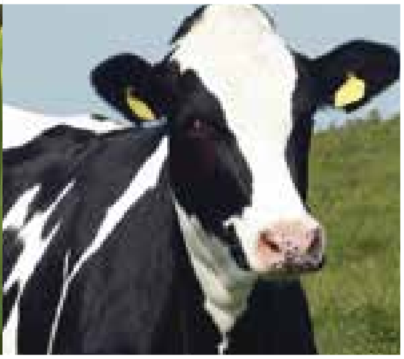
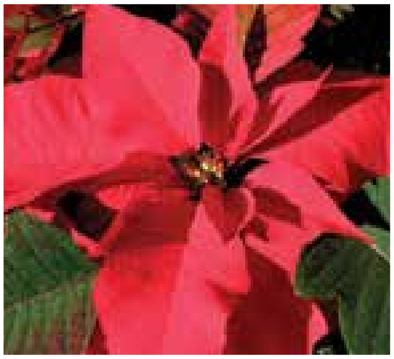
ANNUAL REPORT 2013

PUERTO RICO
FARM CREDIT

PUERTO RICO FARM CREDIT, ACA

2013 ANNUAL REPORT

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Management

Ricardo L. Fernández .... President and Chief Executive Officer
Jorge A. Dulzaides .... Chief Lending Officer
Johana Quiñones .... Director of Finance, Risk and Internal Controls

Board of Directors

Robert G. Miller .... Chairman
Pablo Rodríguez .... Vice Chairman
Victor Ayala. .... Second Vice Chairman
Carlos A. Rodríguez .... Director
Héctor I. Cordero .... Director
Michael J. Serrallés .... Director
Antonio E. Marichal .... External Director and Financial Expert
Francisco Oramas .... External Director

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Message From the Chief Executive Officer

As I complete my third year of work at the Association, I am grateful to be part of this institution, and really proud of having the opportunity to help grow the Farm Credit System and the agriculture industry in Puerto Rico. During my time here, I have had the chance to meet so many wonderful people who, day in and day out, get up and go out to feed the world. To all of them, I send my gratitude and admiration for their passion and commitment.

I am also glad to share good news about our Association as it continued to improve its financial performance in 2013, earning $2,688,000 in Net Income versus $683,000 in 2012. This result includes a special dividend for $1.8 million received from AgFirst Bank. Our core operations generated Net Income of $864,000 versus $4,000 in 2012, a significant improvement.

Net accruing loans decreased from $155,465,000 in 2012 to $148,930,000 in 2013, as the association received over $12 million in unexpected principal payments. We are reporting a slight decrease in net interest income, from $4,509,000 in 2012 to $4,474,000 due to lower average loan volume. We were able to reverse the provision for loan losses by $1 million as credit quality continues to stabilize in a delicate economic environment in the island. Operating expenses decreased in 2013 by $217,000, to $4,895,000, as we streamlined our operations. The Board of Directors and our team of employees are excited about these results and are committed to continue improving in 2014.

Our short-term focus remains to be able to declare and pay a dividend to you, our shareholder, as soon as possible. Nevertheless, we are moving cautiously in order to support long-term sustainability and not to deal lightly with the issues at hand. Today, it is evident that our solid capital position has been instrumental in allowing us to weather the storm during these difficult years. Thus, we want to make sure we stand in the best position to face uncertainty in the island. This year's profits will be retained once again to continue building back our capital base. I am confident we will be able to address dividends in the near future, from a much better financial situation.

On that direction, we will expand newly formed partnerships that help promote agriculture in Puerto Rico. These relationships are already yielding new business opportunities and are helping to increase interest in agribusiness.

I trust the relevance of the agricultural sector in Puerto Rico's economy will become more evident as new initiatives come to fruition. The support both government and private sectors are giving to agriculture is emboldening many in the industry, a development I find uplifting. We will continue to leverage our brand and resources to benefit all farmers in Puerto Rico.

Thank you,

Ricardo L. Fernández
Chief Executive Officer
Puerto Rico Farm Credit, ACA

March 12, 2014

Report of Management

The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by the management of Puerto Rico 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 Puerto Rico 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.

Robert G. Miller
Chairman of Board of Directors

Ricardo L. Fernandez
Chief Executive Officer

Antonio Marichal
Member of Board of Directors
Chairman of the Audit Committee

Johana Quiñones
Director of Finance, Risk Management and Internal Control

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. This process provides 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.

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the 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.

Ricardo L. Fernández
Chief Executive Officer

Johana Quiñones
Director of Finance, Risk Management and Internal Control

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	$ 103	$ 214	$ 164	$ 928	$ 162
Loans	161,841	169,389	175,382	188,406	227,226
Less: allowance for loan losses	3,128	4,408	3,482	4,003	2,720
Net loans	158,713	164,981	171,900	184,403	224,506
Notes receivable from other Farm Credit institutions	—	10,000	10,000	10,000	10,000
Investments in other Farm Credit institutions	1,876	1,960	2,706	3,162	3,679
Other property owned	2,481	3,498	2,489	2,443	521
Other assets	5,204	4,635	4,573	5,253	6,086
Total assets	$ 168,377	$ 185,288	$ 191,832	$ 206,189	$ 244,954
Notes payable to AgFirst Farm Credit Bank*	$ 116,275	$ 135,882	$ 143,364	$ 156,743	$ 187,237
Accrued interest payable and other liabilities with maturities of less than one year	929	867	671	690	1,515
Other liabilities with maturities of greater than one year	2,078	2,080	1,984	2,407	1,528
Total liabilities	119,282	138,829	146,019	159,840	190,280
Capital stock and participation certificates	537	604	648	679	721
Unallocated retained earnings	48,256	45,569	44,886	45,878	53,208
Accumulated other comprehensive income (loss)	302	286	279	(208)	745
Total members' equity	49,095	46,459	45,813	46,349	54,674
Total liabilities and members' equity	$ 168,377	$ 185,288	$ 191,832	$ 206,189	$ 244,954
Statement of Operations Data					
Net interest income	$ 4,474	$ 4,508	$ 4,146	$ 3,921	$ 4,552
Provision for (reversal of allowance for) loan losses	(1,088)	736	2,329	9,390	3,312
Noninterest income (expense), net	(2,875)	(3,089)	(2,809)	(1,875)	(2,100)
Net income (loss)	$ 2,687	$ 683	$ (992)	$ (7,344)	$ (860)
Key Financial Ratios					
Rate of return on average:					
Total assets	1.50%	0.37%	(0.50)%	(3.22)%	(0.33)%
Total members' equity	5.67%	1.45%	(2.14)%	(13.13)%	(1.54)%
Net interest income as a percentage of average earning assets	2.57%	2.50%	2.15%	1.77%	1.79%
Net (chargeoffs) recoveries to average loans	(0.115)%	0.111%	(1.560)%	(3.839)%	(0.755)%
Total members' equity to total assets	29.16%	25.07%	23.88%	22.48%	22.32%
Debt to members' equity (:1)	2.43	2.99	3.19	3.45	3.48
Allowance for loan losses to loans	1.93%	2.60%	1.99%	2.12%	1.20%
Permanent capital ratio	29.41%	20.67%	18.61%	20.84%	17.39%
Total surplus ratio	29.05%	20.29%	18.22%	20.49%	17.06%
Core surplus ratio	29.05%	20.29%	18.22%	20.49%	17.06%
Net Income Distribution					
Estimated patronage refunds:					
Cash	$ —	$ —	$ —	$ —	$ 615

** 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 Puerto Rico 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 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 served (also referred to throughout this Annual Report as stockholders or shareholders). The territory served by the Association covers the entire island of Puerto Rico. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses.

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

Copies of the Association's Annual and Quarterly reports are on the Association's website, ***www.puertoricofarmcredit.com***, or may be obtained upon request free of charge by calling 1-800-981-3323, or writing Nydia J. Acevedo, Puerto Rico Farm Credit, ACA, PO Box 363649, San Juan, PR 00936. 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 Report 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 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 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 the expectations and predictions due to a number of risks and uncertainties, many of which are beyond the Association's control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States, Puerto Rico 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 the United States and Puerto Rico governments support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Significant accounting policies are critical to the understanding of the Association's results of operations and financial position because some accounting policies require the Board and management to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. These policies are 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* management's best estimate of the amount of probable losses existing in and 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, which generally considers relevant historical charge-off experience adjusted for relevant factors. These factors include types of loans, credit quality, specific industry conditions, general economic and political conditions, and changes in the character, composition, and performance of the portfolio, among other factors. Management considers the allowance for loan losses to have been determined in accordance with generally accepted accounting principles appropriate to the periodic process utilized.

Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by nature, contains elements of uncertainty and imprecision. Changes in the agricultural economy and 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.

Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, other property owned, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Association's results of operations.

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

PUERTO RICO ECONOMIC CONDITIONS

The Board of Directors and Senior Management are committed to fulfilling Farm Credit System's public mission. As such, the Board of Directors engaged for the second straight year a local economist to perform an economic and market study of agriculture in the island. A summary of the results is shown below, the plan put together in 2013 will continue into 2014. Both The Board of Directors and Senior Management will monitor current economic conditions in the island to ensure that any new growth initiatives are implemented in a sound manner.

The economic conditions that have prevailed during the last 8 years are expected to continue as the economy contracted .4% in fiscal 2013 and is expected to contract 1.5% in fiscal 2014. The economy still needs liquidity (equity) to increase investment in the island that can lead to growth. The government is limited in what it can do to increase investment in the island due to weak public finances. The government's ability to issue bonds was adversely impacted as its sovereign debt rating was downgraded to below investment grade or "Junk". The increased cost of borrowing will be felt in 2014 as the government attempts to refinance maturing bonds in the first quarter of 2014 at significantly high rates (9-12%). The government has already approved new tax laws to increase its revenue base, however, it will need to make difficult decisions to lower operating costs. The largest government expenditure is payroll; currently 30% of the island's laborers work for the government.

The government will also need to lower energy costs to allow small and large businesses in the island to remain competitive or manufacturing companies may decide to invest elsewhere. Other challenges faced by the government include a possible reduction in federal fund transfers, the prevailing high unemployment rate of over 14%, the reduced construction activity and, high prices for other utilities. Lastly, discretionary income in businesses and families has decreased and may decrease further with the new taxes implemented at the end of 2013.

The local commercial banking industry continues to focus on improving credit quality; especially, in commercial loan portfolios. In 2014 three major banks will have to make difficult decisions in the management of troubled loans protected by the shared loss agreements with the FDIC. This may lead the industry to continue reducing total loans. Loans at commercial banks decreased more the 40% since 2008.

New regulations continue to require more controls over credit policies and procedures and local banks are focusing on complying with new requirements. The local banking industry is still under recovery and will continue facing the same challenges in 2014.

As the Federal Reserve tries to balance growth in the economy and inflation, interest rates are at historically low rates and forecasted to remain at this level through the end of 2015. A low rate environment will limit the association's ability to generate additional earnings from loanable funds and its ability to increase net interest margin in an increasingly competitive marketplace, where retaining strong borrowers is crucial for success.

The local dairy industry's production was stable in 2013 with production slightly below the previous year and this trend is expected to continue in 2014. The ACA continues to monitor events within the industry and there potential impact on the dairy portfolio. The association lends just over 27% of total loans to this industry and is implementing risk management practices to reduce overall risk.

Other agricultural sectors do not represent significant risk for the association. Management monitors all sectors and does not anticipate any adverse impact to the portfolio in 2014.

As mentioned before the Association will continue to search for opportunities to fulfill its public mission. The Board of Directors and management remain cautious of the ACA's ability to quickly grow the portfolio under the prevailing economic environment. Management will focus on targeted marketing to viable farmers in sectors demonstrating the ability to grow and remain competitive in a changing marketplace.

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 various product types.

The gross loan volume of the Association as of December 31, 2013 was $161,841, a decrease of $7,548 or 4.46 percent as compared to $169,389 at December 31, 2012; and a decrease of $13,541 or 7.72 percent compared to $175,382 at December 31, 2011. Net loans outstanding (gross loans net of the allowance for loan losses) at December 31, 2013 were $164,969 as compared to $164,981 at December 31, 2012 and $171,900 at December 31, 2011. Net loans accounted for 97.98 percent of total assets on December 31, 2013 as compared to 89.04 percent of total assets on December 31, 2012 and 89.61 percent of total assets on December 31, 2011.

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

Loan Type	12/31/13	12/31/12	12/31/11
Real estate mortgage	58.91%	60.46%	64.57%
Production and intermediate term	14.98	24.99	18.60
Agribusiness:			
Loans to cooperatives	–	–	–
Processing and marketing	10.42	1.97	3.74
Farm related business	1.50	.55	.42
Communication	3.42	.57	.72
Energy	1.44	1.46	1.41
Rural residential real estate	9.33	10.00	10.54
Total	100.00%	100.00%	100.00%

While the Association makes loans and provides financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified. 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's loan portfolio (gross principal balance, net of sold loans) are shown below. The predominant commodities on the island were dairy, fruits and rural home which constituted 46.7 percent of the entire portfolio at December 31, 2013.

