluation of:

- Character – borrower integrity and credit history
- Capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income
- Collateral – protection for the lender in the event of default and a potential secondary source of repayment
- Capital – ability of the operation to survive unanticipated risks
- Conditions – intended use of the loan funds

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loans of more than $250,000. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

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

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

and values that make collection in full highly questionable.

- Loss – Assets are considered uncollectible.

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

Credit Quality	2013	2012	2011
Acceptable & OAEM	96.39%	94.29%	94.20%
Substandard	3.60%	5.70%	5.78%
Doubtful	0.01%	0.01%	0.01%
Loss	–%	–%	0.01%
Total	100.00%	100.00%	100.00%

The Association's loan portfolio is divided into performing and high-risk categories. The high-risk assets, including accrued interest, are detailed below:

High-risk Assets	December 31, 2013	2012	2011
	(dollars in thousands)		
Nonaccrual loans	$ 9,309	$ 12,106	$ 13,974
Restructured loans	253	262	–
Accruing loans 90 days past due	–	–	–
Total high-risk loans	9,562	12,368	13,974
Other property owned	1,915	2,459	4,281
Total high-risk assets	$ 11,477	$ 14,827	$ 18,255
Ratios			
Nonaccrual loans to total loans	1.55%	2.06%	2.31%
High-risk assets to total assets	1.83%	2.44%	2.90%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased $2,797 or 23.10 percent in 2013. This decrease primarily resulted from charge-offs taken on several accounts , the transfer of four accounts to other property owned, and the collection of a large nonaccrual loan. Of the $ 9,309 in nonaccrual volume at December 31, 2013, $5,696 or 61 percent, compared to 84.13 percent and 45.81 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 determined according to generally accepted accounting principles and 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	$ 5,563	$ 6,095	$ 6,898
Charge-offs:			
Real estate mortgage	(77)	(391)	(475)
Agribusiness	(498)	(1,030)	(2,469)
Rural residential real estate	(54)	(197)	(341)
Production and intermediate-term	(139)	(435)	(1,916)
Total charge-offs	(768)	(2,053)	(5,201)
Recoveries:			
Real estate mortgage	42	80	158
Agribusiness	75	811	21
Rural residential real estate	40	15	4
Production and intermediate-term	111	85	88
Total recoveries	268	991	271
Net (charge-offs) recoveries	(500)	(1,062)	(4,930)
Provision for loan losses	(1,199)	530	4,127
Balance at end of year	$ 3,865	$ 5,563	$ 6,095
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.084)%	(0.181)%	(0.790)%

The net loan charge-offs were primarily associated with default occurring in loans that were under-collateralized. Several nonaccrual loans were fully collected during the year. With the decline in adversely classified assets leading to an improvement in credit quality and a positive trend the general economy, the Association was able to reverse $1,199 of the allowance for loan losses.

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	$ 1,034	$ 1,302	$ 1,699
Production and intermediate-term	2,626	3,636	4,085
Agribusiness	100	537	145
Communication	5	–	–
Energy	5	–	5
Rural residential real estate	95	88	161
Total allowance	$ 3,865	$ 5,563	$ 6,095

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

Allowance for Loan Losses as a Percentage of:	December 31, 2013	2012	2011
Total loans	0.64%	0.95%	1.01%
Nonperforming loans	40.42%	44.98%	43.62%
Nonaccrual loans	41.52%	45.95%	43.62%

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 $17,553, $17,802 and $19,624 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	$ 368	$ (1,945)	$ 792	$ (785)
Interest expense	(100)	(436)	–	(536)
Change in net interest income	$ 468	$ (509)	$ 792	$ (249)
12/31/12 - 12/31/11				
Interest income	$ (2,012)	$ (1,094)	$ (116)	$ (3,222)
Interest expense	(1,256)	(144)	–	(1,400)
Change in net interest income	$ (756)	$ (950)	$ (116)	$ (1,822)

* *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	$ 481	$ 520	$ 475	(7.50)%	9.47%
Fees for financially related services	72	70	66	2.86	6.06
Patronage refund from other Farm Credit Institutions	9,799	4,604	5,001	112.84	(7.94)
Gains (losses) on other Property owned, net	(772)	(797)	(1,086)	(3.14)	(26.61)
Gains (losses) on sales of rural home loans	808	801	590	0.87	35.76
Gains (losses) on sales of premises and equipment, net	59	69	39	(14.49)	76.92
Insurance Fund Refund	–	1,502	–	(100)	–
Other noninterest income	266	275	175	(3.27)	57.14
Total noninterest income	$ 10,713	$ 7,044	$ 5,260	52.09%	33.92%

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	$ 8,772	$ 8,472	$ 8,039	3.54%	5.39%
Occupancy and equipment	614	638	634	(3.76)	0.63
Insurance Fund premiums	451	234	311	92.74	(24.76)
Other operating expenses	3,518	1,954	2,019	80.04	(3.22)
Total noninterest expense	$ 13,355	$ 11,298	$ 11,003	18.21%	2.68%

Salaries and employee benefits increased in 2013, as compared with 2012, primarily due to merit and incentive increases and increased costs associated with employee benefit plans.

Insurance Fund premiums increased 92.74 percent for the twelve months ended December 31, 2013, compared to the same period of 2012. The Farm Credit System Insurance Corporation (FCSIC) set premiums at 10 basis points on adjusted insured debt outstanding for 2013 and 5 basis points on adjusted insured debt outstanding for 2012. In addition, there was a 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments.

The significant increase in other operating expenses from 2012 to 2013 is attributed to a $1,500 contribution to the Colonial Agricultural Educational Foundation.

Income Taxes

The Association recorded a provision for income taxes of $12 for the year ended December 31, 2013, as compared to a provision of $12 for 2012 and a provision of $11 for 2011. Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, and Note 12, *Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	For the 12 Months Ended 12/31/13	12/31/12	12/31/11
Return on average assets	2.64%	2.15%	1.51%
Return on average members' equity	10.54%	8.95%	7.03%
Net interest income as a percentage of average earning assets	2.95%	3.03%	3.14%
Net (charge-offs) recoveries to average loans	(0.084)%	(0.181)%	(0.790)%

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income. 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 the improvement shown in recent years 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."

Total notes payable to the Bank at December 31, 2013, was $455,980 as compared to $449,039 at December 31, 2012 and $478,790 at December 31, 2011. The increase of 1.55 percent compared to December 31, 2012 and the decrease of 6.21 percent compared to December 31, 2011, was attributable to the changes in loan volume. The average volume of outstanding notes payable to the Bank was $448,553 and $452,223 for the years ended December 31, 2013 and 2012, respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association's participation in 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 from third party financial institutions as of December 31, 2013.

Funds Management

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable and rising earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

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

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

Relationship with the Bank

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

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

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

CAPITAL RESOURCES

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services.

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

Total members' equity at December 31, 2013, increased 6.47 percent to $155,354 from the December 31, 2012, total of $145,916. At December 31, 2012, total members' equity increased 5.46 percent from the December 31, 2011 total of $138,358. The increase was primarily attributed to net income partially offset by cash patronage.

Total capital stock and participation certificates were $4,584 on December 31, 2013, compared to $4,610 on December 31, 2012 and $4,678 on December 31, 2011. The decrease was primarily attributed to the retirement of stock on paid in full loans.

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 standards 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	23.62%	22.26%	20.04%	7.00%
Total surplus ratio	22.90%	21.52%	19.32%	7.00%
Core surplus ratio	22.90%	21.52%	19.32%	3.50%

The increases in the Association's permanent capital, total surplus, and core surplus for December 31, 2013 and December 31, 2012 were attributed to a decrease in risk adjusted assets along with an increase in permanent capital. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

See Note 7, *Members' Equity*, of the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared estimated patronage distributions of $6,734 in 2013, $5,646 in 2012, and $4,964 in 2011.

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

The Association's mission is to provide financial services to the agricultural and rural communities, 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.

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 thousand in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

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
Young	$ 642	$ 51,782
Beginning	1,798	164,376
Small	4,189	324,878

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

The 2007 USDA Ag census data has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory there were 14,020 reported farmers of which by definition 533 or 3.8 percent were Young, 3,422 or 24.4 percent were Beginning, and 13,299 or 94.9 percent were Small. Comparatively, as of December 31, 2013, the demographics of the Association's agricultural portfolio contained 4,003 farmers, of which by definition 503 or 12.6 percent were Young, 1,500 or 37.5 percent were Beginning, and 3,170 or 79.2 percent were Small.

The Association currently has a high market share of YBS farmers within its territory. As of December 31, 2013, the Association was doing business with 94.4 percent of the Young farmers, 43.8 percent of the Beginning farmers, and 23.8 percent of the Small farmers identified by the 2007 USDA Ag census data. In spite of that large market share, the Association made 383 loans to farmers classified as Young, Beginning, or Small for $43,151 in new volume for the year ending December 31,

2013. The Association has 40 guaranteed loans for $4,444 to Young, Beginning, and Small farmers, representing 49.26 percent of the total volume of Association loans that are guaranteed.

The board-approved YBS farmer goals for the next three years are to have loans with at least 75 percent of Young farmers, at least 50 percent of Beginning farmers, and at least 30 percent of Small farmers. These goals are based on the 2007 USDA Ag census. Progress towards meeting these goals is reported quarterly to the board of directors.

The following strategies and outreach programs have been conducted, allowing the Association to meet its objectives and goals of the YBS farmer program.