	Percent of Portfolio		
Commodity Group	2013	2012	2011
Dairy	27.3%	31.6%	28.7%
Participations (net)	25.5	21.6	21.0
Fruits	9.9	8.6	7.3
Rural Home	9.5	9.9	10.0
Field Crops (Vegetables)	8.3	8.3	8.4
Livestock (Beef Cattle)	7.5	7.4	11.1
Misc. Real Estate	2.8	3.6	3.7
Ornamentals/Nursery	2.6	2.9	3.0
Poultry	1.9	1.9	1.7
Plantains	2.0	1.7	2.0
Coffee	1.5	1.3	1.8
Horses	.6	.6	0.6
Other	.6	.6	0.7
Total	100.0%	100.0%	100.0%

Repayment ability is closely related to the commodities produced by the Association's borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration of island dairy producers. 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 chartered territory. Even though the concentration of participation loans has steadily decreased during the past several years, the agricultural enterprise mix of these loans is diversified, as well as the geographic risk. Management and the Board of Directors continue to believe a major factor protecting the balance sheet and income statement is diversification, spreading both geographic and industry concentration risks.

The decrease in gross loan volume for the twelve months ended December 31, 2013 was due to decreases in both the on-island, chartered territory loan portfolio and the participation purchased loan portfolio. Additionally, the Association has sold part of its chartered territory loan portfolio to the Bank for several years. This action has resulted in reductions in the gross chartered territory loan's volume of $7,846, $12,354 and $10,403 at December 31, 2013, 2012 and 2011, respectively. The Association did not have any loans sold with recourse.

The Association has experienced changes in the composition of loan assets. The long-term real estate mortgage trend has been upward while the short and intermediate-term loan volume trend has been downward. This trend change was primarily the result of decreasing loan volume in the participation purchased portfolio, which carries shorter maturities related to commercial lending activities. At December 31, 2013, the Association had no one single borrower that comprised more than 3.95 percent of loan volume.

During the past several years, the Association has been engaged in the buying and selling of loan participations, both from within and outside of the System. This provides a means for the Association to spread geographic and credit concentration risks and realize non-patronage sourced interest and fee income, which strengthens the Association's capital position. The following table presents the balances concerning the Association's participations purchased and sold portfolios that include the principal balance, unamortized premium and the net nonaccrual balances at December 31:

Loan Participations	2013	2012	2011
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 32,997	$ 30,636	$ 33,459
Participations Purchased – Non-FCS Institutions	10,601	7,659	3,908
Total Participations Purchased	$ 43,598	$ 38,295	$ 37,367
Participations Sold	$ 7,846	$ 12,354	$ 10,403

As part of the non-FCS participation portfolio, the Association has purchased participation interests in loans that are guaranteed by the United States Department of Agriculture. These loans are held for the purposes of reducing geographic risk and managing surplus funds as allowable under FCA regulations. During 2013, the Association increased its total participation purchased portfolio mainly in the rural utilities commodity collateral group. At December 31, 2013, the balance of these loans (including unamortized premium) was $10,601 compared to $7,659 at December 31, 2012 and $3,908 at December 31, 2011.

The participations sold portfolio consists of dairy and fruit commodities of the chartered territory loans that are not related with the participations purchased portfolio.

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

In October 2005, the FCA authorized AgFirst and the associations of the AgFirst District 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. Since December 31, 2011 the Association had no outstanding investment in Rural America Bonds, included as loans on the Consolidated Balance Sheets, compared to $973 as of December 31, 2011.

NOTES RECEIVABLE-OTHER FARM CREDIT INSTITUTIONS

In September 2008, the Association used capital reserves to purchase $10,000 total of 9.00 percent fixed rate unsecured subordinated notes issued by two other associations in the District, both notes due in 2018 with a prepayment option beginning in October 2013.

The notes receivable are subordinated to all other categories of creditors of the issuing associations, including any claims of the Bank and general creditors, but are senior to all classes of shareholders of the issuing associations. The notes receivable are not considered System debt, and thus are not guaranteed by the System and not insured by the Insurance Corporation. Since the notes receivable are only guaranteed by the two issuing associations, repayment could be negatively impacted by funding, credit, and/or counterparty risks encountered by the two issuing associations in their business operations.

On October 15, 2013, the notes receivable were redeemed in full by the issuing associations.

The notes receivable bear interest at an annual fixed rate of 9.00 percent. For the twelve months ended December 31, 2013, the Association recognized $710 as interest income.

For more information related to notes receivable-other Farm Credit Institutions, see Note 4, *Notes Receivable from Other Farm Credit Institutions*, of the Notes to the Consolidated Financial Statements.

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 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. Under FCA regulations, appraisals are required for real estate mortgage loans of more than $250,000. The Association requires an appraisal for all real estate mortgage loans, no matter the size. 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.

Management reviews the credit quality of the loan portfolio on an ongoing basis as part of the Association's 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	89.61%	86.16%	85.85%
Substandard	10.39	13.84	14.15
Doubtful	–	–	–
Loss	–	–	–
Total	100.00%	100.00%	100.00%

The higher adverse level of the substandard asset quality category during 2012 and 2011 was a direct result of the weaker economies, both in Puerto Rico and the US mainland. Credit quality deterioration for production agriculture was a result of reduced profitability largely driven by higher input costs (fuel, feed, and electricity). Additionally, loans tied to housing, either through construction or development, have seen demand plummet and profitability decline resulting in downgrades of the assigned credit risk rating. However, the acceptable and OAEM credit qualities are improving since 2011.

NONPERFORMING ASSETS

The Association's loan portfolio is divided into performing and high-risk categories. A Special Assets Management Department is responsible for servicing loans classified as high-risk. The high-risk assets, including accrued interest as of December 31, 2013, are detailed below:

	12/31/13	12/31/12	12/31/11
	(dollars in thousands)		
High-risk Assets			
Nonaccrual loans	$ 12,911	$ 13,924	$ 16,935
Restructured loans	2,353	1,338	4,021
Accruing loans 90 days past due	–	–	–
Total high-risk loans	$ 15,264	$ 15,262	$ 20,956
Other property owned	2,481	3,498	2,489
Total high-risk assets	$ 17,745	$ 18,760	$ 23,445
Ratios			
Nonaccrual loans to total loans	7.98%	8.22%	9.66%
High-risk assets to total assets	10.54%	10.12%	12.22%

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. Nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased $1,013 or 7.28 percent in 2013. Of the $12,911 in nonaccrual loan volume at December 31, 2013, $1,612 or 12.49 percent, as compared to $2,611 or 18.75 percent at December 31, 2012, was considered 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. Trouble Debt Restructuring (TDR) 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. During 2013, five chartered territory loans and one participation loan were restructured totaling $1,605 and $722, respectively. The Association compromised $29 owed as part of two chartered territory loan restructureds. As of December 31, 2013, two chartered territory TDR loans are in payment default, thirty days past due. All other TDR loans are current and are paying as agreed at December 31, 2013.

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio. The allowance for loan losses was $3,128 at December 31, 2013, as compared with $4,408 and $3,482 at December 31, 2012 and 2011, respectively.

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

Allowance for Loan Losses Activity:	2013	2012	2011
	(dollars in thousands)		
Balance at beginning of year	$ 4,408	$ 3,482	$ 4,003
Charge-offs:			
Real Estate Mortgages	(7)	(679)	(423)
Production and intermediate term	(9)	(46)	(702)
Agribusiness	(196)	(1)	(1,739)
Rural Residential Real Estate	–	–	(1)
Total charge-offs	$ (211)	$ (726)	$ (2,865)
Recoveries:			
Real Estate Mortgages	2	153	15
Production and Intermediate Term	1	762	–
Agribusiness	16	–	–
Total recoveries	$ 19	$ 915	$ 15
Net (charge-offs) recoveries	$ (192)	$ 189	$ (2,850)
Provision for (reversal of allowance for) loan losses	$ (1,088)	$ 737	$ 2,329
Balance at end of year	$ 3,128	$ 4,408	$ 3,482
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.115)%	0.111%	(1.560)%

The net charge-offs were primarily associated with real estate loans where land values had fallen significantly since 2008; and the net recoveries were mostly related to $16 recorded for a participation loan transferred to other property owned.

The reversal of allowance for loan losses was mainly due to an updated appraisal reports for two chartered territory loans that resulted in $812 decrease on their specific reserves.

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

Allowance for Loan Losses by Type	2013	December 31, 2012	2011
	(dollars in thousands)		
Real estate mortgage	$ 1,359	$ 1,336	$ 1,359
Production and intermediate term	1,002	1,685	657
Agribusiness	565	1,241	1,273
Communication	12	16	7
Energy	2	3	2
Rural residential real estate	188	127	184
Total allowance	$ 3,128	$ 4,408	$ 3,482

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:	2013	December 31, 2012	2011
Total loans	1.93%	2.60%	1.99%
Nonperforming loans	17.63%	23.50%	14.85%
Nonaccrual loans	24.23%	31.66%	20.56%

RESULTS OF OPERATIONS

For the year ended December 31, 2013, the Association earned net income from operations which totaled $2,687, an increase of $2,004 as compared to $683 for the same period of 2012 and a decrease of $1,675 as compared to a net loss of $(992) for the same period of 2011. Total interest income for the year ended December 31, 2013 was $7,084 a decrease of $417 or 5.56 percent as compared to $7,501 for the same period of 2012. Total interest income decreased by $157 or 2.05 percent for the period ended December 31, 2012 compared to December 31, 2011. Major components of the change in net income for the past two years are outlined in the following table:

Change in Net Income:	2013-2012	2012-2011
	(dollars in thousands)	
Net income (loss) (prior year)	$ 683	$ (992)
Increase (decrease) in net income (loss) due to:		
Interest income	(417)	(157)
Interest expense	(383)	519
Net interest income	$ (34)	$ 362
Provision for loan losses	1,824	1,593
Noninterest income	(3)	12
Noninterest expense	217	(292)
Provision for income taxes	–	–
Total changes in income	$ 2,004	$ 1,675
Net income	$ 2,687	$ 683

Net Interest Income

Net interest income was $4,474, $4,508 and $4,146 in 2013, 2012 and 2011, respectively. Net interest income from loans was the principal source of earnings for the Association; and was impacted by volume, yields on assets and cost of debt. However, during 2013, the net interest income decrease by $34 mainly due to the decrease in loan volume even though during 2012, the interest income increased by $362, primary due to the initiatives to improve the spreads and management of the loan portfolio risk. This even though, net interest income was negatively impacted by the amortization of premium paid to acquire USDA guaranteed loans in the secondary market place. Premium amortization expense was $88, $71 and $116 in 2013, 2012 and 2011, respectively. Also, net interest income was enhanced by the notes receivable from other Farm Credit Institutions. Net interest income from notes receivable was $249 until the notes were called on October 2013; and $263 on each 2012 and 2011.

The effects of changes in average volume and interest rates on net interest income are summarized in the following table:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual Income	Other	Total
			(dollars in thousands)		
12/31/13 – 12/31/12					
Interest income	$ (820)	$ 591	$ (188)	$ –	$ (417)
Interest expense	(170)	(213)	–	–	(383)
Income	$ (650)	$ 804	$ (188)	$ –	$ (34)
12/31/12 – 12/31/11					
Interest income	$ 134	$ (276)	$ (9)	$ (6)	$ (157)
Interest expense	(307)	(212)	–	–	(519)
Income	$ 441	$ (64)	$ (9)	$ (6)	$ 362

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

Please refer to the Consolidated Five-Year Summary of Selected Financial Data in this Annual Report to review key financial ratios pertaining to earnings and net interest income.

For the twelve months of 2013, the Association recognized a reversal of allowance for loan losses which totaled $1,088, compared to $736 and $2,329 for the twelve months of 2012 and

2011, respectively. During 2013, the Association included $1,132 of specific reserves in the provision expense for loans classified as impaired, as compared to $2,073 of specific reserves during 2012 and $1,194 during 2011.

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	$ 205	$ 108	$ 367	89.81%	(70.57)%
Patronage Rebate Fees	153	222	230	(31.08)	(3.48)
Patronage refunds from other Farm Credit Institutions	2,896	1,480	1,576	95.68	(6.09)
Other noninterest income	111	86	55	29.07	56.36
Other-than-temporary Impairement losses on Inv.	(180)	–	–	–	–
Insurance Fund refund	–	679	–	-100.00	100.00
Gains (losses) on other property owned	(1,166)	(553)	(218)	110.85	153.67
Total noninterest income	$ 2,019	$ 2,022	$ 2,010	(0.15)%	0.60%

Regarding patronage refunds received from other Farm Credit Institutions, the Association received $1,046 in two patronage refunds from the Bank and $1,850 in special dividend distributions from the Bank for the year ended December 31, 2013. This compared to $1,113 in two patronage refunds from the Bank and $367 in a special dividend distribution from the Bank for the year ended December 31, 2012 and $1,194 in patronage refunds and $382 special dividend distribution for 2011. Additionally, during 2012, the Association received one refund from the Farm Credit System Insurance Corporation (FCSIC) which totaled $679. It is not known whether the FCSIC will make any distributions in future years.

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	$ 3,084	$ 3,165	$ 3,151	(2.56)%	.44%
Occupancy and equipment	274	267	296	2.62	(9.80)
Insurance Fund premiums	129	79	99	63.29	(20.20)
Other operating expenses	1,407	1,600	1,273	(12.06)	25.69
Total noninterest expense	$ 4,894	$ 5,111	$ 4,819	(4.25)%	6.06%

Salaries and employee benefits expense decreased in 2013 primarily due to a one time severance payments net of additional personnel recruited during 2012; and a decrease in the pension expense for AgFirst Farm Credit Retirement Plan. Insurance fund premiums increased mainly due to an increase in the base premium factor. Other operating expenses decreased by $193 mainly due to a reduction of $115 on purchased services, $54 on public and member relations; and $41 on director's expenses; partially offset by other operating expenses.

Income Taxes

The Association recorded no provision for federal income tax for 2013, 2012, and 2011. For 2010, the Association incurred a patronage sourced net operating loss which was carried forward to 2011 through 2013, which fully offset patronage sourced taxable income. Therefore, since 2012 any eligible patronage sourced income was not distributed. As a result, the Association incurred an immaterial amount of alternative minimum tax due to the alternative minimum tax net operating loss limitation. The Association is exempt from Puerto Rico income tax under Article 23 of the General Cooperative Act of 2004. Please refer to Note 2, *Income Taxes*, for more specific information.

Key Results of Operations Comparisons

Key results of operations comparisons for 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	For the 12 Months Ended 12/31/12	For the 12 Months Ended 12/31/11
Return on Average Assets	1.50%	.37%	(0.50)%
Return on Average Members' Equity	5.67%	1.45%	(2.14)%
Net Interest Income as a Percentage of Average Earning Assets	2.57%	2.50%	2.15%
Net (Charge-offs) Recoveries to Average Loans	(0.115)%	0.111%	(1.560)%

The Association's financial goals are operating within safe and sound parameters while generating sufficient income to maintain a highly capitalized Association and to declare and pay an attractive patronage dividend to the members/borrowers of the Association. To accomplish this, the Association must achieve its objectives, which include attracting and retaining quality volume, which is competitively priced, while effectively managing risk within the balance sheet and income statement. For 2013, no patronage dividend has been declared.

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. The Association's capital level effectively creates a borrowing margin between the amount of loans outstanding and the direct loans to the Bank. The margin is commonly referred to as "loanable funds."

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 Association's liquidity practice is to maintain cash balances in a local depository bank at a level that maximizes reduction of the direct note by increasing loanable funds. As borrower payments are received, they are immediately applied to the respective notes payable to the Bank. The Association's participation in investments and other secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in the Association experiencing a liquidity deficiency.

Total notes payable to the Bank at December 31, 2013 were $116,275 as compared to $135,882 at December 31, 2012 and $143,364 at December 31, 2011. The decrease of $19,607 or 14.43 percent mainly corresponds to a decreased in loan volume. The average volume of notes payable to the Bank was $128,513 and $136,239 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.

The Association had no available lines of credit from third party financial institutions as of December 31, 2013.

The GFA defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants. The Association failed to meet its earnings covenant under the GFA at December 31, 2012. The default allowed the Bank, in conjunction with the FCA, to accelerate repayment of all indebtedness. The Bank approved a waiver of the default and allowed the Association to continue operating under a Special Credit Agreement (SCA). At December 31, 2013, the Association was in compliance with the earnings covenant under the SCA and the GFA. The current SCA addressing the GFA earnings covenant default was executed effective January 31, 2013 and expired on January 31, 2014. The Association continues to operate under the 2014 GFA.

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 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 and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to either the Prime Rate or the 90-day London Interbank Offered Rate (LIBOR). Fixed rate loans are priced based on the current cost of Farm Credit System debt of similar terms to maturity. The Association does not offer or include adjustable rate mortgages (ARMS) in its portfolio of loan products.

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 Sources" 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 loan growth and investment in new products and services, as they may become available.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan. There were no material changes to the capital plan for 2013 that affected the minimum stock purchase requirement or would have had an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2013 increased $2,636 or 5.67 percent to $49,095 from the total of $46,459. Also, at December 31, 2012 total members' equity increased 1.41 percent or $646 from the December 31, 2011 total of $45,813. The increase in the total members' equity was primarily due to the net income from operations. For 2013, the Association recorded a consolidated net income from operations of $2,687. The FLCA subsidiary showed net income of $895; and the ACA subsidiary reflected a net income of $1,792.

Additionally, for 2013 and 2012, total Accumulated Other Comprehensive Income changed by $16 and $7, respectively, which were the net incremental adjustments recorded as Accumulated Other Comprehensive Income (Loss) from adopting the provisions of FASB guidance, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The adoption of this guidance had no effect on the Consolidated Statements of Operations for the years ended December 31, 2013 and 2012. Refer to Note 9, *Employee Benefit Plans*, of the Notes to the Consolidated Financial Statements for additional information on the adoption of this guidance during 2007.

Total capital stock and participation certificates were $537 on December 31, 2013, compared to $604 on December 31, 2012 and $648 on December 31, 2011. The Board of Directors continued its commitment to maintain the cooperative equity investment requirement at the regulatory minimum of 2.0 percent of the original loan or $1,000, whichever is less.

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 three ratios.

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

	2013	2012	2011	Regulatory Minimum
Permanent Capital	29.41%	20.67%	18.61%	7.00%
Total Surplus	29.05%	20.29%	18.22%	7.00%
Core Surplus	29.05%	20.29%	18.22%	3.50%

The increase in the Association's permanent capital, total surplus and core surplus ratios since December 31, 2011 was primarily attributable to a decrease in calculated risk weighted assets each year The Association meet the FCA's regulatory minimum capital standards and capital adequacy requirements.

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.

See Note 7, *Members' Equity*, of the Notes to 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, if necessary, 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 the Association's FLCA subsidiary earned on a non-patronage basis, the remaining taxable earnings of the Association are eligible for allocation and distribution to eligible borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distribution. The Association has not declared estimated patronage distributions since 2010.

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

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young*, Beginning** and Small*** farmers. The Association has established annual marketing goals to increase its market share of loans to YBS farmers because of the unique needs of these individuals and their importance to the future growth of the Association. 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 following table outlines the Association's YBS 2012 goal and actual number of loans and dollar amount (in thousands) in the loan portfolio as of December 31, 2013:

	Number of Loans		$ Amount of Loans	
	2013 Goal	2013 Actual	2013 Goal	2013 Actual
Young	86	77	$13,500	$11,984
Beginning	279	239	$32,700	$28,727
Small	224	285	$36,650	$30,490

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 15,745 reported farmers of which by definition 720 or 4.57 percent were Young and 4,785 or 30.39 percent were Beginning. The Puerto Rico census does not make available data which identifies and classifies Small farmers. Comparatively, as of December 31, 2013, the demographics of the Association's agricultural portfolio contained 705 loans, of which by definition 77 or 10.92 percent were Young 239 or 33.9 percent were Beginning and 283 or 40 percent were Small. The 2013 number and volume results for young beginning and small farmer shows a decrease mainly attributed to normal amortization, loan repayment as well as farmers that no longer fit the YBS parameters.

The following table outlines the Association YBS goal and the actual results for both number and dollar amount (in thousands) of new loans for the year ended December 31, 2013:

	Number of Loans		$ Amount of New Loans	
	2013 Goal	2013 Actual	2013 Goal	2013 Actual
Young	4	6	$1,200	$1,134
Beginning	11	14	$1,500	$3,097
Small	11	25	$750	$3,138

The following table outlines the Association YBS goal and the actual results as a percentage of number and dollar amount (in thousands) of new loans for the year ended December 31, 2013:

	Number of Loans		$ Amount of New Loans	
	2013 Goal	2013 Actual	2013 Goal	2013 Actual
Young	5%	4%	8%	2%
Beginning	5%	10%	10%	4%
Small	15%	17%	5%	5%

During 2013 the Association supported Young, Beginning and Small farmers through outreach and financial support programs. Education is at the heart of the programs, and includes seminars, speaking opportunities and training sessions, which are conducted throughout the year. These educational opportunities may be both in-house, in the form of events held by the Association, and external, in which case, the Association is a speaker or provider of

educational materials. The Association website includes a section of information and resources for YBS visitors to the site.
A second focus area of the program includes activities where the Association sponsors local events or events where the Association is an exhibitor and/or a participant (such as industry or trade shows). Financial support addresses the specific credit programs and partnerships that the Association has developed to help small farmers, young farmers, and farmers just starting out. It comprises programs such as those offered by the Farm Service Agency (FSA), which includes guaranteed and direct loans to qualifying borrowers.

The following outreach programs were conducted during 2013 in the Association's efforts to achieve established goals:

- Sponsored and Participate in the Business Building Competition known as EnterPrize, in order to develop global entrepreneurs, including this year a category of best agricultural business.
- utilization of AgScore (credit score lending for small loan borrowers);
- experienced credit staff coordinated/participated in the development and implementation of business financial skills training for YBS farmers;
- supported and/or sponsored programs and activities with the University of Puerto Rico; and
- Participated in various educational programs coordinated by the Department of Agriculture, Associacion de Agricultores and /or the Agronomist Association.

The Regional Lending Manager coordinates the Association's efforts, and oversees the YBS program. The Association includes YBS goals in the annual strategic business plan, and reports on those goals and achievements to the board of directors on a quarterly basis.

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

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

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

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

REGULATORY MATTERS

Supervisory Agreement

On March 17, 2011 the Farm Credit Administration (FCA) entered into a written Supervisory Agreement (SA) with the Board of Directors of the Association. This agreement supersedes FCA Supervisory Letters dated July 23, 2009, March 2, 2010, and December 10, 2010 and incorporates certain requirements from these letters. The Supervisory Agreement requires the Board of Directors to take certain corrective and precautionary measures with respect to some Association practices, including board governance and operation, director fiduciary duties, nominating committee procedures, board policies, board business planning, Association earnings and liquidity, senior management and human capital development, internal audit and review, asset quality, allowance for loan losses and collateral risk management, and capital markets and participation activities. In addition, the SA prohibits the Association from distributing patronage-sourced income without FCA consent.

Conditions and events that led to the need for this agreement include portfolio credit quality deterioration, high turnover in senior management, perceived weaknesses in board governance, and, reduced earnings and liquidity.

The Board of Directors and the Association have worked together to reach significant milestones. The regulator has provided the Board of Directors several interim progress reports on compliance with the SA and delivered a report of examination to the Board of Directors as of June 30, 2013. The Association has achieved full compliance in 13 out of 17 items, substantial compliance in 3 out of 17 items and partial compliance in 1 out of 17 items. Some of the results achieved in compliance with the agreement include the following:

- Hiring a board consultant and working with the consultant to assist the Board in fulfilling its fiduciary duties and improving board operations and governance.
- Updating its board committee charters, undergoing several training sessions and changing leadership to improve governance of the Association.
- Revising the director candidate nominating procedures to qualify new candidates, which led to stockholders electing two new directors to the Board in 2012.
- Hiring a new CEO beginning on February 1, 2011 to lead the Association after the retirement of the previous CEO on September 30, 2010.
- Building a cohesive senior management team.
- Overseeing the implementation of updated collateral risk management policies and procedures that are in line with best practices in the industry.
- Improving the methodology used to calculate the Allowance for Loan Losses of the Association.
- Hiring a specialized third party auditor that assessed the capital markets portfolio credit risk and helped, strengthened credit policies and procedures.
- Establishing a Compliance Committee to monitor management's progress in implementing the corrective actions of items identified in the SA.
- Ensuring that FCA's recommendations are incorporated in the various action plans.
- Reviewing the Association's internal audit plan to focus on areas where perceived weaknesses were identified.
- Establishing a risk assessment process to assess risks and controls in the ACA.
- Establishing an asset quality improvement plan to monitor management efforts in managing high risk loans.
- Revising the 2011 business plan to establish strategic priorities and to comply with FCA regulations governing business planning.
- Establishing a human capital plan and succession plan to assist in the long-term success of the Association.
- Revising board policies on a quarterly basis to guide management in conducting day to day operations.

- Enhancing the participation's portfolio credit underwriting and administration controls.

All required measures have not been achieved or completed as of the date of this report and the Board of Directors continues to work with the management team in improving the areas identified in the Supervisory Agreement. Besides the ongoing corrective actions already mentioned, other actions to be taken target the following areas.