- Support of 4-H, FFA, and young farmer organizations through sponsorships and donations
- Sponsor seminars on farm transition planning and financial management, including the Young Farmer Institute
- Promote FSA guaranteed loan program for YBS borrowers to allow the Association to manage risk while providing more opportunities and financing to this group
- Promote our youth loan program to provide loans to youth involved in 4H and FFA projects, primarily livestock or crop production
- Support the Colonial Agricultural Educational Foundation and Agriculture in the Classroom programs in Virginia and Maryland
- Appointment of a young farmer liaison to manage our participation with Virginia and Maryland Farm Bureaus in their young farmer programs
- Partner with neighboring Farm Credit Associations to offer the AgBiz Planner Program. This ten-module course teaches Young farmers about financial management and business planning
- Support YBS activities at Virginia Tech and Virginia State University
- Sponsorship and partnership with local farmers' markets and local food cooperatives
- The Association website, www.colonialfarmcredit.com, includes an entire section of information and resources for YBS visitors to the site
- Small farm loan program allows for a lower credit score threshold for applicants with small farms who meet other eligibility criteria

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 Farm Credit Administration as the System's independent federal regulator by excluding System institutions from being considered non-bank financial companies and providing other exemptions and exclusions from certain of the law's provisions. Also, the rules prohibiting banking entities from engaging in proprietary trading under the so-called Volcker Rule do not apply to the debt securities issued by the System.

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

As Congress begins to address the issues deferred by the American Taxpayer Relief Act, there will be continued pressure to address the U.S. budget deficit. Left unchanged automatic spending cuts may impact certain agricultural programs.

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, interest rates to borrowers, borrower patronage or dividends, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, concentrations of assets, and changes in patronage policies or practices, if any, is incorporated in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report.

The association is involved in three Unincorporated Business Entities (UBE), which were organized for the purpose of acquiring and managing unusual or complex collateral associated with loans.

Colonial Acquisitions II, LLC is a Virginia limited liability company, which was organized for the purpose of owning and managing 364 acres of unimproved land that secured the Stubbs Farm 364 LLC loan.

The second UBE is Ethanol Holding Company, LLC, which is a Delaware Limited Liability Company. The entity was organized for stated purpose of acquiring, holding, managing, preserving and, if appropriate, operating the assets of BFE Operating Company, LLC, Buffalo Lakes Energy, LLC and Pioneer Trail Energy, LLC (the "BFE Entities") and Ethanol Holding Company Minnesota Sub, LLC and Ethanol Holding Company Nebraska Sub, LLC, until such time as such assets may be sold or otherwise disposed of pursuant to the terms of the Operating Agreement of Ethanol Holding Company, LLC.

CBF Holdings, LLC is a North Carolina limited liability company. Subject to and upon the terms of the Operating Agreement, the purpose of CBF Holdings, LLC shall be to acquire, maintain, operate in an idle mode, market, and re-sell the Purchased Assets (an ethanol plant) and to engage in such activities as may be approved by the Majority Interest (collectively, the "Business"), in each case subject to any limitations of the Act or the Applicable Laws of any jurisdiction in which the Company transacts business. The Company shall be authorized to engage in any and all other activities related to the foregoing.

Description of Property

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

Location	Description	Form of Ownership
7104 Mechanicsville Tnpk. Mechanicsville, VA	Administrative/ Regional Office	Owned
135 Queen Street Tappahannock, VA	Regional Office	Owned
18639 Eltham Road West Point, VA	Office	Owned
428 E. Main Street Waverly, VA	Office	Owned
11295 Windsor Boulevard Windsor, VA	Regional Office	Owned
1700 S. Main Street Farmville, VA	Regional Office	Owned
201 E. Danville Street South Hill, VA	Office	Owned
22323 E. Main Street Courtland, VA	Office	Rented (1) ($972 per month)
7431 Leonardtown Road Hughesville, MD	Regional Office	Rented (2) ($3,549 per month)
13915 Boydton Plank Road Dinwiddie, VA	Office	Rented (3) ($800 per month)
22776 Timberlake Road Lynchburg, VA	Office	Rented (4) ($1,260 per month)
135 Hanbury Road Chesapeake, VA	Office	Rented (5) ($1,417 per month)
3064 River Road West Goochland, VA	Office	Rented (6) ($615 per month)

(1) 1 year lease terminating on February 28, 2015.
(2) 3 year lease terminating on May 31, 2016.
(3) 2 year lease terminating on August 31, 2015.
(4) 5 year lease terminating on February 28, 2019.
(5) 3 year lease terminating on July 31, 2014.
(6) 2 year lease terminating on January 31, 2016.

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 12 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 and their business experience for the past five years:

Senior Officer	Position
Greg B. Farmer	***President and Chief Executive Officer*** since April 2000. Serves as a director for the Virginia Foundation for Agriculture in the Classroom (provides youth agricultural education) and the Friends of Hanover Country Club, LLC (golf course finance investment).
Terri E. Branch	***Executive Vice President and Chief Financial Officer*** from October 2003 until July 2013.
Diane S. Kersey	***Executive Vice President, Chief Financial Officer and Treasurer*** since August 2013. Previously served as Senior Accountant for 4 years. Prior to her employment with Farm Credit she worked as a retail manager for Strange's Florist.
Ronnie G. Gill	***Executive Vice President, Branch and Country Mortgage Operations*** since October 2012. Previously served as Regional Lending Manager. Serves as Treasurer for the Virginia Grain Producers Association (promotion and marketing of grain). He also serves as a director for the Northern Neck Farm Museum (antique farm museum), the Virginia Tech College of Agriculture and Life Sciences Alumni Organization (support of college and alumni enrichment), and the Virginia Advisory Committee for Career and Technical Education (makes career and technical education recommendations to the Virginia Board of Education).
Paul B. Franklin	***Executive Vice President and Chief Lending Officer*** since February 2007. Previously served as Relationship Manager. Serves as a director for the Hanover Arts and Activities Center (non-profit community organization).
James S. Belfield	***Executive Vice President, Chief Information Officer*** since April 2000. Serves as a director of the Virginia Cooperative Council.
Karen Suzanne Nicely	***Vice President, Human Resources and Corporate Secretary*** since October 2003.

The total amount of compensation earned by the CEO and all senior 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 Value	Perq/ Other*	Total
Greg B. Farmer	2013	$ 270,015	$ 59,522	$ –	$ (144,984)	$ 6,473	$ 191,026
Greg B. Farmer	2012	$ 263,430	$ 34,314	$ –	$	$ 7,794	$ 305,538
Greg B. Farmer	2011	$ 256,525	$ 25,752	$ –	$	$ 7,774	$ 290,051
8	2013	$ 811,885	$ 250,313	$ –	$ (9,587)	$ 5,638	$ 1,058,249
5	2012	$ 740,086	$ 86,853	$ –	$	$ 19,808	$ 846,747
5	2011	$ 644,329	$ 64,596	$ –	$	$ 20,118	$ 729,043

Amounts in the above table classified as Perquisites include travel incentives, group life insurance, automobile compensation, purchased automobile, spousal travel, relocation and tuition reimbursement. It also includes amounts contributed by the Association on behalf of the senior officer to a defined contribution plan unless the plan is made available to all employees on the same basis. For the year ended December 31, 2013, the Association had no contributions of this type other than the 401K plan made available to all employees.

The 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 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. For the year ended December 31, 2013, no advisory votes were held for the Association.

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 "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 to within 60 days of enactment of the law "review its rules to reflect the Congressional intent that a primary responsibility of boards of directors of Farm Credit System institutions, as elected representatives of their stockholders, is to oversee compensation practices." FCA has not yet taken any action with respect to their regulation in response to these actions.

Prior to the end of each fiscal year the Board reviews the appropriateness of an incentive plan for all Association employees for the following year. In addition to a base salary, employees and senior officers can earn additional compensation under an incentive plan. The Association's 2013 incentive plan was designed to motivate employees to exceed the business plan goals during the fiscal year and covered all non-Country Mortgage Unit staff members employed as of December 31, 2013. A separate incentive plan is in place for appraisal personnel. The plan focused on meeting target earnings, patronage distribution, credit administration, credit quality, and customer service goals. The plan allowed for both individual and group incentives based on performance criteria. Allowable incentives ranged up to 22 percent of base pay at the end of the plan year for senior officers, and up to 15 percent of base pay in effect at the end of the plan year for other employees depending upon their position. Also, all employees are eligible to receive awards based upon 1) years of service or 2) exceptional performance as defined in the plan. Bonuses and incentives are shown in the year earned and are paid in the first quarter of the subsequent year.

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.

The compensation plan for the CEO and other senior officers is approved annually by the Compensation Committee, guided by the following policy objective:

To provide a comprehensive compensation plan that assists management in attracting and retaining professional, motivated, customer-oriented employees, and which appropriately rewards employees taking into consideration competition, local-market compensation levels, expertise,

experience and contributions (individual and team) to the association's success. These objectives will be accomplished by:

- Utilizing the AgFirst District salary and grade schedules, as well as other market data and studies, for grade placement, merit increases and salary level.
- Participating in AgFirst District benefit plans, as well as offering other benefits as deemed appropriate by the board.
- Utilizing a combination of salary, variable pay, benefits and special awards.
- Tying compensation to the achievement of business plan objectives and individual goals, and emphasizing balance among the four primary critical performance areas: asset growth, asset quality, earnings and human resources.
- Providing an honest and objective performance appraisal review to each employee at least annually.

The CEO and other senior officers participate in the identical compensation, retirement, incentive and benefit plans, with the exception of the CEO's supplemental non-qualified retirement plan, as described below.

Senior officers are paid a competitive, market-based salary commensurate with their tenure, expertise and education. Salary ranges for each position are adjusted periodically based on compensation studies. Senior officers are eligible for an annual salary increase based on merit, as determined by an annual performance appraisal review documenting individual performance relative to individual goals and business plan objectives for the calendar year. The CEO's performance evaluation and any merit increase are approved by the board of directors in December, upon recommendation from the Compensation Committee. The CEO prepares and approves the annual performance appraisal review and determines merit increases for other senior officers in February. Merit increases for all senior officers are effective February 1, and fall within ranges approved annually by the Compensation Committee. These ranges are differentiated by individual performance rating and current salary relative to the salary range midpoint. Merit increases are typically not granted once an employee reaches the mid-point of the salary range, which is considered the "market value" of the job. Salary ranges are adjusted annually based on market studies.

The Association's salary plan for senior officers (including annual merit increases) provides a base compensation plan that is market-driven, allowing for the attraction and retention of professional managers to implement the Association's strategic and annual business plans. Attracting and retaining high quality employees is critical to the Association's long-term success, including the goal of filling mid-level management and senior officer positions from within. A low rate of senior officer turnover is critical in achieving our mission and providing stable leadership and strong financial performance. Overall senior officer salaries are controlled by the Compensation Committee's approval of salary ranges and merit increase ranges.

Senior officers participate in an incentive compensation plan. The objectives of this plan are to:

- Ensure compensation structure is consistent with the Association's core purpose, core values and strategic business plan,
- Focus decisions and actions on key operating objectives that will provide long-term financial growth and stability to the Association,
- Provide competitive compensation packages in order to attract, motivate, reward and retain superior employees,
- Provide flexibility to management in assigning workload to maximize allocation of resources and expertise,
- Reinforce a sales culture,
- Emphasize teamwork, and
- Respond to an increasingly significant practice of goal oriented cash incentives among financial institutions.

This incentive plan contains several Association-level performance measures which must be met before a payout under either of the two components described below is possible, including: payment of a patronage refund, compliance with funding bank loan agreement covenants, not being under a regulatory enforcement action, and minimum credit management, credit quality and customer service measures. Payments under either component are based upon performance for the previous calendar year and are made during the first quarter, after the annual external audit is finalized.

The incentive plan contains a profit sharing component. In order to receive payment under this component, the senior officer must receive an "effective" overall annual performance rating, and the Association's core earnings must be equal to or greater than budget. Payout is in increments from 3 percent up to a maximum of 7 percent of year-end salary, depending upon the level of core earnings relative to budget.

The incentive plan also contains an individual performance incentive component, whereby the senior officer can earn up to an additional 15 percent of year-end salary if his/her annual performance rating falls into the highest quadrant ("highly effective"). The level of incentive paid to the CEO, if any, is approved by the board of directors upon recommendation from the Compensation Committee. Payments to other senior officers are determined by the CEO.

Incentive-based compensation for senior officers is reasonable and proportionate to the services performed and results achieved, and it is structured to prevent undue risk to the Association, by virtue of:

- The plan's structure which prevents payout if the Association is experiencing financial or credit problems, doesn't pay a patronage to customers, is not adequately serving its customers or is under a regulatory enforcement action,
- Senior officers having to achieve at least "effective" overall performance ratings to receive payment, and
- The total maximum payment for senior officers being a modest 22 percent of salary, with actual payout level

determined by both individual and overall Association performance.

Senior officers participate in one of two qualified retirement plans, depending upon their original date of employment. A defined benefit plan is provided those officers employed prior to January 1, 2003. Benefits are determined based on years of service times highest consecutive thirty-six month average salary times 2 percent. Full benefit payments are payable upon retirement at age 65, or at age 62 with 10 years of service. Additionally, unreduced benefits are payable based on the “rule of 85”, provided the officer is at least 55 years of age and his/her age plus years of service total at least 85.

Senior officers employed after December 31, 2002, participate in a defined contribution retirement plan. The Association contributes 3 percent of salary annually for the first five years of employment, 4 percent of salary annually for the second five years of employment and 5 percent of salary annually thereafter. Annual investment yield is based on U.S. Treasury note yields. Both retirement plans vest after five years of continuous creditable service.

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

This plan does not expand the CEO’s total compensation or the Association’s expenses, but serves only to make him “whole” considering IRS payment limitations on the qualified retirement plan.

The total accumulated pension benefits for the CEO and all senior officers as a group as of December 31, 2013, is as follows:

Pension Benefits Table
As of December 31, 2013

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2013
CEO:					
Greg B. Farmer	2013	AgFirst Retirement Plan	38	$ 2,433,238	$ –
Greg B. Farmer	2013	Supplemental Executive Retirement Plan	38	542,029	–
				$ 2,975,267	$ –
Senior Officers and Highly Compensated Employees:					
8 Officers, excluding the CEO	2013	AgFirst Retirement Plan	*18	$ 3,844,363	$ 35,615
				$ 3,844,363	$ 35,615

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

Senior officers may also participate in a 401(k) savings plan, with the level of Association matching contributions determined by date of employment. For officers employed before January 1, 2003, the Association matches employee contributions 50 percent up to 6 percent of salary. For those hired after December 31, 2002, the Association matches employee contributions 100 percent up to 6 percent of salary. This enhanced savings plan is intended to complement the defined contribution retirement plan mentioned above. Various investment options are available for these funds, and vesting is immediate.

Market-based retirement and tax advantaged savings plans for senior officers are critical components to a competitive overall compensation plan. Such a plan is necessary for the attraction and retention of professionals capable of effectively implementing the Association’s strategic and annual business plans. Association financial risk is mitigated by adjusting provisions when necessary to control costs and remain competitive, such as was done for employees hired after December 31, 2002.

Senior officers participate in various other benefits which are also offered to all employees, such as: medical insurance; annual, holiday and sick leave; life and disability insurance; and, milestone service awards. Additionally, senior officers are reimbursed for out-of-pocket travel, lodging and subsistence costs. A copy of the reimbursement policy is available upon request.

The Association’s strong performance during 2013 in the areas of earnings, credit quality, loan growth, capital, liquidity and audit results supported payouts from both components of the incentive plan described above at the maximum levels. Virtually all business plan objectives and goals were met or exceeded. Further, the individual and team performance of the CEO and other senior officers were consistent with the level of these incentive payments and with their overall compensation.

Directors

The following chart details the year the director began serving on the board, the current term of expiration, and total cash compensation paid:

DIRECTOR	ORIGINAL YEAR OF ELECTION OR APPOINTMENT	CURRENT TERM EXPIRATION	TOTAL COMP. PAID DURING 2013
Hugh S. Jones, ***Chairman***	2003	2017	$5,900
R. Kenneth Hatcher, ***Vice-Chairman***	2008	2016	$7,100
John E. Bickford	2005	2013	$7,450
Jennifer U. Cuthbertson, *Appointed Director*	2007	2017	$10,200
John F. Davis	2005	2016	$6,700
Stanley O. Forbes, Sr., *Appointed Director*	1996	2015	$7,800
Clarke E. Fox	1997	2017	$9,100
Duane D. Gilliam	2011	2015	$5,500
Susan D. Hance-Wells	2004	2014	$8,100
Robert M. Jones	2013	2017	$1,450
L. Wayne Kirby	2005	2016	$12,700
John N. Mills, Jr.	1996	2015	$8,000
A. Kevin Monahan	2011	2015	$6,000
Forrest C. Nuckols	1998	2015	$4,800
Frederick S. Richardson	2001	2014	$9,900
Paul W. Rogers, Jr.	1988	2014	$9,000
Robert H. Spiers, Jr.	1988	2014	$5,800
J. Allen Swann	2002	2016	$3,800
			$129,300

The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years. Unless specifically listed, the principal occupation of the board member for the past five years has been as a self-employed farmer.

Mr. Hugh S. Jones, Chairman of the Board, Compensation Committee, and Executive Committee, is President of Richlands Dairy Farm, Inc. Mr. Jones also serves as a director of the Virginia Tech Southern Virginia Research Station (agricultural research) and the Nottoway Planning Commission (county planning).

Mr. R. Kenneth Hatcher, Vice Chairman of the Board, is a beef cattle and grain farmer and also constructs residential properties. He previously operated Hatcher's Dairy, Inc. (dairy farm).

Mr. John E. Bickford is a consulting forester involved in timber management, timber sales, and timber evaluations for non-industrial landowners. He owns Bickford Timber and Land Management, Inc., a timber consulting and management business. Mr. Bickford also serves as Chairman of the Buckingham County Planning Commission (county planning).

Mrs. Jennifer U. Cuthbertson is a watermelon, pumpkin, goat, cattle, wheat, corn, soybean, grain sorghum, cotton and hay farmer, and a tax advisor for H&R Block. Mrs. Cuthbertson was a business analyst for Southern States Cooperative (agricultural supply cooperative) until May 2009.

Mr. John F. Davis is a retired farmer and self-employed farm consultant for Mill Creek Farms, LLC.

Mr. Stanley O. Forbes, Sr. retired from Federal Agricultural Mortgage Association in April 1994 (vice president in charge of agricultural finance) and was employed from March 1998 to March 1999 by Statesman Financial Corporation (senior credit officer, financial services). Mr. Forbes serves on the board of the Virginia Foundation for Agriculture in the Classroom (provides youth agricultural education).

Mr. Clarke E. Fox, serves as President of Foxhill Farms, Inc., a peanut, cotton, corn, soybean, watermelon, and timber farm. Mr. Fox also serves as a director on the boards of the Virginia/Carolina Peanut Promotions and the Virginia Peanut Growers Association (promotes peanut industry).

Mr. Duane D. Gilliam is vice president, co-owner and manager of Lynchburg Livestock Market, Inc. and president and owner of Cedar Rock Farms LLC (cattle farms in central Virginia). Mr. Gilliam also owns an interest in Dinner Bell Meat Products, Inc. (slaughterhouse and meat packing) and Metcalf, Gilliam, Fariss, LLC (real estate).