- Continue executing strategies to grow the Association's loan portfolio with high quality loans to improve asset quality and, enhance earnings and liquidity.
- Continue making progress in the execution of collateral risk management practices. Improving on perceived weaknesses in the preparation and documentation of appraisals.

The Board of Directors will continue engaging a board consultant to provide advice in understanding and fulfilling its fiduciary responsibilities and to perform other advisory functions as specified in the agreement. Both the Board of Directors and Senior Management are committed to continuing the administration of the Association in a sound manner, compliant with all FCA Regulations.

The Association remained under written supervisory agreement as of the date of this report.

Other Regulatory Matters

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

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

The provisions of the Dodd-Frank Act pertaining to the regulation of derivatives transactions will require more of these transactions to be cleared through a third-party central clearinghouse and traded on regulated exchanges or otherwise, and margin or cash collateral will be required for these transactions. Also, derivative transactions that will not be subject to mandatory trading and clearing requirements may also be subject to minimum margin and capital requirements. The Dodd-Frank Act requires the Commodity Futures Trading Commission (CFTC) to consider whether to exempt System institutions from certain of these new requirements. The CFTC has established a clearing exemption for certain swaps entered into by cooperatives. All Farm Credit System institutions qualify for this "Cooperative Exemption," and therefore will be able to elect the clearing exemption for any swap that meets the criteria stipulated in the exemption. This exemption does not cover all swaps that can be executed by Farm Credit System institutions, and is generally limited to transactions entered into in connection with loans to members. New derivative requirements of the Dodd-Frank Act, whether or not System institutions are required to abide by them, have the potential of making derivative transactions more costly and less attractive as risk management tools for System institutions; and thus may impact the System's funding and hedging strategies.

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

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

Farm Bill

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

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

Association hold an equity investment in two (2) LLC's, which are Ethanol Holding Company, LLC (formerly BFE Operating Company, LLC) and CBF Holding, LLC (formerly Clean Burn Fuels, LLC).

The Ethanol Holding Company, LLC is a Delaware Limited Liability Company, in which PRFC owns a 0.32900% equity. It was organized for the 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.

The CBF Holding, LLC is a North Carolina Limited Liability Company, in which PRFC owns 2.89855% equity. Subject to and upon the terms of the Operating Agreement, the stated purpose of the Company 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 property of the reporting entity, which is located in San Juan, Puerto Rico:

Location	Description	Form of Ownership
213 Domenech Ave Hato Rey	Administrative/ San Juan Branch	Owned

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

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

Senior Officers

The following represents certain information regarding the senior officers of the Association:

Senior Officer	Position
Ricardo L Fernández	*President & CEO* since February 2011. Member of Farm Credit System's Presidents Planning Committee (PPC) since 2012. Recently elected Secretary of the District's PPC. He has 17 years of experience in commercial banking, occupying various positions in strategic planning, finance and, small and middle-market commercial lending.
Jorge A. Dulzaides	*Chief Lending Officer* since July 2013. Has 28 years of experience in the Farm Credit System as credit analyst, lending officer, internal auditor and lending manager.
Johana Quiñones	*Director of Finance, Risk and Internal Controls* since September 2012. She has over 16 years of experience in commercial banking occupying positions as internal auditor, internal audit manager, loan reviewer and chief credit risk officer.
Victor Arroyo	*Vice President & CCO* since April 2011. Retired on June 2013. He had over 35 years of experience working in the financial services industry, both in Puerto Rico and Latin America. Manager of the loan participations and rural housing loan portfolios between 2007 and 2011.

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

Name of Individual or Number in Group	Year	Salary	Bonus	Deferred Comp.	Change in Pension Value*	Perquisites/ Other**	Total
Ricardo L. Fernández	2013	$ 171,006	$ 1,000	$ –	$ 3,488	$ 17,264	$ 227,758
Ricardo L. Fernández	2012	$ 160,000	$ 36,000	$ –	$ –	$ 10,000	$ 206,000
Ricardo L. Fernández	2011	$ 137,505	$ 51,000	$ –	$ –	$ 10,000	$ 198,505
Bruce H. Hoffman	2011	$ 12,500	$ 35,247	$ –	$ –	$ –	$ 47,747
6	2013	$ 540,146	$ 10,225	$ –	$ (13,881)	$ 71,499	$ 607,989
5	2012	$ 466,284	$ 4,600	$ –	$ –	$ –	$ 470,884
5	2011	$ 430,961	$ 5,000	$ –	$ –	$ –	$ 435,961

* *Required disclosure effective beginning in 2013.*
** *Starting on 2013, includes company contributions to 401 (k) plan (see Note 9, Employee Benefit Plans, to the Financial Statements), excess annual leave paid; and medical and dental insurance premium.*

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:					
Ricardo L. Fernández	2013	AgFirst Farm Credit Cash Balance Retirement Plan	2.92	$ 8,694	$ –
				$ 8,694	$ –
Senior Officers and Highly Compensated Employees:					
6 Officers, excluding the CEO	2013	AgFirst Farm Credit Retirement Plan	61.51	$ 1,262,677	$ 11,315
6 Officers, excluding the CEO	2013	AgFirst Farm Credit Cash Balance Retirement Plan	5.66	$ 9,497	$ –
				$ 2,181,112	$ 11,315

The Association did not have a plan in place or provisions in any of the three years, which would allow for or facilitate the deferral of compensation, either salary or bonus.

The Board of Directors has not approved, as of the date of this report, payment of a performance bonus to Mr. Fernández for performance in 2013. It is estimated that based on certain performance metrics achieved in 2013, that Mr. Fernández will receive a bonus payment similar to previous years. That equates to a payment of $35,000 with a deferral of another $10,000 through 2014.

In 2012, Mr. Fernández' compensation includes a performance bonus and other bonuses detailed as follows. The Board approved on April 2013 a performance bonus based on certain performance measures achieved in 2012. Nevertheless, from this amount, $10,000 were deferred through 2013. At the time of this report, the Board had not approved payment of the deferred amount. It is estimated that this amount will be paid in 2014 as the performance metrics were achieved in 2013. The Other Bonus category includes the regulatory Christmas bonus required by law in Puerto Rico.

In 2011, Mr. Fernández' compensation includes a performance bonus and other bonuses detailed as follows. The Board approved on January 2012 additional executive compensation based on certain performance measures achieved in 2011. Nevertheless, from this amount, $10,000 were deferred through 2012 and were not paid in 2013 as certain metrics were not achieved in 2012. The Other Bonus category includes a signing bonus and the regulatory Christmas bonus required by law in Puerto Rico.

Mr. Hoffman's 2011 compensation included in the other bonus category payment of accrued and accumulated annual leave paid upon his retirement.

For the other senior officers, other bonus equates to the mandatory payment of a Christmas Bonus required by Commonwealth law in each year. Since 2009, given the Association's financial performance, no consideration has been given by the Board to the payment of executive variable compensation. For 2013, there was no executive compensation plan adopted by the Board of Directors.

In 2011 the Board of Directors approved an incentive plan for the association employees and department managers. The objectives of the plan were to tie compensation directly to organizational performance, focusing attention on both short-term and long-term results. No payment was made to any employees under the incentive plan through 2012. As the performance management process is completed for 2013, certain employees may be paid performance bonuses under the existing plan.

Disclosure of information on the total compensation paid during 2013 to any senior officer, or to any other individual included in the total, is available to shareholders upon request.

Additional Compensation Information

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. No District Association held an advisory vote based on a stockholder petition in 2013.

On January 17, 2014, the President signed into law the Consolidated Appropriations Act, which includes language prohibiting the FCA from using any funds available to "implement or enforce" the regulation. In addition, on February 7, 2014, the President signed into law the Agricultural Act of 2014. Section 5404 of the law directs FCA, within 60 days of enactment of the law, to "review its rules to reflect the Congressional intent that a primary responsibility of boards of directors of Farm Credit System institutions, as elected representatives of their stockholders, is to oversee compensation practices." FCA has not yet taken any action with respect to their regulation in response to these actions.

Directors

Directors and senior officers are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking, laundry, registration fees, and other expenses associated with the travel on official business.

A copy of the policy is available to the Associations' stockholders upon request.

The aggregate amount of expense or reimbursement for travel, subsistence and other related expenses for all directors as a group was $92,305 for 2013, $98,393 for 2012 and $92,593 for 2011. It is the practice of the Association not to provide noncash compensation to directors. For 2013, there was no noncash compensation provided.

The Board of Directors reviews and determines adequate director compensation to attract qualified directors. The Board of Directors reviewed director honorarium in mid 2012 and approved modifications to director compensation. Effective July 1, 2012, all elected stockholder directors were compensated at a per diem rate of $400 for all official activities. Honorarium for all external directors was paid at a per diem rate of $600 and $1,000 for the financial expert.

Directors are also paid honorarium at the per diem rate for travel to and from conferences and meetings when the distance and schedule requires travel on any portion of the day prior to or following the scheduled activity.In addition, all directors were paid a quarterly a retainer fee as compensation for incidental services and review/preparation for meetings and assignments. The chairman's retainer fee is $1,000 per quarter and $750 per quarter for all the other directors, including external directors.

Additional information for each Director is provided below:

			Term of Office		Number of Days Served		Compensation		
Name of Director	Position	Committee Assignments	Election Year	Current Term Expiration	Board Meetings	Other Official Activities*	Compensation Regular Board Meetings & Retainer	Compensation for Other Activities	Total Compensation During 2013
Robert G. Miller	Chairman	Governance / Compensation	2010	2016	9	31	$7,600	$11,400	$19,000
Pablo Rodríguez	Vice Chairman	Risk Management	2011	2014	10	19	7,000	6,800	13,800
Victor Ayala	Second Vice Chairman	Audit / Risk Management	2004	2014	10	13	7,000	4,600	11,600
Carlos A. Rodríguez	Director	Audit / Risk Management	2011	2014	10	19	7,000	6,000	13,000
Héctor I. Cordero	Director	Governance / Compensation / Compliance	2012	2015	10	17	7,000	6,400	13,400
Michael J. Serrallés	Director	Audit / Compliance	2012	2015	5	11	2,750	4,400	7,150
Felipe Ozonas	Director	Governance / Compensation	2000	2013	4	6	3,100	2,200	5,300
Antonio E. Marichal	External Director and Financial Expert	Audit / Compliance	2006	2015	10	17	13,000	12,200	25,200
Francisco Oramas	External Director	Governance / Compensation	2010	2013	10	20	9,000	10,400	19,400
Total							$63,450	$66,400	$127,850

On January 2014, a total of $12,000 has been paid for a Board Meeting and other official activities served during December 2013, included in the table above.

All directors shall make themselves available to serve on the loan committee, upon the scheduling of a meeting. Any two directors along with the President/CEO shall constitute a quorum for the loan committee. Committee meetings are normally scheduled and held the same day as monthly board of director's meetings. This scheduling method results in there being no separate and/or additional honorarium paid for the various committee meetings. The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years:

Mr. Robert G. Miller, Age 58. Chairman of the Board since July 1, 2011. He is a producer of eggs, laying hens, and pullets who owns farms in the Sabana neighborhood in Orocovis and the Asomante neighborhood in Aibonito. Mr. Miller is President of Empresas Agrícolas de Puerto Rico, Inc. He is a member and Vice President of the Fund for the Promotion of the Egg Industry. He was reelected to a three-year term in 2012 and has been a member of the Board since 2010.

Mr. Pablo Rodríguez, Age 49. Vice Chairman of the Board since July 1, 2011. He is a farmer growing oranges, plantains and coffee. His farm is in San Sebastian. He is a member of the Colegio de Agrónomos de Puerto Rico. Appointed by the Board of Directors in 2010; and elected as a Director in 2011 for a three-year term.

Mr. Victor M. Ayala, Age 64. Second Vice Chairman of the Board. He is a dairy farmer and cattle rancher with a farm in the neighborhood of Collores, in Humacao. Mr. Ayala is a director in the dairy industry's Fond para la Estabilización de Precios, who is an association member. He was reelected to the Board in 2011 for a three-year term and has been a member of the Board since 2004.

Mr. Carlos A. Rodríguez, Age 62. Is a cattle rancher in the neighborhood of Barahona in Morovis. Mr. Rodríguez is a member of the Asociación de Agricultores de Puerto Rico. He was reelected in 2011 for a three-year term and has been a member of the Board since 2002.

Mr. Héctor I. Cordero Toledo, Age 47. Is a dairy farmer and cattle rancher for over 22 years. Has a 200-heifer operation in Aguadilla and is also involved with fodder, which he produces in a farm in the municipality of Hormigueros. He is Vice president of the Puerto Rico Farm Bureau and the Puerto Rico Dairy Herd Improvement Association. He is also an advisor to the Puerto Rico Young Farmers & Ranchers. He was first elected to the Board in 2012 and his term expires in 2015.