Mrs. Susan D. Hance-Wells is a hay, grain, and beef cattle farmer who is also involved in horse breeding and boarding. She serves as Chairman of the Calvert County Board of Appeals (zoning and critical area of regulation appeals), as Special Activities Chairperson of the Calvert County Farm Bureau (agriculture, insurance, service, and lobbying organization), as honorary director of the Calvert Farmland Trust (promotes agricultural land preservation) and as a public director for Southern States Cooperative (agricultural supply cooperative).

Mr. Robert M. Jones is the owner of Poor House Dairy Farm. Director and management positions or affiliations with other organizations include; Farmer's Cooperative, chairman of board (ag production products), board member of Cooperative Milk Producers (milk marketing), member and past president of Prince Edward Farm Bureau, board member of Prince Edward County Board of Supervisors, Prince Edward County Planning Commission and past board member of Prince Edward/Nottoway Farm Service Agency.

Mr. L. Wayne Kirby is a grain farmer, a production manager for a local grain farm, and a commissioned agent for Helena Chemical Company (agricultural chemical sales and consultation). Mr. Kirby serves as a director of the Virginia Grain Producers Association, Inc. (promotion and marketing of grain), a director of the Virginia Agribusiness Council (industry lobbying organization), and on the Virginia Board of Agriculture and Consumer Services (promotes Virginia agriculture interests).

Mr. John N. Mills, Jr., Board Governance Committee Chairman, is a partner in John N. Mills & Sons family farm business (growing and marketing corn, wheat, barley, soybean, and beef cattle) and serves as a director of the Virginia Identity Preserved Grains (small grain promotion and marketing), the King William County, Virginia, Farm Bureau (agriculture insurance, service, and lobbying organization), the Virginia Small Grains Board (disbursing check off funds), and the Virginia Agribusiness Council (industry lobbying organization). He is also a partner in H&F LLC, which is a partner in York River Mitigation Bank (wetlands mitigation development).

Mr. A. Kevin Monahan is a row crop, livestock, and timber farmer and owner of Monahan Farms, LLC and Bowling Green Farms, LLC. Mr. Monahan also serves on the board of the

Surry County, Virginia, Planning Commission (county planning) and the Waverly Ruritan Club (community service organization).

Mr. Forrest C. Nuckols is President of Eastview Farm, Inc. (dairy farm that sells breeding stock and hay). He is also a partner in AP Nuckols & Sons (timber sales and management). He serves as director of the Culpeper Farmers Cooperative (feed, seed, and fertilizer supplier) and of the Colonial Agricultural Educational Foundation (provides funding for college scholarships and other youth education), and is a member of the Hanover County, Virginia, Agricultural and Forestal District Advisory Committee (agriculture and timber land management).

Mr. Frederick S. Richardson, Audit Committee Chairman, is the co-owner of Spring Hill Nursery, Inc., a balled and burlap wholesale nursery.

Mr. Paul W. Rogers, Jr., Legislative Committee Chairman, is a partner of Rogers Farms Partnership, a cotton, grain, timber, and peanut farm. Mr. Rogers serves as a director for the Peanut Standards Board (promotes peanuts), and the Airfield 4-H Conference Center (promotes youth agriculture education). Mr. Rogers also serves as Chairman of the AgFirst District Advisory Committee (makes recommendations to AgFirst Farm Credit Bank Board on association and district matters).

Mr. Robert H. Spiers, Jr. is a flue tobacco, corn, wheat, milo, and soybean farmer, owning and managing Spiers Farm LLC. He is Chairman of the AgFirst Farm Credit Bank (agricultural cooperative discount bank) and the AgFirst District Farm Credit Council (legislative lobbying). He also serves on the board of the national Farm Credit Council (industry legislative lobbying), Dinwiddie County, Virginia, Farm Bureau (agriculture insurance, service, and lobbying organization), the Virginia Flue-Cured Tobacco Board (governs use of Virginia tobacco check off funds) the Virginia Tobacco Indemnification and Community Revitalization Commission (promotes economic development in Virginia's tobacco region), the Virginia Farm Bureau AgPac Board (political action committee), the Tobacco Associates Inc. Board (promotes export of tobacco), and as a member of the Farm Credit Benefits Alliance Plan Sponsor Committee (governs AgFirst and Texas Farm Credit Districts employee benefits programs).

Mr. J. Allen Swann is a retired partner in Swann Farms, a wholesale fruit, vegetable, and grain farm. He serves on the board of the Colonial Agricultural Educational Foundation (provides funding for college scholarships and other youth education), and the Prince George's Federal Savings Bank (community bank).

In accordance with board policy, the Association pays directors honoraria ranging from $100 to $500, for attendance at meetings, committee meetings, conference call meetings, or special assignments. Directors are paid a monthly retainer fee of $150, except for the chairman of the board who receives $300. Total compensation paid to directors as a group was $129,300 for 2013. No director received more than $7,000 in non-cash compensation during the year.

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

Name of Director	Days Served		Committees*	Committee Compensation
	Regular Board Meetings	Committee Meetings		
Hugh S. Jones		1	Executive	$ –
Chairman	5	1	Compensation	500
		3	Governance	500
		3	Other Activities	600
R. Kenneth Hatcher		1	Executive	–
Vice-Chairman	4	4	Audit	500
		1	Compensation	500
		1	Governance	–
		4	Other Activities	600
John E. Bickford,		6	Executive	1,600
	3	2	Governance	500
		8	Other Activities	2,500
Jennifer U. Cuthbertson,		6	Executive	1,600
Appointed Director	5	4	Audit	2,000
		7	Other Activities	2,300
John F. Davis		4	Audit	2,000
	5	2	Other Activities	400
Stanley O. Forbes, Sr.,		4	Audit	2,000
Appointed Director	5	1	Compensation	500
		5	Other Activities	1,000
Clarke E. Fox		7	Executive	1,600
	4	1	Compensation	500
		2	Governance	500
		9	Other Activities	2,700
Duane D. Gilliam		2	Governance	–
	4	4	Other Activities	1,700
Susan D. Hance-Wells		6	Executive	1,600
	5	3	Governance	500
		4	Other Activities	1,700
Robert M. Jones				
	2	–	–	–
L. Wayne Kirby,		7	Executive	1,600
	5	1	Audit	500
		1	Compensation	500
		3	Governance	500
		13	Other Activities	3,500
John N. Mills, Jr.		1	Executive	–
	5	1	Compensation	500
		3	Governance	500
		9	Other Activities	2,700
A. Kevin Monahan		3	Governance	500
	4	4	Other Activities	1,700
Forrest C. Nuckols				
	5	3	Governance	500
Frederick S. Richardson		4	Audit	2,000
	5	1	Governance	500
		11	Other Activities	3,100
Paul W. Rogers, Jr.		3	Governance	500
	5	12	Other Activities	4,200
Robert H. Spiers, Jr.**		2	Audit	1,000
	5	1	Compensation	500
J. Allen Swann	4			$

**Some may be same day meeting(s) with no additional compensation*

***Days of service disclosed for Mr. Spiers as a member of the Colonial Farm Credit board do not reflect activities in his capacity as an AgFirst Farm Credit Bank board member. For further information related to specific duties and days served in those positions, please see the AgFirst Farm Credit Bank 2013 Annual Report at www.agfirst.com.*

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 $61,771 for 2013, $44,483 for 2012, and $57,969 for 2011.

Transactions with Senior Officers and Directors

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

Transactions Other Than Loans

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

Involvement in Certain Legal Proceedings

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

Relationship with Independent Certified Public Accountants

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

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

	2013
Independent Certified Public Accountants	
PricewaterhouseCoopers LLP	
Audit services	$ 63,312
Total	$ 63,312

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

Consolidated Financial Statements

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

Copies of the Association's Annual and Quarterly reports are available upon request free of charge by calling (804) 746-1252, writing Diane S. Kersey, Executive Vice President and Chief Financial Officer, Colonial Farm Credit, ACA, 7104 Mechanicsville Turnpike, Mechanicsville, VA 23111, or accessing the website, ***www.colonialfarmcredit.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 could be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's website 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, which is available on the Bank's website, 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

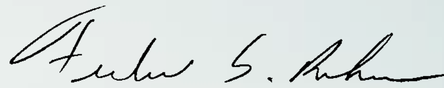
The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of Colonial Farm Credit, ACA (Association) and in the opinion of the Board of Directors, each is free of any relationship with the Association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

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

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

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

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



Frederick S. Richardson
Chairman of the Audit Committee

Members of Audit Committee

Jennifer U. Cuthbertson
John F. Davis
Stanley O. Forbes, Sr.
R. Kenneth Hatcher

March 12, 2014

Report of Independent Certified Public Accountants

Report of Independent Certified Public Accountants

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

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

Management's Responsibility for the Consolidated Financial Statements

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

Certified Public Accountants' Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP

March 12, 2014

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

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2013	2012	2011
Assets			
Cash	$ 90	$ 163	$ 215
Loans	600,983	587,959	604,880
Less: allowance for loan losses	3,865	5,563	6,095
Net loans	597,118	582,396	598,785
Loans held for sale	1,679	2,955	1,458
Other investments	369	719	1,050
Accrued interest receivable	3,986	4,072	4,905
Investments in other Farm Credit institutions	6,257	6,527	8,905
Premises and equipment, net	1,764	1,800	1,824
Other property owned	1,915	2,459	4,281
Due from AgFirst Farm Credit Bank	9,495	4,300	4,684
Other assets	3,206	3,294	3,667
Total assets	$ 625,879	$ 608,685	$ 629,774
Liabilities			
Notes payable to AgFirst Farm Credit Bank	$ 455,980	$ 449,039	$ 478,790
Accrued interest payable	846	945	1,013
Patronage refunds payable	6,809	5,708	5,093
Other liabilities	6,890	7,077	6,520
Total liabilities	470,525	462,769	491,416
Commitments and contingencies			
Members' Equity			
Capital stock and participation certificates	4,584	4,610	4,678
Unallocated retained earnings	150,678	141,323	133,984
Accumulated other comprehensive income (loss)	92	(17)	(304)
Total members' equity	155,354	145,916	138,358
Total liabilities and members' equity	$ 625,879	$ 608,685	$ 629,774

The accompanying notes are an integral part of these financial statements

Consolidated Statements of Income

(dollars in thousands)	For the year ended December 31, 2013	2012	2011
Interest Income			
Loans	$ 29,331	$ 30,096	$ 33,299
Other investments	33	53	72
Total interest income	29,364	30,149	33,371
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	11,811	12,347	13,747
Net interest income	17,553	17,802	19,624
Provision for (reversal of allowance for) loan losses	(1,199)	530	4,127
Net interest income after provision for (reversal of allowance for) loan losses	18,752	17,272	15,497
Noninterest Income			
Loan fees	481	520	475
Fees for financially related services	72	70	66
Patronage refunds from other Farm Credit institutions	9,799	4,604	5,001
Gains (losses) on other property owned, net	(772)	(797)	(1,086)
Gains (losses) on sales of rural home loans, net	808	801	590
Gains (losses) on sales of premises and equipment, net	59	69	39
Insurance Fund refunds	—	1,502	—
Other noninterest income	266	275	175
Total noninterest income	10,713	7,044	5,260
Noninterest Expense			
Salaries and employee benefits	8,772	8,472	8,039
Occupancy and equipment	614	638	634
Insurance Fund premiums	451	234	311
Other operating expenses	3,518	1,954	2,019
Total noninterest expense	13,355	11,298	11,003
Income before income taxes	16,110	13,018	9,754
Provision for income taxes	12	12	11
Net income	$ 16,098	$ 13,006	$ 9,743

The accompanying notes are an integral part of these financial statements

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2013	2012	2011
Net income	$ 16,098	$ 13,006	$ 9,743
Other Comprehensive Income Net of Tax			
Employee benefit plans adjustments (Note 7)	109	287	(61)
Comprehensive income	$ 16,207	$ 13,293	$ 9,682

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	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2010	$ 4,786	$ 129,187	$ (243)	$ 133,730
Comprehensive income		9,743	(61)	9,682
Capital stock/participation certificates issued/(retired), net	(108)			(108)
Patronage distribution				
Cash		(4,964)		(4,964)
Patronage distribution adjustment		18		18
Balance at December 31, 2011	4,678	133,984	(304)	138,358
Comprehensive income		13,006	287	13,293
Capital stock/participation certificates issued/(retired), net	(68)			(68)
Patronage distribution				
Cash		(5,646)		(5,646)
Patronage distribution adjustment		(21)		(21)
Balance at December 31, 2012	4,610	141,323	(17)	145,916
Comprehensive income		16,098	109	16,207
Capital stock/participation certificates issued/(retired), net	(26)			(26)
Patronage distribution				
Cash		(6,734)		(6,734)
Patronage distribution adjustment		(9)		(9)
Balance at December 31, 2013	$ 4,584	$ 150,678	$ 92	$ 155,354

The accompanying notes are an integral part of these financial statements

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2013	2012	2011
Cash flows from operating activities:			
Net income	$ 16,098	$ 13,006	$ 9,743
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	231	234	258
Amortization (accretion) of net deferred loan origination costs (fees)	138	(113)	(168)
Premium amortization (discount accretion) on investments	(20)	(39)	(59)
Provision for (reversal of allowance for) loan losses	(1,199)	530	4,127
(Gains) losses on other property owned	690	726	1,045
(Gains) losses on sales of premises and equipment, net	(59)	(69)	(39)
(Gains) losses on sales of rural home loans, net	(808)	(801)	(590)
Changes in operating assets and liabilities:			
(Increase) decrease in loans held for sale, net	2,084	(696)	1,828
(Increase) decrease in accrued interest receivable	86	833	(122)
(Increase) decrease in due from AgFirst Farm Credit Bank	(5,195)	384	244
(Increase) decrease in other assets	88	373	652
Increase (decrease) in accrued interest payable	(99)	(68)	(218)
Increase (decrease) in other liabilities	(78)	844	209
Total adjustments	(4,141)	2,138	7,167
Net cash provided by (used in) operating activities	11,957	15,144	16,910
Cash flows from investing activities:			
Net (increase) decrease in loans	(14,842)	15,819	13,676
(Increase) decrease in investment in other Farm Credit institutions	270	2,378	485
Proceeds from payments received on other investments	370	370	370
Purchases of premises and equipment	(198)	(210)	(146)
Proceeds from sales of premises and equipment	62	69	39
Proceeds from sales of other property owned	1,035	1,249	1,586
Net cash provided by (used in) investing activities	(13,303)	19,675	16,010
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	6,941	(29,751)	(26,837)
Capital stock and participation certificates issued/(retired), net	(26)	(68)	(108)
Patronage refunds and dividends paid	(5,642)	(5,052)	(5,973)
Net cash provided by (used in) financing activities	1,273	(34,871)	(32,918)
Net increase (decrease) in cash	(73)	(52)	2
Cash, beginning of period	163	215	213
Cash, end of period	$ 90	$ 163	$ 215
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	$ —	$ 319	$ —
Receipt of property in settlement of loans	1,181	472	4,836
Estimated cash dividends or patronage distributions declared or payable	6,734	5,646	4,964
Employee benefit plans adjustments (Note 7)	(109)	(287)	61
Supplemental information:			
Interest paid	$ 11,910	$ 12,415	$ 13,965
Taxes (refunded) paid, net	4	5	2

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:** Colonial Farm Credit, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Amelia, Amherst, Appomattox, Brunswick, Buckingham, Campbell, Caroline, Charles City, Charlotte, Chesterfield, Cumberland, Dinwiddie, Essex, Fluvanna, Gloucester, Goochland, Greensville, Hanover, Henrico, Isle of Wight, King and Queen, King George, King William, James City, Lancaster, Louisa, Lunenburg, Mathews, Mecklenburg, Middlesex, New Kent, Northumberland, Nottoway, Powhatan, Prince Edward, Prince George, Richmond, Southampton, Surry, Sussex, Westmoreland, York, and the cities of Chesapeake, Newport News, Suffolk and Virginia Beach in the state of Virginia and the counties of Anne Arundel, Calvert, Charles, Prince George's and Saint Mary's in the state of Maryland.

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.

   As discussed in Note 8, certain investments, consisting primarily of mutual funds, are held in trust accounts and are reported at fair value. Holding period gains and losses are included within other noninterest income on the consolidated statements of comprehensive income and the balance of these investments, totaling $924, is included in other assets on the accompanying consolidated balance sheet as of December 31, 2013.

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

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

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

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

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

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

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

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

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

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

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

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

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

The Association accounts for income taxes under the asset and liability method, recognizing deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to

apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

The Association records a valuation allowance at the balance sheet dates against that portion of the Association's deferred tax assets that, based on management's best estimates of future events and circumstances, more likely than not (a likelihood of more than 50 percent) will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of our expected patronage program, which reduces taxable earnings.

J. **Due from AgFirst Farm Credit Bank:** The Association records patronage refunds from the Bank and certain District associations 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 has evaluated 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 opertions.

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	2012	2011
Real estate mortgage	$ 386,812	$ 361,786	$ 355,279
Production and intermediate-term	147,607	169,837	186,397
Loans to cooperatives	397	3,200	4,093
Processing and marketing	29,280	17,708	23,343
Farm-related business	9,879	9,255	9,146
Communication	1,959	–	–
Energy and water/waste disposal	1,834	(3)	1,185
Rural residential real estate	23,215	26,176	25,437
Total Loans	$ 600,983	$ 587,959	$ 604,880

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	$ 4,903	$ –	$ –	$ –	$ –	$ –	$ 4,903	$ –
Production and intermediate-term	18,229	–	–	–	–	–	18,229	–
Loans to cooperatives	404	–	–	–	–	–	404	–
Processing and marketing	21,221	–	118	–	–	–	21,339	–
Farm-related business	4,476	–	–	–	–	–	4,476	–
Communication	1,967	–	–	–	–	–	1,967	–
Energy and water/waste disposal	1,850	–	–	–	–	–	1,850	–
Total	$ 53,050	$ –	$ 118	$ –	$ –	$ –	$ 53,168	$ –

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
Production and intermediate-term	$ 43,618	$ –	$ –	$ –	$ –	$ –	$ 43,618	$ –
Loans to cooperatives	3,211	–	–	–	–	–	3,211	–
Processing and marketing	5,226	–	658	–	–	–	5,884	–
Farm-related business	3,421	–	–	–	–	–	3,421	–
Total	$ 55,476	$ –	$ 658	$ –	$ –	$ –	$ 56,134	$ –

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	$ 193	$ –	$ –	$ –	$ –	$ –	$ 193	$ –
Production and intermediate-term	48,841	–	–	–	–	–	48,841	–
Loans to cooperatives	4,096	–	–	–	–	–	4,096	–
Processing and marketing	8,058	–	782	–	–	–	8,840	–
Farm-related business	3,910	–	2,032	–	–	–	5,942	–
Energy and water/waste disposal	1,213	–	–	–	–	–	1,213	–
Total	$ 66,311	$ –	$ 2,814	$ –	$ –	$ –	$ 69,125	$ –