Mr. Michael J. Serrallés, Age 40. Is a manager and director of Sucesión J. Serrallés, Inc. The corporation has 400 acres in the production, packing and exportation of mangos, 100 acres for growing coffee and oranges. They also have 40 acres for the production of ornamental plants and 100 acres for planting of coconut palms. The corporation also has farmland leased to seed research companies. He was first elected to the Board in 2013 and his term expires in 2016.

Mr. Felipe Ozonas, Age 51. Operates a farm in Castañer, Adjuntas producing Arábiga and Robusta coffee, plantains and, production, packing and marketing of citrus. He is a member of the Puerto Rico Farm Bureau. He was first elected to the Board in 2000 and his term expired in 2013. He was appointed by the Board in January 2012 to serve as an interim director, until a new director was elected in 2013.

Mr. Antonio E. Marichal, Age 62. Is attorney with an accounting background. He is one of two outside directors and serves as the financial expert. He is a retired partner of the firm Marichal & Hernández, LLP but continues to practice law as an associate. His list of clients includes several association members and directors for whom he may perform work as the need arises. He is a member of the Colegio de Abogados de Puerto Rico, the Asociación de Notarios, and the American Bar Association. He was reelected in 2009 for a three-year term, which ends in 2012. Has been a Board member since 2006. His current term expires in 2015.

Mr. Francisco Oramas, Age 48. Is an agronomist and business man. He is one of two outside directors. Mr. Oramas is the Vice President of Empacadora Hill Brothers, a company dedicated to the sales and distribution of fruits and vegetables in Puerto Rico. Empacadora Hill Brothers may purchase fruits and vegetables from association members as part of their daily business. Mr. Oramas also serves on the Board of Directors of Atenas Pineapple, a corporation dedicated to growing pineapples in Puerto Rico. He was under Secretary of the Puerto Rico Department of Agriculture from 2005 to 2007. A member of the Colegio de Agrónomos de Puerto Rico, he also worked for the Milk Industry. Appointed by the Board in 2010 for a three-year term, which expires in 2013.

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

Relationship with Independent Certified Public Accountants

There were no changes in or material disagreements with our independent certified public accountant on any matter of the generally accepted accounting principles or financial statement disclosures during this period.

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

	2013
Independent Certified Public Accountant	
PricewaterhouseCoopers LLP	
Audit services	$ 63,364
Total	$ 63,364

Audit services fees were for the annual audit of the Consolidated Financial Statements.

Consolidated Financial Statements

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

Copies of the Association's Annual and Quarterly reports are available upon request free of charge by calling 1-787-753-5435, or writing Nydia J. Acevedo, Controller, Puerto Rico Farm Credit, ACA, PO Box 363649, San Juan, PR 00936 or accessing the web site, ***www.puertoricofarmcredit.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

Borrower Information Regulations

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

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

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

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

Shareholder Investment

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

Report of the Audit Committee

The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of Puerto Rico 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 reviewed, amended and approved by the Board of Directors in 2013. The Committee has reviewed and discussed the Association's audited financial statements with management, which has primary responsibility for the financial statements.

The Board of Directors of the Association entered into a Supervisory Agreement with FCA, which substantially collapsed two supervisory letters from 2009 and 2010 into the agreement, along with, certain additional findings and compliance matters. FCA required compliance in matters mostly related to board governance and operation, director fiduciary duties, nominating committee procedures, board policies, board business planning, Association earnings and liquidity, senior management and human capital development, internal audit and review, asset quality deterioration, allowance for loan losses and collateral risk management, and capital markets and participation activities. The Association has reached partial compliance with some of the requirements of the Supervisory Agreement and incremental progress in all. Please refer to the following sections of the Annual Report, as all these matters are fully discussed in the section of Regulatory Matters of the Management's Discussion & Analysis of Financial Condition & Results of Operations and Note 14, *Regulatory Enforcement Matters*, of the Notes to the Consolidated 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 the 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.

The members of the Committee are not professionally engaged in the practice of auditing or accounting. The members of the Committee rely, without independent verification, on the information provided to them and on the representations made by management and the independent certified public accountants. Accordingly, the Committee's considerations and discussions referred to above do not assure that the audit of the Association's financial statements has been carried out in accordance with auditing standards generally accepted in the United States of America or that the financial statements are presented in accordance with accounting principles generally accepted in the United States of America.

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 Audit Committee:

Antonio E. Marichal, External Director
Chairman of the Audit Committee

Members of Audit Committee

Victor M. Ayala, Director
Carlos A. Rodríguez, Director

March 12, 2014

Report of Independent Certified Public Accountants

Report of Independent Certified Public Accountants

To the Board of Directors and Members
of Puerto Rico Farm Credit, ACA

We have audited the accompanying consolidated financial statements of Puerto Rico 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 operations, of comprehensive income (loss), 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 Puerto Rico 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	$ 103	$ 214	$ 164
Loans	161,841	169,389	175,382
Less: allowance for loan losses	3,128	4,408	3,482
Net loans	158,713	164,981	171,900
Notes receivable from other Farm Credit institutions (Note 4)	—	10,000	10,000
Other investments	70	250	250
Accrued interest receivable	588	604	568
Investments in other Farm Credit institutions	1,876	1,960	2,706
Premises and equipment, net	915	840	916
Other property owned	2,481	3,498	2,489
Due from AgFirst Farm Credit Bank	2,802	1,387	1,479
Other assets	829	1,554	1,360
Total assets	$ 168,377	$ 185,288	$ 191,832
Liabilities			
Notes payable to AgFirst Farm Credit Bank	$ 116,275	$ 135,882	$ 143,364
Accrued interest payable	169	245	274
Other liabilities	2,838	2,702	2,381
Total liabilities	119,282	138,829	146,019
Commitments and contingencies			
Members' Equity			
Capital stock and participation certificates	537	604	648
Unallocated retained earnings	48,256	45,569	44,886
Accumulated other comprehensive income	302	286	279
Total members' equity	49,095	46,459	45,813
Total liabilities and members' equity	$ 168,377	$ 185,288	$ 191,832

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

Consolidated Statements of Operations

(dollars in thousands)	For the year ended December 31, 2013	2012	2011
Interest Income			
Loans	$ 6,374	$ 6,601	$ 6,758
Notes receivable from other Farm Credit institutions (Note 4)	710	900	900
Total interest income	7,084	7,501	7,658
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	2,610	2,993	3,512
Net interest income	4,474	4,508	4,146
Provision for (reversal of allowance for) loan losses	(1,088)	736	2,329
Net interest income after provision for (reversal of allowance for) loan losses	5,562	3,772	1,817
Noninterest Income			
Loan fees	205	108	367
Patronage rebate fees	153	222	230
Patronage refunds from other Farm Credit institutions	2,896	1,480	1,576
Gains (losses) on other property owned, net	(1,166)	(553)	(218)
Gains (losses) on sales of premises and equipment, net	(2)	(5)	(2)
Total other-than-temporary impairment losses on investments	(180)	—	—
Insurance Fund refunds	—	679	—
Other noninterest income	113	91	57
Total noninterest income	2,019	2,022	2,010
Noninterest Expense			
Salaries and employee benefits	3,084	3,165	3,151
Occupancy and equipment	274	267	296
Insurance Fund premiums	129	79	99
Other operating expenses	1,407	1,600	1,273
Total noninterest expense	4,894	5,111	4,819
Income (loss) before income taxes	2,687	683	(992)
Provision for income taxes	—	—	—
Net income (loss)	$ 2,687	$ 683	$ (992)

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

Consolidated Statements of Comprehensive Income (Loss)

(dollars in thousands)	For the year ended December 31, 2013	2012	2011
Net income (loss)	$ 2,687	$ 683	$ (992)
Other Comprehensive Income Net of Tax			
Employee benefit plans adjustments (Note 7)	16	7	487
Comprehensive income (loss)	$ 2,703	$ 690	$ (505)

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	$ 679	$ 45,878	$ (208)	$ 46,349
Comprehensive income (loss)		(992)	487	(505)
Capital stock/participation certificates issued/(retired), net	(31)			(31)
Balance at December 31, 2011	648	44,886	279	45,813
Comprehensive income		683	7	690
Capital stock/participation certificates issued/(retired), net	(44)			(44)
Balance at December 31, 2012	604	45,569	286	46,459
Comprehensive income		2,687	16	2,703
Capital stock/participation certificates issued/(retired), net	(67)			(67)
Balance at December 31, 2013	$ 537	$ 48,256	$ 302	$ 49,095

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 (loss)	$ 2,687	$ 683	$ (992)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	113	116	156
Amortization (accretion) of net deferred loan origination costs (fees)	188	107	72
Amortization of premiums on purchased loans	88	71	116
Provision for (reversal of allowance for) loan losses	(1,088)	736	2,329
(Gains) losses on other property owned	1,105	533	205
(Gains) losses on sales of premises and equipment, net	2	5	2
Net impairment losses on investments	180	—	—
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	16	(36)	11
(Increase) decrease in due from AgFirst Farm Credit Bank	(1,415)	92	179
(Increase) decrease in other assets	725	(194)	466
Increase (decrease) in accrued interest payable	(76)	(29)	(60)
Increase (decrease) in other liabilities	152	328	105
Total adjustments	(10)	1,729	3,581
Net cash provided by (used in) operating activities	2,677	2,412	2,589
Cash flows from investing activities:			
Net (increase) decrease in loans	6,533	2,526	8,522
(Increase) decrease in notes receivable from other Farm Credit institutions	10,000	—	—
(Increase) decrease in investment in other Farm Credit institutions	84	746	456
Purchases of other investments	—	—	(40)
Purchases of premises and equipment	(190)	(45)	(94)
Proceeds from sales of other property owned	459	1,937	1,213
Net cash provided by (used in) investing activities	16,886	5,164	10,057
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	(19,607)	(7,482)	(13,379)
Capital stock and participation certificates issued/(retired), net	(67)	(44)	(31)
Net cash provided by (used in) financing activities	(19,674)	(7,526)	(13,410)
Net increase (decrease) in cash	(111)	50	(764)
Cash, beginning of period	214	164	928
Cash, end of period	$ 103	$ 214	$ 164
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	$ 547	$ 3,479	$ 1,464
Employee benefit plans adjustments (Note 7)	(16)	(7)	(487)
Supplemental information:			
Interest paid	$ 2,686	$ 3,022	$ 3,572
Taxes (refunded) paid, net	34	34	—

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:** Puerto Rico Farm Credit, ACA (Association) is a stockholder-owned cooperative that provides credit and credit-related services to qualified borrowers within the Commonwealth of Puerto Rico. The Association is also authorized by its charter from the Farm Credit Administration to provide the same credit and credit-related services for qualified purposes within the territory of the U.S. Virgin Islands.

The Association is a lending institution in the Farm Credit System (the 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.

As of December 31, 2013 there were no loans 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.

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.

Other Investments
The Association holds minority equity interests in a Rural Business Investment Company (RBIC). This investment is accounted for under the cost method and is carried at the lower of cost or fair value.

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.

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. However, for Puerto Rico tax purposes, the Association has had a ruling from the Puerto Rico Treasury Department since June 1993 determining that the Association and its subsidiaries will be treated as a domestic cooperative association. Thus, the Association enjoys the exemptions provided by Article 23 of the General Cooperative Association Act of Puerto Rico of 2004, Act No. 239 of September 1, 2004.

The Association operates 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 taxable 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.

The Association has adopted a "pro-rata" method to tax effect only the portion of the Association's temporary differences expected to have a future tax consequence to the Association. The Association intends to have only patronage sourced income that will be distributed in its entirety on a cooperative basis as tax deductible patronage dividends. This operating scenario results in zero federal taxable income. Thus, the Association has applied a zero effective tax rate to its cumulative temporary differences.

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

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

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

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

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

Please see further discussion in Note 8.

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

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

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

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

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

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

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

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

In September 2011, the FASB issued ASU 2011-09, "Compensation (Topic 715): Retirement Benefits – Multiemployer Plans." The amendment is intended to provide for more information about an employer's financial obligations to multiemployer pension and other postretirement benefit plans, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include the following: (1) a description of the nature of plan benefits; (2) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer, and

(3) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2011 for public entities. The amendments should be applied retrospectively for all prior periods presented. The adoption did not impact the Association's financial condition or results of operations but did result in additional disclosures (see Note 9).

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

In May 2011, the FASB issued ASU 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following: (1) Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets (does not apply to financial assets and liabilities); (2) Aligns the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities. As a result, an entity should measure the fair value of its own equity instruments from the perspective of a market participant that holds the instruments as assets; (3) Clarifies that a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy; (4) An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to those risks; (5) Clarifies that the application of premiums and discounts in a fair value measurement is related to the unit of account for the asset or liability being measured at fair value. Premiums or discounts related to size as a characteristic of the entity's holding (that is, a blockage factor) instead of as a characteristic of the asset or liability (for example, a control premium), are not permitted. A fair value measurement that is not a Level 1 measurement may include premiums or discounts other than blockage factors when market participants would incorporate the premium or discount into the measurement at the level of the unit of account specified in other guidance; (6) Expansion of the disclosures about fair value measurements. The most significant change will require entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed. The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early application was not permitted. The adoption of this guidance did not impact the Association's financial condition or results of operations, but resulted in additional disclosures.

Note 3 — Loans and Allowance for Loan Losses

A summary of loans outstanding at period end follows:

	December 31, 2013	December 31, 2012	December 31, 2011
Real estate mortgage	$ 95,341	$ 102,418	$ 113,241
Production and intermediate-term	24,240	42,328	32,628
Processing and marketing	16,875	3,334	6,559
Farm-related business	2,422	928	732
Communication	5,534	970	1,261
Energy and water/waste disposal	2,327	2,479	2,480
Rural residential real estate	15,102	16,932	18,481
Total Loans	$ 161,841	$ 169,389	$ 175,382

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

The FCA has in place regulations which limit the total amount of principal and commitment a direct lender association may make available to an individual loan relationship. The regulatory limit is 25 percent of permanent capital. In response to these regulations, the Association has adopted an administratively set limit significantly lower than the regulatory maximum limit.

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	$ 1,107	$ 5,969	$ –	$ –	$ 1,446	$ –	$ 2,553	$ 5,969
Production and intermediate-term	7,694	1,877	–	–	5,514	–	13,208	1,877
Processing and marketing	16,200	–	–	–	556	–	16,756	–
Farm-related business	–	–	–	–	2,193	–	2,193	–
Communication	5,550	–	–	–	–	–	5,550	–
Energy and water/waste disposal	2,330	–	–	–	–	–	2,330	–
Total	$ 32,881	$ 7,846	$ –	$ –	$ 9,709	$ –	$ 42,590	$ 7,846

December 31, 2012

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ 11,523	$ –	$ –	$ 972	$ –	$ 972	$ 11,523
Production and intermediate-term	24,577	831	–	–	4,536	–	29,113	831
Processing and marketing	2,606	–	–	–	670	–	3,276	–
Farm-related business	–	–	–	–	882	–	882	–
Communication	975	–	–	–	–	–	975	–
Energy and water/waste disposal	2,479	–	–	–	–	–	2,479	–
Total	$ 30,637	$ 12,354	$ –	$ –	$ 7,060	$ –	$ 37,697	$ 12,354

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	$ 2,044	$ 10,403	$ –	$ –	$ 1,260	$ –	$ 3,304	$ 10,403
Production and intermediate-term	22,874	–	–	–	939	–	23,813	–
Processing and marketing	6,371	–	–	–	791	–	7,162	–
Farm-related business	–	–	–	–	702	–	702	–
Communication	1,267	–	–	–	–	–	1,267	–
Energy and water/waste disposal	2,485	–	–	–	–	–	2,485	–
Total	$ 35,041	$ 10,403	$ –	$ –	$ 3,692	$ –	$ 38,733	$ 10,403

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

	December 31,			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 16,646	$ 48,850	$ 29,845	$ 95,341
Production and intermediate-term	4,344	13,553	6,343	24,240
Processing and marketing	–	9,261	7,614	16,875
Farm-related business	–	1,806	616	2,422
Communication	–	3,232	2,302	5,534
Energy and water/waste disposal	–	328	1,999	2,327
Rural residential real estate	140	177	14,785	15,102
Total Loans	$ 21,130	$ 77,207	$ 63,504	$ 161,841
Percentage	13.06%	47.70%	39.24%	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	86.86%	86.59%	82.64%
OAEM	1.08	0.76	2.69
Substandard/doubtful/loss	12.06	12.65	14.67
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	75.06%	79.11%	69.54%
OAEM	5.36	1.75	13.07
Substandard/doubtful/loss	19.58	19.14	17.39
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	100.00%	44.56%	57.24%
OAEM	–	14.13	18.94
Substandard/doubtful/loss	–	41.31	23.82
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%

	December 31,		
	2013	2012	2011
Communication:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Energy and water/waste disposal:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	94.96%	92.30%	91.11%
OAEM	1.29	1.73	3.67
Substandard/doubtful/loss	3.75	5.97	5.22
	100.00%	100.00%	100.00%
Total Loans:			
Acceptable	88.05%	84.81%	80.59%
OAEM	1.56	1.35	5.26
Substandard/doubtful/loss	10.39	13.84	14.15
	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	$ 2,569	$ 7,780	$ 10,349	$ 85,290	$ 95,639	$ –
Production and intermediate-term	181	1,620	1,801	22,608	24,409	–
Processing and marketing	–	–	–	16,945	16,945	–
Farm-related business	–	–	–	2,434	2,434	–
Communication	–	–	–	5,535	5,535	–
Energy and water/waste disposal	–	–	–	2,327	2,327	–
Rural residential real estate	296	102	398	14,742	15,140	–
Total	$ 3,046	$ 9,502	$ 12,548	$ 149,881	$ 162,429	$ –

	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	$ 5,984	$ 5,658	$ 11,642	$ 91,092	$ 102,734	$ –
Production and intermediate-term	–	1,786	1,786	40,666	42,452	–
Processing and marketing	–	–	–	3,360	3,360	–
Farm-related business	–	–	–	934	934	–
Communication	–	–	–	971	971	–
Energy and water/waste disposal	–	–	–	2,491	2,491	–
Rural residential real estate	671	223	894	16,082	16,976	–
Total	$ 6,655	$ 7,667	$ 14,322	$ 155,596	$ 169,918	$ –

	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	$ 2,787	$ 11,099	$ 13,886	$ 99,675	$ 113,561	$ –
Production and intermediate-term	1,203	3,722	4,925	27,785	32,710	–
Processing and marketing	–	(2)	(2)	6,596	6,594	–
Farm-related business	–	–	–	734	734	–
Communication	–	–	–	1,261	1,261	–
Energy and water/waste disposal	–	–	–	2,481	2,481	–
Rural residential real estate	1,092	263	1,355	17,179	18,534	–
Total	$ 5,082	$ 15,082	$ 20,164	$ 155,711	$ 175,875	$ –

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	$ 10,741	$ 9,714	$ 11,239
Production and intermediate-term	1,886	2,949	4,964
Processing and marketing	–	560	(2)
Rural residential real estate	284	701	734
Total nonaccrual loans	$ 12,911	$ 13,924	$ 16,935
Accruing restructured loans:			
Real estate mortgage	$ 1,161	$ –	$ 4,021
Production and intermediate-term	1,192	1,338	–
Total accruing restructured loans	$ 2,353	$ 1,338	$ 4,021
Accruing loans 90 days or more past due:			
Total accruing loans 90 days or more past due	$ –	$ –	$ –
Total nonperforming loans	$ 15,264	$ 15,262	$ 20,956
Other property owned	2,481	3,498	2,489
Total nonperforming assets	$ 17,745	$ 18,760	$ 23,445
Nonaccrual loans as a percentage of total loans	7.98%	8.22%	9.66%
Nonperforming assets as a percentage of total loans and other property owned	10.80%	10.85%	13.18%
Nonperforming assets as a percentage of total members' equity	36.14%	40.38%	51.18%

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	$ 1,612	$ 2,611	$ 1,379
Past due	11,299	11,313	15,556
Total impaired nonaccrual loans	$ 12,911	$ 13,924	$ 16,935
Impaired accrual loans:			
Restructured	$ 2,353	$ 1,338	$ 4,021
90 days or more past due	–	–	–
Total impaired accrual loans	$ 2,353	$ 1,338	$ 4,021
Total impaired loans	$ 15,264	$ 15,262	$ 20,956

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	$ 2,634	$ 2,947	$ 719	$ 2,739	$ 36
Production and intermediate-term	1,148	4,304	413	1,194	15
Rural residential real estate	–	–	–	–	–
Total	$ 3,782	$ 7,251	$ 1,132	$ 3,933	$ 51
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 9,268	$ 12,155	$ –	$ 9,637	$ 125
Production and intermediate-term	1,930	1,977	–	2,006	27
Rural residential real estate	284	343	–	296	4
Total	$ 11,482	$ 14,475	$ –	$ 11,939	$ 156
Total impaired loans:					
Real estate mortgage	$ 11,902	$ 15,102	$ 719	$ 12,376	$ 161
Production and intermediate-term	3,078	6,281	413	3,200	42
Rural residential real estate	284	343	–	296	4
Total	$ 15,264	$ 21,726	$ 1,132	$ 15,872	$ 207

	December 31, 2012			Year Ended December 31, 2012	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 2,199	$ 2,300	$ 529	$ 2,692	$ 44
Production and intermediate-term	3,653	6,961	1,226	4,473	72
Processing and marketing	550	560	280	673	11
Rural residential real estate	378	408	38	462	8
Total	$ 6,780	$ 10,229	$ 2,073	$ 8,300	$ 135
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 7,515	$ 9,886	$ –	$ 9,201	$ 150
Production and intermediate-term	634	665	–	776	13
Processing and marketing	10	–	–	13	–
Rural residential real estate	323	400	–	396	6
Total	$ 8,482	$ 10,951	$ –	$ 10,386	$ 169
Total impaired loans:					
Real estate mortgage	$ 9,714	$ 12,186	$ 529	$ 11,893	$ 194
Production and intermediate-term	4,287	7,626	1,226	5,249	85
Processing and marketing	560	560	280	686	11
Rural residential real estate	701	808	38	858	14
Total	$ 15,262	$ 21,180	$ 2,073	$ 18,686	$ 304

	December 31, 2011			Year Ended December 31, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 2,851	$ 2,913	$ 677	$ 2,138	$ 42
Production and intermediate-term	3,748	9,525	461	2,811	56
Processing and marketing	–	–	–	–	–
Rural residential real estate	277	284	56	208	4
Total	$ 6,876	$ 12,722	$ 1,194	$ 5,157	$ 102
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 12,409	$ 14,882	$ –	$ 9,305	$ 185
Production and intermediate-term	1,216	1,324	–	912	18
Processing and marketing	(2)	655	–	(1)	–
Rural residential real estate	457	509	–	342	7
Total	$ 14,080	$ 17,370	$ –	$ 10,558	$ 210
Total impaired loans:					
Real estate mortgage	$ 15,260	$ 17,795	$ 677	$ 11,443	$ 227
Production and intermediate-term	4,964	10,849	461	3,723	74
Processing and marketing	(2)	655	–	(1)	–
Rural residential real estate	734	793	56	550	11
Total	$ 20,956	$ 30,092	$ 1,194	$ 15,715	$ 312

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2013.

The following table summarizes interest income on nonaccrual 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	$ 1,151	$ 2,445	$ 1,482
Less: interest income recognized	(192)	(1,674)	(307)
Foregone interest income	$ 959	$ 771	$ 1,175

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	$ 1,336	$ 1,685	$ 1,241	$ 16	$ 3	$ 127	$ 4,408
Charge-offs	(7)	(9)	(195)	–	–	–	(211)
Recoveries	2	1	16	–	–	–	19
Provision for loan losses	(116)	(531)	(497)	(4)	(1)	61	(1,088)
Loan type reclassification	144	(144)	–	–	–	–	–
Balance at December 31, 2013	$ 1,359	$ 1,002	$ 565	$ 12	$ 2	$ 188	$ 3,128
Balance at December 31, 2011	$ 1,359	$ 657	$ 1,273	$ 7	$ 2	$ 184	$ 3,482
Charge-offs	(679)	(46)	(1)	–	–	–	(726)
Recoveries	153	763	–	–	–	–	916
Provision for loan losses	503	311	(31)	9	1	(57)	736
Balance at December 31, 2012	$ 1,336	$ 1,685	$ 1,241	$ 16	$ 3	$ 127	$ 4,408
Balance at December 31, 2010	$ 1,107	$ 153	$ 2,580	$ 17	$ 6	$ 140	$ 4,003
Charge-offs	(422)	(701)	(1,742)	–	–	–	(2,865)
Recoveries	1	–	14	–	–	–	15
Provision for loan losses	673	1,205	421	(10)	(4)	44	2,329
Balance at December 31, 2011	$ 1,359	$ 657	$ 1,273	$ 7	$ 2	$ 184	$ 3,482
Loans individually evaluated for impairment	$ 719	$ 413	$ –	$ –	$ –	$ –	$ 1,132
Loans collectively evaluated for impairment	640	589	565	12	2	188	1,996
Balance at December 31, 2013	$ 1,359	$ 1,002	$ 565	$ 12	$ 2	$ 188	$ 3,128
Loans individually evaluated for impairment	$ 529	$ 1,226	$ 280	$ –	$ –	$ 38	$ 2,073
Loans collectively evaluated for impairment	807	$ 459	$ 961	$ 16	$ 3	$ 89	$ 2,335
Balance at December 31, 2012	$ 1,336	$ 1,685	$ 1,241	$ 16	$ 3	$ 127	$ 4,408
Loans individually evaluated for impairment	$ 677	$ 461	$ –	$ –	$ –	$ 56	$ 1,194
Loans collectively evaluated for impairment	682	$ 196	$ 1,273	$ 7	$ 2	$ 128	$ 2,288
Balance at December 31, 2011	$ 1,359	$ 657	$ 1,273	$ 7	$ 2	$ 184	$ 3,482
Recorded investment in loans outstanding:							
Loans individually evaluated for impairment	$ 13,022	$ 1,883	$ –	$ –	$ –	$ 218	$ 15,123
Loans collectively evaluated for impairment	82,617	22,526	19,379	5,535	2,327	14,922	147,306
Ending balance at December 31, 2013	$ 95,639	$ 24,409	$ 19,379	$ 5,535	$ 2,327	$ 15,140	$ 162,429
Loans individually evaluated for impairment	$ 9,251	$ 4,221	$ 560	$ –	$ –	$ 491	$ 14,523
Loans collectively evaluated for impairment	93,483	$ 38,231	$ 3,734	$ 971	$ 2,491	$ 16,485	$ 155,395
Ending balance at December 31, 2012	$ 102,734	$ 42,452	$ 4,294	$ 971	$ 2,491	$ 16,976	$ 169,918
Loans individually evaluated for impairment	$ 10,464	$ 4,991	$ –	$ –	$ –	$ 277	$ 15,732
Loans collectively evaluated for impairment	103,097	$ 27,719	$ 7,328	$ 1,261	$ 2,481	$ 18,257	$ 160,143
Ending balance at December 31, 2011	$ 113,561	$ 32,710	$ 7,328	$ 1,261	$ 2,481	$ 18,534	$ 175,875

* *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.