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	$ 31,392	$ 43,978	$ 311,442	$ 386,812
Production and intermediate term	62,976	52,543	32,088	147,607
Loans to cooperatives	401	(4)	–	397
Processing and marketing	4,578	11,718	12,984	29,280
Farm-related business	3,400	5,409	1,070	9,879
Communication	–	1,959	–	1,959
Energy and water/waste disposal	–	1,834	–	1,834
Rural residential real estate	2,151	4,885	16,179	23,215
Total Loans	$ 104,898	$ 122,322	$ 373,763	$ 600,983
Percentage	17.45%	20.36%	62.19%	100.00%

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

	December 31,		
	2013	2012	2011
Real estate mortgage:			
Acceptable	92.25%	90.46%	89.67%
OAEM	3.80	4.72	5.18
Substandard/doubtful/loss	3.95	4.82	5.15
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	92.45%	91.67%	87.47%
OAEM	4.09	2.32	6.76
Substandard/doubtful/loss	3.46	6.01	5.77
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	36.38%	77.38%
OAEM	–	63.62	22.62
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	99.21%	57.52%	61.82%
OAEM	0.30	16.39	16.78
Substandard/doubtful/loss	0.49	26.09	21.40
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	98.61%	97.58%	97.23%
OAEM	–	0.83	1.07
Substandard/doubtful/loss	1.39	1.59	1.70
	100.00%	100.00%	100.00%

	December 31,		
	2013	2012	2011
Communication:			
Acceptable	100.00%	–%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	–%	–%
Energy and water/waste disposal:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	94.62%	93.79%	93.15%
OAEM	0.90	1.74	3.34
Substandard/doubtful/loss	4.48	4.47	3.51
	100.00%	100.00%	100.00%
Total Loans:			
Acceptable	92.89%	89.79%	88.12%
OAEM	3.50	4.50	6.08
Substandard/doubtful/loss	3.61	5.71	5.80
	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	$ 3,183	$ 1,372	$ 4,555	$ 384,719	$ 389,274	$ –
Production and intermediate-term	628	1,246	1,874	147,067	148,941	–
Loans to cooperatives	–	–	–	399	399	–
Processing and marketing	143	–	143	29,202	29,345	–
Farm-related business	1	–	1	9,901	9,902	–
Communication	–	–	–	1,959	1,959	–
Energy and water/waste disposal	–	–	–	1,834	1,834	–
Rural residential real estate	29	124	153	23,162	23,315	–
Total	$ 3,984	$ 2,742	$ 6,726	$ 598,243	$ 604,969	$ –

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	$ 4,991	$ 1,031	$ 6,022	$ 358,180	$ 364,202	$ –
Production and intermediate-term	448	43	491	170,795	171,286	–
Loans to cooperatives	–	–	–	3,205	3,205	–
Processing and marketing	–	–	–	17,767	17,767	–
Farm-related business	–	–	–	9,284	9,284	–
Communication	–	–	–	–	–	–
Energy and water/waste disposal	–	–	–	(3)	(3)	–
Rural residential real estate	242	9	251	26,039	26,290	–
Total	$ 5,681	$ 1,083	$ 6,764	$ 585,267	$ 592,031	$ –

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	$ 4,816	$ 725	$ 5,541	$ 352,390	$ 357,931	$ –
Production and intermediate-term	789	5,721	6,510	181,873	188,383	–
Loans to cooperatives	–	–	–	4,103	4,103	–
Processing and marketing	301	–	301	23,145	23,446	–
Farm-related business	–	–	–	9,179	9,179	–
Communication	–	–	–	–	–	–
Energy and water/waste disposal	–	–	–	1,186	1,186	–
Rural residential real estate	397	176	573	24,984	25,557	–
Total	$ 6,303	$ 6,622	$ 12,925	$ 596,860	$ 609,785	$ –

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	$ 4,180	$ 4,377	$ 4,935
Production and intermediate-term	4,694	5,902	8,568
Loans to cooperatives	–	–	–
Processing and marketing	–	1,401	–
Farm-related business	–	–	–
Rural residential real estate	435	426	471
Total nonaccrual loans	$ 9,309	$ 12,106	$ 13,974
Accruing restructured loans:			
Real estate mortgage	$ 240	$ –	$ –
Production and intermediate-term	13	262	–
Total accruing restructured loans	$ 253	$ 262	$ –
Accruing loans 90 days or more past due:			
Rural residential real estate	$ –	$ –	$ –
Total accruing loans 90 days or more past due	$ –	$ –	$ –
Total nonperforming loans	$ 9,562	$ 12,368	$ 13,974
Other property owned	1,915	2,459	4,281
Total nonperforming assets	$ 11,477	$ 14,827	$ 18,255
Nonaccrual loans as a percentage of total loans	1.55%	2.06%	2.31%
Nonperforming assets as a percentage of total loans and other property owned	1.90%	2.51%	3.00%
Nonperforming assets as a percentage of capital	7.39%	10.16%	13.19%

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	$ 5,696	$ 10,262	$ 6,402
Past due	3,613	1,844	7,572
Total impaired nonaccrual loans	9,309	12,106	13,974
Impaired accrual loans:			
Restructured	253	262	–
90 days or more past due	–	–	–
Total impaired accrual loans	253	262	–
Total impaired loans	$ 9,562	$ 12,368	$ 13,974

Notes to the Consolidated Financial Statements (continued)

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	$ 234	$ 279	$ 51	$ 318	$ 21
Production and intermediate-term	4,368	4,752	2,256	5,950	391
Loans to cooperatives	–	–	–	–	–
Processing and marketing	–	–	–	–	–
Rural residential real estate	83	86	36	113	7
Total	$ 4,685	$ 5,117	$ 2,343	$ 6,381	$ 419
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 4,186	$ 5,509	$ –	$ 5,703	$ 375
Production and intermediate-term	339	910	–	461	30
Loans to cooperatives	–	32	–	–	–
Processing and marketing	–	150	–	–	–
Rural residential real estate	352	939	–	480	32
Total	$ 4,877	$ 7,540	$ –	$ 6,644	$ 437
Total impaired loans:					
Real estate mortgage	$ 4,420	$ 5,788	$ 51	$ 6,021	$ 396
Production and intermediate-term	4,707	5,662	2,256	6,411	421
Loans to cooperatives	–	32	–	–	–
Processing and marketing	–	150	–	–	–
Rural residential real estate	435	1,025	36	593	39
Total	$ 9,562	$ 12,657	$ 2,343	$ 13,025	$ 856

	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	$ 958	$ 1,301	$ 82	$ 1,063	$ 5
Production and intermediate-term	5,872	6,784	3,082	6,519	31
Processing and marketing	1,375	1,401	440	1,526	7
Rural residential real estate	–	–	–	–	–
Total	$ 8,205	$ 9,486	$ 3,604	$ 9,108	$ 43
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 3,681	$ 4,976	$ –	$ 4,086	$ 19
Production and intermediate-term	30	499	–	34	1
Loans to cooperatives	–	33	–	–	–
Processing and marketing	26	151	–	29	–
Rural residential real estate	426	989	–	472	2
Total	$ 4,163	$ 6,648	$ –	$ 4,621	$ 22
Total impaired loans:					
Real estate mortgage	$ 4,639	$ 6,277	$ 82	$ 5,149	$ 24
Production and intermediate-term	5,902	7,283	3,082	6,553	32
Loans to cooperatives	–	33	–	–	–
Processing and marketing	1,401	1,552	440	1,555	7
Rural residential real estate	426	989	–	472	2
Total	$ 12,368	$ 16,134	$ 3,604	$ 13,729	$ 65

	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	$ 1,227	$ 1,575	$ 287	$ 1,714	$ 17
Production and intermediate-term	8,506	9,906	3,373	11,883	114
Loans to cooperatives	–	–	–	–	–
Rural residential real estate	214	335	60	299	3
Total	$ 9,947	$ 11,816	$ 3,720	$ 13,896	$ 134
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 3,708	$ 4,599	$ –	$ 5,179	$ 50
Production and intermediate-term	62	632	–	86	1
Loans to cooperatives	–	36	–	–	–
Rural residential real estate	257	584	–	359	3
Total	$ 4,027	$ 5,851	$ –	$ 5,624	$ 54
Total impaired loans:					
Real estate mortgage	$ 4,935	$ 6,174	$ 287	$ 6,893	$ 67
Production and intermediate-term	8,568	10,538	3,373	11,969	115
Loans to cooperatives	–	36	–	–	–
Rural residential real estate	471	919	60	658	6
Total	$ 13,974	$ 17,667	$ 3,720	$ 19,520	$ 188

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

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

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	$ 1,466	$ 791	$ 1,047
Less: interest income recognized	856	65	181
Foregone interest income	$ 610	$ 726	$ 866

Notes to the Consolidated Financial Statements (continued)