	Year Ended December 31, 2013			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 1,519	$ –	$ 1,519
Production and intermediate-term	–	86	–	86
Total	$ –	$ 1,605	$ –	$ 1,605

	Year Ended December 31, 2013				
	Post-modification Outstanding Recorded Investment				Effects of Modification
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Troubled debt restructurings:					
Real estate mortgage	$ –	$ 1,516	$ –	$ 1,516	$ –
Production and intermediate-term	–	97	–	97	–
Total	$ –	$ 1,613	$ –	$ 1,613	$ –

	Year Ended December 31, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ –	$ 35	$ 35
Production and intermediate-term	–	–	1,330	1,330
Processing and marketing	–	560	–	560
Total	$ –	$ 560	$ 1,365	$ 1,925

	Year Ended December 31, 2012				
	Post-modification Outstanding Recorded Investment				Effects of Modification
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Troubled debt restructurings:					
Real estate mortgage	$ –	$ –	$ 19	$ 19	$ –
Production and intermediate-term	–	–	1,330	1,330	–
Processing and marketing	–	560	–	560	–
Total	$ –	$ 560	$ 1,349	$ 1,909	$ –

	Year Ended December 31, 2011			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 2,425	$ –	$ 2,425
Production and intermediate-term	–	7,894	–	7,894
Total	$ –	$ 10,319	$ –	$ 10,319

	Year Ended 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	$ –	$ 2,394	$ –	$ 2,394	$ (196)
Production and intermediate-term	–	7,418	–	7,418	(499)
Total	$ –	$ 9,812	$ –	$ 9,812	$ (695)

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	$ 1,158	$ –	$ 321
Production and intermediate-term	–	1,338	327
Processing and marketing	–	560	–
Total	$ 1,158	$ 1,898	$ 648

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 December 31,			Nonaccrual TDRs December 31,		
	2013	2012	2011	2013	2012	2011
Real estate mortgage	$ 6,677	$ 4,779	$ 10,404	$ 5,516	$ 4,779	$ 6,383
Production and intermediate-term	1,277	2,529	2,759	85	1,191	2,759
Processing and marketing	–	560	(2)	–	560	(2)
Total Loans	$ 7,954	$ 7,868	$ 13,161	$ 5,601	$ 6,530	$ 9,140
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.

At December 31, 2013, the Association's investment in the Bank was composed of purchased Class C stock and totaled $1,876. At December 31, 2012 and 2011, the Association's investment in the Bank was also composed of purchased Class C stock and totaled $1,960 and $2,706, respectively. In 2013, 2012, and 2011, the Association received refunds of excess stock totaling $84, $746, and $456, respectively, as part of the Bank's annual capital equalization program.

Subordinated Notes Receivable from Other Farm Credit Institutions

In September 2008, the Association used capital reserves to purchase $10,000 total of 9.00 percent fixed rate unsecured subordinated notes issued by two other associations in the District, both notes due in 2018 with a prepayment option beginning in October 2013. On October 15, 2013, the notes receivable were redeemed in full by the issuing associations.

Other Investments

In 2006, the Association agreed to become one of several investors in a USDA approved Rural Business Investment Company (RBIC). This investment was made under the USDA's Rural Business Investment Program, which is authorized by the Farm Security and Rural Investment Act (FSRIA). It permits USDA to license RBICs and provide guarantees and grants to promote rural economic development and job opportunities and meet equity capital investment needs of small rural enterprises. FSRIA authorizes FCS institutions to establish and invest in RBICs, provided that such investments are not greater than 5 percent of the capital and surplus of the FCS institution.

Over the years, the Association purchased total equity investments in the RBIC of $250. There are no outstanding commitments to make additional equity purchases beyond this amount.

During 2013, a careful analysis indicated that a decrease in value of the investment had occurred that was other than temporary, due to a series of losses and other factors. As a result, the Association recognized other-than-temporary impairment of $180, which is included in Impairment Losses on Investments in the Statements of Income.

Note 5 — Real Estate and Other Property

Premises and Equipment

Premises and equipment consists of the following:

	December 31, 2013	2012	2011
Land and improvements	$ 106	$ 106	$ 106
Buildings and improvements	1,557	1,430	1,430
Furniture and equipment	1,058	1,077	1,098
	$ 2,721	$ 2,613	$ 2,634
Less: accumulated depreciation	1,806	1,773	1,718
Total	$ 915	$ 840	$ 916

Other Property Owned

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

	December 31, 2013	2012	2011
Gains (losses) on sale, net	$ (4)	$ (242)	$ 55
Carrying value unrealized gains (losses)	(1,101)	(291)	(260)
Operating income (expense), net	(61)	(20)	(13)
Gains (losses) on other property owned, net	$(1,166)	$ (553)	$ (218)

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association primarily 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 line of credit are governed by the General Financing Agreement (GFA). The GFA defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants. The Association failed to meet its earnings covenant under the GFA at December 31, 2012. The default allowed the Bank, in conjunction with the FCA, to accelerate repayment of all indebtedness. The Bank approved a waiver of the default and allowed the Association to continue operating under a Special Credit Agreement (SCA). At December 31, 2013, the Association was in compliance with the earnings covenant under the SCA and the GFA. The current SCA addressing the GFA earnings covenant default was executed effective January 31, 2013 and expired on January 31, 2014. The Association continues to operate under the 2014 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 1.42 percent for LIBOR-based loans and 1.56 percent for Prime-based loans, and the weighted average remaining maturities were 3.7 years and 7.0 years, respectively, at December 31, 2013. The weighted average interest rate on the fixed rate notes payable which are match funded by the Bank was 3.34 percent and the weighted average remaining maturity was 9.4 years at December 31, 2013. The weighted average interest rate on all interest-bearing notes payable was 1.81 percent and the weighted average remaining maturity was 6.6 years at December 31, 2013.

Variable rate and fixed rate notes payable represent approximately 94.84 percent and 5.16 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 and formulas relating primarily to credit quality and financial condition.

Note 7 — Members' Equity

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

A. **Capital Stock and Participation Certificates**

In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or Class C 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 2.0 percent or $1,000, 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 have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation. At December 31, 2013, the Association had no loans designated for sale, nor were any loans previously sold into the Secondary Market.

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 is at par ($5 per share). Repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates. Retirements of equity investments are subject to approval by the Board, at its sole discretion. Subject to any limitations of the Farm Credit Act, when the debt of a borrower/stockholder is in default, the Association may order retirement of stock or participation certificates owned by the borrower and apply the proceeds to the indebtedness.

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	29.41%	20.67%	18.61%	7.00%
Total surplus ratio	29.05%	20.29%	18.22%	7.00%
Core surplus ratio	29.05%	20.29%	18.22%	3.50%

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

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

C. **Description of Equities**

The Association is authorized to issue or have outstanding Class D Preferred Stock, Classes A and C Common Stock, Class C Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association's business. All classes of 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 Common/Voting	No	65,495	$ 328
C Participation Certificates/Nonvoting	No	41,834	209
Total Capital Stock and Participation Certificates		107,329	$ 537

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

Retained Earnings

The Association maintains an unallocated retained earnings account. The minimum amount is determined annually by the Board. At the end of any fiscal year, if the retained earnings account 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.

Equity Dividends

Equity dividends may be declared and paid on stock and participation certificates as determined by the Board's resolution. All equity dividends shall be paid on a per share basis. Dividends on common stock and participation certificates shall be noncumulative without preference between classes.

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

Patronage Dividends

The Board, by adoption of a resolution, may obligate the Association to distribute to eligible borrowers on a patronage basis all or any portion of available net earnings for the fiscal year. By adoption of resolutions in December, the Board may obligate the Association to distribute to eligible borrowers on a patronage basis all or any portion of available net taxable earnings. Patronage distributions declared are authorized to be paid 100 percent in cash, based on the proportion of each eligible borrower's net interest margin as compared to the total net interest margin earned by all eligible borrowers. The Board of Directors reserves the right to change the basis for the payment of patronage dividends.

If the Association meets its capital adequacy standards after accruing the patronage distribution, the dividend distribution may be paid in cash, authorized stock of the Association, allocations of earnings retained in an allocated member's equity account, or any one or more of such forms of distribution. There was no patronage dividend accrued since 2010.

Transfer

Each owner or joint owners of Class C Common Stock is entitled to a single vote, regardless of the number of shares owned, while Class A Common Stock, Class D Preferred Stock and Class C Participation Certificates provide no voting rights to their owners. Voting stock may not be transferred to another person unless such person is eligible to hold voting stock. Common stock and participation certificates may be transferred to any person eligible to hold such class of equity under the bylaws. Class D Preferred Stock may be transferred in the manner set forth in the resolution authorizing its issuance.

Impairment

Under the capitalization bylaw of the Association, all stock and participation certificates are considered to be issued "at risk" and are not protected under the Farm Credit Act. Any net losses recorded by the Association shall first be applied against unallocated retained earnings. To the extent that such losses would exceed unallocated retained earnings, resulting in impairment of the Association's capital stock, such losses would be applied pro rata to each share and/or unit outstanding in the class, in the following order:

1. Classes A and C Common Stock and Class C Participation Certificates
2. Class D Preferred Stock

Liquidation

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

1. Class D Preferred Stock
2. Classes A and C Common Stock and Participation Certificates

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	$	286	$	279	$	(208)
Other comprehensive income before reclassifications		(36)		(58)		403
Amounts reclassified from AOCI		52		65		84
Net current period other comprehensive income		16		7		487
Balance at end of period	$	302	$	286	$	279

Reclassifications Out of Accumulated Other Comprehensive Income *(b)*

	2013		2012		2011		Income Statement Line Item
Defined Benefit Pension Plans:							
Periodic pension costs	$	(52)	$	(65)	$	(84)	See Note 9.
Net amounts reclassified	$	(52)	$	(65)	$	(84)	

(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 0.73 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.

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

Level 2

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

The Association had no Level 2 assets or liabilities.

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, there are no observable market values for the Association's RBIC investments. Management must estimate the fair value based on an assessment of the operating performance of the company and available capital to operate the venture. This analysis requires significant judgment and actual sales values could differ materially from those estimated.