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Allowance for credit losses:							
Balance at December 31, 2012	$ 1,302	$ 3,636	$ 537	$ –	$ –	$ 88	$ 5,563
Charge-offs	(77)	(139)	(498)	–	–	(53)	(767)
Recoveries	42	111	75	–	–	40	268
Provision for loan losses	(233)	(982)	(14)	5	5	20	(1,199)
Balance at December 31, 2013	$ 1,034	$ 2,626	$ 100	$ 5	$ 5	$ 95	$ 3,865
Balance at December 31, 2011	$ 1,699	$ 4,085	$ 145	$ –	$ 5	$ 161	$ 6,095
Charge-offs	(391)	(435)	(1,030)	–	–	(197)	(2,053)
Recoveries	80	85	811	–	–	15	991
Provision for loan losses	(86)	(99)	611	–	(5)	109	530
Balance at December 31, 2012	$ 1,302	$ 3,636	$ 537	$ –	$ –	$ 88	$ 5,563
Balance at December 31, 2010	$ 2,148	$ 2,674	$ 1,887	$ 9	$ 8	$ 172	$ 6,898
Charge-offs	(475)	(1,916)	(2,469)	–	–	(341)	(5,201)
Recoveries	158	88	21	–	–	4	271
Provision for loan losses	(132)	3,239	706	(9)	(3)	326	4,127
Balance at December 31, 2011	$ 1,699	$ 4,085	$ 145	$ –	$ 5	$ 161	$ 6,095
Loans individually evaluated for impairment	$ 51	$ 2,256	$ –	$ –	$ –	$ 36	$ 2,343
Loans collectively evaluated for impairment	983	370	100	5	5	59	1,522
Balance at December 31, 2013	$ 1,034	$ 2,626	$ 100	$ 5	$ 5	$ 95	$ 3,865
Loans individually evaluated for impairment	$ 82	$ 3,082	$ 440	$ –	$ –	$ –	$ 3,604
Loans collectively evaluated for impairment	1,220	$ 554	$ 97	$ –	$ –	$ 88	$ 1,959
Balance at December 31, 2012	$ 1,302	$ 3,636	$ 537	$ –	$ –	$ 88	$ 5,563
Loans individually evaluated for impairment	$ 287	$ 3,373	$ –	$ –	$ –	$ 60	$ 3,720
Loans collectively evaluated for impairment	1,412	$ 712	$ 145	$ –	$ 5	$ 101	$ 2,375
Balance at December 31, 2011	$ 1,699	$ 4,085	$ 145	$ –	$ 5	$ 161	$ 6,095
Recorded investment in loans outstanding:							
Loans individually evaluated for impairment	$ 5,997	$ 7,053	$ 1,054	$ –	$ –	$ 727	$ 14,831
Loans collectively evaluated for impairment	383,277	141,888	38,592	1,959	1,834	22,588	590,138
Ending balance at December 31, 2013	$ 389,274	$ 148,941	$ 39,646	$ 1,959	$ 1,834	$ 23,315	$ 604,969
Loans individually evaluated for impairment	$ 6,443	$ 6,417	$ 1,575	$ –	$ –	$ 530	$ 14,965
Loans collectively evaluated for impairment	357,759	$ 164,869	$ 28,681	$ –	$ (3)	$ 25,760	$ 577,066
Ending balance at December 31, 2012	$ 364,202	$ 171,286	$ 30,256	$ –	$ (3)	$ 26,290	$ 592,031
Loans individually evaluated for impairment	$ 7,103	$ 9,792	$ 300	$ –	$ –	$ 763	$ 17,958
Loans collectively evaluated for impairment	350,828	$ 178,591	$ 36,428	$ –	$ 1,186	$ 24,794	$ 591,827
Ending balance at December 31, 2011	$ 357,931	$ 188,383	$ 36,728	$ –	$ 1,186	$ 25,557	$ 609,785

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

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

	December 31, 2013			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 82	$ 522	$ –	$ 604
Production and intermediate-term	–	20	–	20
Total	$ 82	$ 542	$ –	$ 624

December 31, 2013					
	Post-modification Outstanding Recorded Investment				Effects of Modification
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Troubled debt restructurings:					
Real estate mortgage	$ 81	$ 522	$ –	$ 603	$ –
Production and intermediate-term	–	21	–	21	–
Total	$ 81	$ 543	$ –	$ 624	$ –

December 31, 2012				
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 38	$ 655	$ –	$ 693
Production and intermediate-term	–	119	–	119
Rural residential real estate	–	194	–	194
Total	$ 38	$ 968	$ –	$ 1,006

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	$ 39	$ 655	$ –	$ 694	$ –
Production and intermediate-term	–	119	–	119	(35)
Rural residential real estate	–	194	–	194	(129)
Total	$ 39	$ 968	$ –	$ 1,007	$ (164)

December 31, 2011				
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 3,721	$ –	$ 3,721
Production and intermediate-term	–	5,348	–	5,348
Rural residential real estate	–	79	–	79
Total	$ –	$ 9,148	$ –	$ 9,148

December 31, 2011					
	Post-modification Outstanding Recorded Investment				Effects of Modification
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Troubled debt restructurings:					
Real estate mortgage	$ –	$ 3,708	$ –	$ 3,708	$ –
Production and intermediate-term	–	5,428	–	5,428	(872)
Rural residential real estate	–	62	–	62	(15)
Total	$ –	$ 9,198	$ –	$ 9,198	$ (887)

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

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

	Year Ended December 31,		
	2013	2012	2011
Defaulted troubled debt restructurings:			
Real estate mortgage	$ –	$ –	$ 5,675
Production and intermediate-term	–	35	883
Total	$ –	$ 35	$ 6,558

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

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2013	2012	2011	2013	2012	2011
Real estate mortgage	$ 934	$ 702	$ –	$ 694	$ 440	$ –
Production and intermediate-term	3,492	5,956	849	3,479	5,956	849
Processing and marketing	–	–	–	–	–	–
Rural residential real estate	92	105	60	92	105	60
Total Loans	$ 4,518	$ 6,763	$ 909	$ 4,265	$ 6,501	$ 909
Additional commitments to lend	$ –	$ –	$ –			

Note 4 — Investments

Investment in Other Farm Credit Institutions

Investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. The Association is required to maintain ownership in the Bank in the form of Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. Accounting for this investment is on the cost plus allocated equities basis. The Association's investment in the Bank totaled $6,257 for 2013, $6,527 for 2012 and $8,905 for 2011.

Other Investments

On October 22, 2004, Congress enacted the "Fair and Equitable Tobacco Reform Act of 2004" (Tobacco Act) as part of the "American Jobs Creation Act of 2004." The Tobacco Act repealed the federal tobacco price support and quota programs, provides for payments to tobacco "quota owners" and producers for the elimination of the quota, and provides an assessment mechanism for tobacco manufacturers and importers to pay for the buyout. Tobacco quota holders and producers will receive 10 equal annual payments under a contract with the Secretary of Agriculture. The Tobacco Act also includes a provision that allows the quota holders and producers to assign to a "financial institution" the right to receive the contract payments so that 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, 2012, and 2011, the Association held Tobacco Buyout SIIC of $369, $719 and $1,050, 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	$ 460	$ 460	$ 460
Buildings and improvements	2,186	2,155	2,156
Furniture and equipment	2,079	2,106	2,079
	4,725	4,721	4,695
Less: accumulated depreciation	2,961	2,921	2,871
Total	$ 1,764	$ 1,800	$ 1,824

Other Property Owned

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

	December 31,		
	2013	2012	2011
Gains (losses) on sale, net	$ 12	$ 538	$ (7)
Carrying value unrealized gains (losses)	(702)	(1,264)	(1,038)
Operating income (expense), net	(82)	(71)	(41)
Gains (losses) on other property owned, net	$ (772)	$ (797)	$ (1,086)

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 1.44 percent for LIBOR-based loans and 1.56 percent for Prime-based loans, and the weighted average remaining maturities were 1.8 years and 2.4 years, respectively, at

December 31, 2013. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 2.77 percent and the weighted average remaining maturity was 10.1 years at December 31, 2013. The weighted average interest rate on all interest-bearing notes payable was 2.48 percent and the weighted average remaining maturity was 8.4 years at December 31, 2013.

Variable rate and fixed rate notes payable represent approximately 19.13 percent and 80.87 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 Class B 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 $1 thousand or two percent of the loan amount, whichever is less. 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	23.62%	22.26%	20.04%	7.00%
Total surplus ratio	22.90%	21.52%	19.32%	7.00%
Core surplus ratio	22.90%	21.52%	19.32%	3.50%

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

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

C. Description of Equities

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

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

		Shares Outstanding	
Class	Protected	Number	Aggregate Par Value
C Preferred/Nonvoting	No	2,857	$ 14
A Common/Nonvoting	No	1,014	5
B Common/Voting	No	806,620	4,033
Participation Certificates/Nonvoting	No	106,270	532
Total Capital Stock and Participation Certificates		916,761	$ 4,584

Protected common stock and participation certificates are retired at par or face value in the normal course of business. 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, however, that minimum capital standards established by the FCA and the Board are met.

Dividends

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 20 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Class C Preferred Stock or on all classes of stock and participation certificates.

The rate of dividends paid on Class C Preferred Stock for any fiscal year may not be less than the rate of dividend paid on Classes A, B, and D Common Stock or participation certificates for such year. The rate of dividends on Classes A, B, and D Common Stock and participation certificates shall be at the same rate per share.

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

Patronage Distributions

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

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

Transfer

Class C Preferred, Classes A, B, and D Common Stocks, and Participation Certificates may be transferred to persons or entities eligible to purchase or hold such equities.

Impairment

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

1. Classes A, B, and D Common Stock and Participation Certificates
2. Class C 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 C Preferred Stock
2. Classes A, B, and D Common Stock and Participation Certificates
3. Holders of allocated retained earnings pro rata, until an amount equal to the total account has been distributed.

D. **Accumulated Other Comprehensive Income**

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

Changes in Accumulated Other Comprehensive income by Component *(a)*	2013	2012	2011
Employee Benefit Plans:			
Balance at beginning of period	$ (17)	$ (304)	$ (243)
Other comprehensive income before reclassifications	85	85	(140)
Amounts reclassified from AOCI	24	202	79
Net current period other comprehensive income	109	287	(61)
Balance at end of period	$ 92	$ (17)	$ (304)

Reclassifications Out of Accumulated Other Comprehensive Income *(b)*	2013	2012	2011	Income Statement Line Item
Defined Benefit Pension Plans:				
Periodic pension costs	$ (24)	$ (202)	$ (79)	See Note 9.
Net amounts reclassified	$ (24)	$ (202)	$ (79)	

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

Note 8 — Fair Value Measurement

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

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

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 2.45 percent of the issued stock of the Bank as of December 31, 2013, net of any reciprocal investment. As of that date, the Bank's assets totaled $28.8 billion and shareholders' equity totaled $2.1 billion. The Bank's earnings were $457 million at December 31, 2013. In addition, the Association has no investment related to other Farm Credit institutions.

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

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. Assets held in trust funds, related to deferred compensation plans, and assets held in mutual funds, related to the Association's Corporate Giving Fund, are classified as Level 1. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

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

Level 2

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

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

Level 3

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

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

reflecting appropriate credit risk are separately determined for each individual pool.

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

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

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

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

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

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

	Standby Letters Of Credit
Balance at January 1, 2013	$ 29
Issuances	–
Settlements	(6)
Balance at December 31, 2013	$ 23

	Standby Letters Of Credit
Balance at January 1, 2012	$ 16
Issuances	13
Settlements	–
Balance at December 31, 2012	$ 29

	Standby Letters Of Credit
Balance at January 1, 2011	$ 90
Issuances	–
Settlements	(74)
Balance at December 31, 2011	$ 16

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

Other Property Owned/Impaired Loans

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

Inputs to Valuation Techniques

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

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

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	$ 9,327	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
Assets held in trust funds	Quoted prices	Price for identical security
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:						
Assets held in trust funds	$ 924	$ 924	$ –	$ –	$ 924	
Recurring Assets	$ 924	$ 924	$ –	$ –	$ 924	
Liabilities:						
Standby letters of credit	$ 23	$ –	$ –	$ 23	$ 23	
Recurring Liabilities	$ 23	$ –	$ –	$ 23	$ 23	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 7,219	$ –	$ –	$ 7,219	$ 7,219	$ (761)
Other property owned	1,915	–	–	2,108	2,108	(690)
Nonrecurring Assets	$ 9,134	$ –	$ –	$ 9,327	$ 9,327	$ (1,451)
Other Financial Instruments						
Assets:						
Cash	$ 90	$ 90	$ –	$ –	$ 90	
Loans	591,578	–	–	580,713	580,713	
Other investments	369	–	–	370	370	
Other Financial Assets	$ 592,037	$ 90	$ –	$ 581,083	$ 581,173	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 455,980	$ –	$ –	$ 443,746	$ 443,746	
Other Financial Liabilities	$ 455,980	$ –	$ –	$ 443,746	$ 443,746	

	At or for the Year ended December 31, 2012					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in trust funds	$ 829	$ 829	$ –	$ –	$ 829	
Recurring Assets	$ 829	$ 829	$ –	$ –	$ 829	
Liabilities:						
Standby letters of credit	$ 29	$ –	$ –	$ 29	$ 29	
Recurring Liabilities	$ 29	$ –	$ –	$ 29	$ 29	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 8,764	$ –	$ –	$ 8,764	$ 8,764	$ (945)
Other property owned	2,459	–	–	2,636	2,636	(726)
Nonrecurring Assets	$ 11,223	$ –	$ –	$ 11,400	$ 11,400	$ (1,671)
Other Financial Instruments						
Assets:						
Cash	$ 163	$ 163	$ –	$ –	$ 163	
Loans	576,587	–	–	578,044	578,044	
Other investments	719	–	–	734	734	
Other Financial Assets	$ 577,469	$ 163	$ –	$ 578,778	$ 578,941	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 449,039	$ –	$ –	$ 448,779	$ 448,779	
Other Financial Liabilities	$ 449,039	$ –	$ –	$ 448,779	$ 448,779	

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

	December 31, 2011			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	$ 738	$ –	$ –	$ 738
Total Assets	$ 738	$ –	$ –	$ 738
Liabilities:				
Standby letters of credit	$ –	$ –	$ 16	$ 16
Total Liabilities	$ –	$ –	$ 16	$ 16

Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2011:

	December 31, 2011				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 6,227	$ 6,227	$ (4,715)
Other property owned	$ –	$ –	$ 4,662	$ 4,662	$ (1,045)

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	$ 215	$ 215
Loans, net of allowance	$ 600,243	$ 606,491
Other investments	1,050	1,092
Assets held in trust funds	$ 738	$ 738
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	$ 478,790	$ 481,954

Note 9 — Employee Benefit Plans

The Association participates in four District sponsored benefit plans. These plans include two multiemployer defined benefit pension plans, the AgFirst Farm Credit Retirement Plan which is a final average pay plan (FAP) and the AgFirst Farm Credit Cash Balance Retirement Plan which is a cash balance plan (CB). In addition, the Association participates in a multiemployer defined benefit other postretirement 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
AgFirst Farm Credit Retirement Plan	89.47%	77.35%	74.82%	$2,023	$1,822	$1,589	4.04%	4.00%	4.00%
AgFirst Farm Credit Cash Balance Retirement Plan	95.06%	86.01%	81.77%	$62	$244	$31	3.51%	3.62%	3.81%

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%	$277	$244	$216	3.99%	3.93%	3.62%

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 FAP Plan or the CB Plan. These two Plans are noncontributory and include eligible Association and other District employees. For participants hired prior to January 1, 2003, benefits are provided under the FAP Plan and are based on eligible compensation and years of service. For participants hired on or after January 1, 2003, benefits are provided under the CB Plan and are determined using a percent of eligible compensation formula. The employer contribution into the CB Plan is based on a formula of 3.00-5.00 percent of eligible compensation (depending on years of service) and interest credits as allocated to an employee's theoretical account balance. The actuarially-determined costs of these plans are allocated to each participating entity, including the Association, by multiplying the plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all plan participants. Plan expenses included in employee benefit costs were $2,324 for 2013, $2,328 for 2012, and $2,314 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 $333 for 2013, $267 for 2012, and $334 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, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $205, $203, and $200 for the years ended December 31, 2013, 2012, and 2011, respectively.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2013, 2012, and 2011, $109, $287, and $(61), respectively, has been recognized as net debits and a net credit, respectively, to AOCI to reflect these elements.

The supplemental retirement plan is unfunded and had a projected benefit obligation of $481 and a net under-funded status of $481 at December 31, 2013. Net periodic pension cost was $61, $247, and $114 for 2013, 2012, and 2011, respectively. Assumptions used to determine the projected benefit obligation as of December 31, 2013 included a discount rate of 5.00 percent and a rate of compensation increase of 4.50 percent.

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

Note 10 — Related Party Transactions

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

Total loans to such persons at December 31, 2013 amounted to $7,243. During 2013, $6,174 of new loans were made and repayments totaled $5,603. 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, $92,399 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 $178 with expiration dates ranging from January 12, 2014 to February 4, 2018. The maximum potential amount of future payments that may be required under these guarantees was $178.

As of December 31, 2013, the Association had no commitments to purchase additional Tobacco Buyout SIIC.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2013	2012	2011
Current:			
Federal	$ 8	$ 8	$ 7
State	4	4	4
	12	12	11
Deferred:			
Federal	–	–	–
State	–	–	–
Total provision (benefit) for income taxes	$ 12	$ 12	$ 11

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	$ 5,639	$ 4,426	$ 3,316
State tax, net	1	3	3
Patronage distributions	(2,357)	(1,920)	(1,695)
Tax-exempt FLCA earnings	(3,206)	(2,377)	(1,510)
Changes in tax law/rates	(7)	(10)	(10)
Change in deferred tax asset valuation allowance	(57)	(127)	(108)
Other	(1)	17	15
Provision (benefit) for income taxes	$ 12	$ 12	$ 11

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

	December 31,		
	2013	2012	2011
Deferred income tax assets:			
Allowance for loan losses	$ 322	$ 422	$ 576
Other property owned writedown	38	–	37
Nonaccrual loan interest	136	135	74
Gross deferred tax assets	496	557	687
Less: valuation allowance	(488)	(545)	(672)
Gross deferred tax assets, net of valuation allowance	8	12	15
Deferred income tax liabilities:			
Depreciation	(8)	(12)	(15)
Gross deferred tax liability	(8)	(12)	(15)
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2013, deferred income taxes have not been provided by the Association on approximately $0.9 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of $488, $545, and $672 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	$ 4,120	$ 4,272	$ 4,276	$ 4,885	$ 17,553
Provision for (reversal of allowance for) loan losses	(314)	45	(157)	(773)	(1,199)
Noninterest income (expense), net	(1,664)	(1,679)	(1,778)	2,467	(2,654)
Net income (loss)	$ 2,770	$ 2,548	$ 2,655	$ 8,125	$ 16,098

	2012				
	First	Second	Third	Fourth	Total
Net interest income	$ 4,780	$ 4,553	$ 4,238	$ 4,231	$ 17,802
Provision for (reversal of allowance for) loan losses	(202)	1,042	275	(585)	530
Noninterest income (expense), net	(1,229)	(800)	(1,299)	(938)	(4,266)
Net income (loss)	$ 3,753	$ 2,711	$ 2,664	$ 3,878	$ 13,006

	2011				
	First	Second	Third	Fourth	Total
Net interest income	$ 4,798	$ 4,843	$ 5,023	$ 4,960	$ 19,624
Provision for (reversal of allowance for) loan losses	985	2,288	468	386	4,127
Noninterest income (expense), net	(1,419)	(1,183)	(2,493)	(659)	(5,754)
Net income (loss)	$ 2,394	$ 1,372	$ 2,062	$ 3,915	$ 9,743

This page left blank intentionally.

This page left blank intentionally.

This page left blank intentionally.

Colonial Farm Credit, ACA
7104 Mechanicsville Turnpike
Mechanicsville, VA 23111

Prsrt Std
U.S. Postage
PAID
Columbia SC
Permit 1160

27805