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	$ 17
Issuances	–
Settlements	(11)
Balance at December 31, 2013	$ 6

	Standby Letters Of Credit
Balance at January 1, 2012	$ 22
Issuances	–
Settlements	(5)
Balance at December 31, 2012	$ 17

	Standby Letters Of Credit
Balance at January 1, 2011	$ 31
Issuances	–
Settlements	(9)
Balance at December 31, 2011	$ 22

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

Other Property Owned/Impaired Loans

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

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 16,751	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*
Other investments-RBIC	$ 70	Third party evaluation	Income, expense, capital	Not applicable

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Notes receivable from other Farm Credit institutions	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 table presents the carrying amounts and fair values of assets and liabilities that are measured at fair value on a recurring and nonrecurring basis, as well as those financial instruments not measured at fair value, for each of the hierarchy levels:

	At or for the Year ended December 31, 2013					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Standby letters of credit	$ 6	$ –	$ –	$ 6	$ 6	
Recurring Liabilities	$ 6	$ –	$ –	$ 6	$ 6	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 14,132	$ –	$ –	$ 14,132	$ 14,132	$ 749
Other property owned	2,481	–	–	2,619	2,619	(1,105)
Other investments	70	–	–	70	70	(180)
Nonrecurring Assets	$ 16,683	$ –	$ –	$ 16,821	$ 16,821	$ (536)
Other Financial Instruments						
Assets:						
Cash	$ 103	$ 103	$ –	$ –	$ 103	
Loans	144,581	–	–	143,494	143,494	
Notes receivable from other Farm Credit institutions	–	–	–	–	–	
Other Assets	$ 144,684	$ 103	$ –	$ 143,494	$ 143,597	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 116,275	$ –	$ –	$ 116,000	$ 116,000	
Other Liabilities	$ 116,275	$ –	$ –	$ 116,000	$ 116,000	

	At or for the Year ended December 31, 2012					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Standby letters of credit	$ 17	$ –	$ –	$ 17	$ 17	
Recurring Liabilities	$ 17	$ –	$ –	$ 17	$ 17	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 13,189	$ –	$ –	$ 13,189	$ 13,189	$ (785)
Other property owned	3,498	–	–	3,672	3,672	(533)
Nonrecurring Assets	$ 16,687	$ –	$ –	$ 16,861	$ 16,861	$ (1,318)
Other Financial Instruments						
Assets:						
Cash	$ 214	$ 214	$ –	$ –	$ 214	
Loans	151,792	–	–	150,685	150,685	
Notes receivable from other Farm Credit institutions	10,000	–	–	10,330	10,330	
Other Assets	$ 162,006	$ 214	$ –	$ 161,015	$ 161,229	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 135,882	$ –	$ –	$ 136,384	$ 136,384	
Other Liabilities	$ 135,882	$ –	$ –	$ 136,384	$ 136,384	

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

	December 31, 2011			
	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:				
Standy letters of credit	$ –	$ –	$ 22	$ 22
Total Liabilities	$ –	$ –	$ 22	$ 22

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

	December 31, 2011				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 4,779	$ 4,779	$ (2,732)
Other property owned	$ –	$ –	$ 1,376	$ 1,376	$ (205)

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	$ 164	$ 164
Loans, net of allowance	$ 171,900	$ 171,206
Notes receivable from other Farm Credit Institutions	$ 10,000	$ 10,735
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	$ 143,364	$ 144,536

Note 9 — Employee Benefit Plans

The Association participates in three 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 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" 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%	$793	$744	$668	1.58%	1.63%	1.68%
AgFirst Farm Credit Cash Balance Retirement Plan	95.06%	86.01%	81.77%	$11	$6	$4	0.62%	0.44%	0.50%

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 $995 for 2013, $1,051 for 2012, and $1,172 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.

The Association also participates in the defined contribution Farm Credit Benefit Alliance (FCBA) 401(k) Plan (401(k) Plan), which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by Hacienda. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $73, $57, and $44 for the years ended December 31, 2013, 2012, and 2011, respectively.

FASB guidance 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, $16, $7 and $487 have been recognized as net credits to AOCI to reflect these elements.

Additional financial information for the three 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.

The Association also provides certain medical and dental benefits for eligible retired employees through a single employer defined benefit other postretirement benefits plan (OPEB), the Puerto Rico Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plan. This plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs were $155 for 2013, $181 for 2012, and $237 for 2011.

The funding status and the amounts recognized in the Consolidated Balance Sheets of the Association for other postretirement benefit plans follows:

	Other Postretirement Benefits		
	2013	2012	2011
Change in benefit obligation			
Benefit obligation at beginning of year	$ 1,915	$ 1,861	$ 2,219
Service cost	24	25	32
Interest cost	79	91	121
Plan participants' contributions	21	26	25
Plan amendments	–	–	–
Actuarial loss (gain)	36	58	(403)
Benefits paid	(138)	(146)	(133)
Benefit obligation at end of year	$ 1,937	$ 1,915	$ 1,861
Change in plan assets			
Fair value of plan assets, beginning of year	$ –	$ –	$ –
Employer contributions	117	120	108
Plan participants' contributions	21	26	25
Benefits paid	(138)	(146)	(133)
Fair value of plan assets, end of year	$ –	$ –	$ –
Funded Status	$ (1,937)	$ (1,915)	$ (1,861)
Amounts recognized in the balance sheet consist of:			
Other postretirement benefit assets	$ –	–	–
Other postretirement benefit liabilities (included in other liabilities)	(1,937)	(1,915)	(1,861)
Net amount recognized	$ (1,937)	(1,915)	(1,861)

The following represent the amounts included in accumulated other comprehensive income (pre-tax) at December 31:

	Other Postretirement Benefits		
	2013	2012	2011
Net actuarial loss (gain)	$ (302)	$ (351)	$ (428)
Prior service costs (credit)	–	42	92
Net transition obligation (asset)	–	23	57
Total amount recognized in AOCI	$ (302)	$ (286)	$ (279)

Components of net periodic benefit cost and other amounts for all other postretirement benefits plans recognized in the Association's other comprehensive income as of December 31 are as follows:

	Other Postretirement Benefits		
	2013	2012	2011
Service cost	$ 24	$ 25	$ 32
Interest cost	79	91	121
Amortization of prior service cost	42	50	50
Amortization of transition obligation (asset)	23	34	34
Amortization of net (gain)loss	(13)	(19)	–
Net periodic benefit cost	$ 155	$ 181	$ 237
Other changes in plan assets and projected benefit obligation recognized in OCI			
Net actuarial loss (gain)	$ 36	$ 58	$ (403)
Amortization of prior service cost	(42)	(50)	(50)
Amortization of transition obligation (asset)	(23)	(34)	(34)
Amortization of net actuarial loss (gain)	13	19	–
Total recognized in OCI	$ (16)	$ (7)	$ (487)
Total recognized in expense and OCI	$ 139	$ 174	$ (250)

Accreted into net income during 2014 will be $10 of actuarial income related to other postretirement benefits; specifically, $0 of net transition obligation (asset), $0 of prior service costs and $10 of net actuarial gain.

Weighted average assumptions used to determine benefit obligations at December 31, 2013, 2012, and 2011 are as follows:

	Other Postretirement Benefits		
	2013	2012	2011
Discount rate	5.05%	4.25%	5.05%

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:

	Other Postretirement Benefits		
	2013	2012	2011
Discount rate	4.25%	5.05%	5.60%

For measurement purposes, annual rates of increase of 5.00 percent through 6.50 percent in the per capita cost of covered health benefits were assumed for 2013. The rates were assumed to step down to 5.00 percent in 2020 and remain at that level thereafter.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one-percentage point change in the assumed healthcare cost trend rates would have the following effects:

	1% Point Increase	1% Point Decrease
Effect on total service cost and interest cost components	$ 19,391	$ (15,258)
Effect on year-end post-retirement benefit obligation	$ 310,264	$ (249,915)

Contributions

The Association expects to contribute $112 to its other postretirement plan in 2014.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Other Postretirement Benefits
2014	$112
2015	$110
2016	$113
2017	$106
2018	$107
Years 2019 — 2023	$568

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 $17,249. During 2013, $1,510 of new loans and advances were made and repayments totaled $2,178. Generally, these loans do not involve more than normal risk of collectability.

Note 11 — Commitments and Contingencies

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

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

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

At December 31, 2013, $23,880 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 $350 with expiration dates ranging from December 31, 2013 to August 10, 2015. The maximum potential amount of future payments that may be required under these guarantees was $350.

Note 12 — Income Taxes

The Association recorded no provision for federal income tax for 2013, 2012, and 2011. For 2010, the Association incurred a patronage sourced net operating loss which was carried forward to 2011 through 2013 which fully offset patronage sourced taxable income. Therefore, since 2012 any eligible patronage sourced income was not distributed. As a result, the Association incurred an immaterial amount of alternative minimum tax due to the alternative minimum tax net operating loss limitation. The Association is exempt from Puerto Rico income tax under Article 23 of the General Cooperative Act of 2004.

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	$ 940	$ 232	$ (337)
Patronage distributions	–	–	–
Tax-exempt FLCA earnings (losses)	(313)	(206)	326
Other	(627)	(26)	11
Provision (benefit) for income taxes	$ –	$ –	$ –

As discussed in Note 2, *Income Taxes*, the Board and management intend that the ACA will have only patronage sourced income that will be distributed in its entirety on a cooperative basis as tax deductible patronage dividends, resulting in zero federal income tax. Thus, the Association has applied a zero effective tax rate to its cumulative temporary differences and has no net deferred tax assets, other than $42 of deferred tax assets related to alternative minimum tax credit carryovers that have unlimited carryover period.

There were no potential 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 remains open for Federal and Puerto Rico 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	$ 1,076	$ 1,191	$ 1,136	$ 1,071	$ 4,474
Provision for (reversal of allowance for) loan losses	99	(108)	(243)	(836)	(1,088)
Noninterest income (expense), net	(865)	(1,111)	(779)	(120)	(2,875)
Net income (loss)	$ 112	$ 188	$ 600	$ 1,787	$ 2,687

	2012				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,024	$ 1,145	$ 1,250	$ 1,089	$ 4,508
Provision for (reversal of allowance for) loan losses	1	(353)	296	792	736
Noninterest income (expense), net	(838)	(44)	(1,268)	(939)	(3,089)
Net income (loss)	$ 185	$ 1,454	$ (314)	$ (642)	$ 683

	2011				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,059	$ 985	$ 1,004	$ 1,098	$ 4,146
Provision for (reversal of allowance for) loan losses	–	671	1,302	356	2,329
Noninterest income (expense), net	(841)	(603)	(1,044)	(321)	(2,809)
Net income (loss)	$ 218	$ (289)	$ (1,342)	$ 421	$ (992)

Note 14 — Regulatory Enforcement Matters

On March 17, 2011 the FCA entered into a written Supervisory Agreement (SA) with the Board of Directors of the Association. This agreement supersedes FCA Supervisory Letters dated July 23, 2009, March 2, 2010, and December 10, 2010 and incorporates certain requirements from these letters. The SA requires the Board of Directors to take certain corrective and precautionary measures with respect to some Association practices, including board governance and operation, director fiduciary duties, nominating committee procedures, board policies, board business planning, Association earnings and liquidity, senior management and human capital development, internal audit and review, asset quality, allowance for loan losses and collateral risk management, and capital markets and participation activities. In addition, the SA prohibits the Association from distributing patronage-sourced income without FCA consent.

Conditions and events that led to the need for this agreement include portfolio credit quality deterioration, high turnover in senior management, perceived weaknesses in board governance, and, reduced earnings and liquidity.

The Board of Directors and the Association have worked together to reach several milestones. The regulator has provided the Board of Directors several interim progress reports on compliance with the SA and delivered a report of examination to the Board of Directors as of June 30, 2013. The Association has achieved full compliance in 13 out 17 items, substantial compliance in 3 out of 17 items and partial compliance in 1 out 17 items. Some of the results achieved in compliance with the agreement include the following:

- Hiring a board consultant and working with the consultant to assist the Board in fulfilling its fiduciary duties and improving board operations and governance.
- Updating its board committee charters, undergoing several training sessions and changing leadership to improve governance of the Association.
- Revising the director candidate nominating procedures to qualify new candidates, which led to stockholders electing two new directors to the Board in 2012.
- Hiring a new CEO beginning on February 1, 2011 to lead the Association after the retirement of the previous CEO on September 30, 2010.
- Building a cohesive senior management team.
- Overseeing the implementation of updated collateral risk management policies and procedures that are in line with best practices in the industry.
- Improving the methodology used to calculate the Allowance for Loan Losses of the Association.
- Hiring a specialized third party auditor that assessed the capital markets portfolio credit risk and helped strengthen credit policies and procedures.
- Establishing a Compliance Committee to monitor management's progress in implementing the corrective actions of items identified in the SA.
- Ensuring that FCA's recommendations are incorporated in the various action plans.
- Reviewing the Association's internal audit plan to focus on areas where perceived weaknesses were identified.
- Establishing a risk assessment process to assess risks and controls in the ACA.
- Establishing an asset quality improvement plan to monitor management efforts in managing high risk loans.
- Revising the 2011 business plan to establish strategic priorities and to comply with FCA regulations governing business planning.
- Establishing a human capital plan and succession plan to assist in the long-term success of the Association.
- Revising board policies on a quarterly basis to guide management in conducting day to day operations.
- Enhancing the participation's portfolio credit underwriting and administration controls.

All required measures have not been achieved or completed as of the date of this report and the Board of Directors continues to work with the management team in improving the areas identified in the Supervisory Agreement. Besides the ongoing corrective actions already mentioned, other actions to be taken target the following areas.

- Continue executing strategies to grow the Association's loan portfolio with high quality loans to improve asset quality and, enhance earnings and liquidity.
- Continue making progress in the execution of collateral risk management practices. Improving on perceived weaknesses in the preparation and documentation of appraisals.

The Board of Directors will continue engaging a board consultant to provide advice in understanding and fulfilling its fiduciary responsibilities and to perform other advisory functions as specified in the agreement. Both the Board of Directors and Senior Management are committed to continuing the administration of the Association in a sound manner, compliant with all FCA Regulations.

The Association remained under written supervisory agreement as of the date of this report.

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