



**AMERICAN AGCREDIT**  
MONEY FOR AGRICULTURE

**A GROWING LEGACY** 2013 Annual Report





# A GROWING LEGACY

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2013 Annual Report



AMERICAN AGCREDIT  
MONEY FOR AGRICULTURE



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As I assume the helm of this robust Association, I am proud to be a part of an organization that has focused on its customers to ensure that we're working together to set the stage for a successful future.

Taking on the role of CEO, I feel fortunate to follow in the footsteps and leadership of someone like Ron Carli, who served for 35 years in the Farm Credit System. And while I'm new in this position, my roots in the System and throughout our territories run deep, having spent 30 years in Kansas and Colorado, and now in California.

The transition has been smooth and will continue the ongoing process of growth and change. The success of American AgCredit is due not only to past leadership and the success of you, our

customers, but also due to the smart, dedicated people working within the Association.

As I look toward the future, I know that we are prepared and in good hands – an experienced staff, knowledgeable management, a supportive board, and a broad and diverse customer base. From here, we can build on what came before, what we have now, and where we aim to be – all while ensuring sufficient resources to maintain stability for the future.

—Byron E. Enix



*After 35 years, Ron Carli retires.*

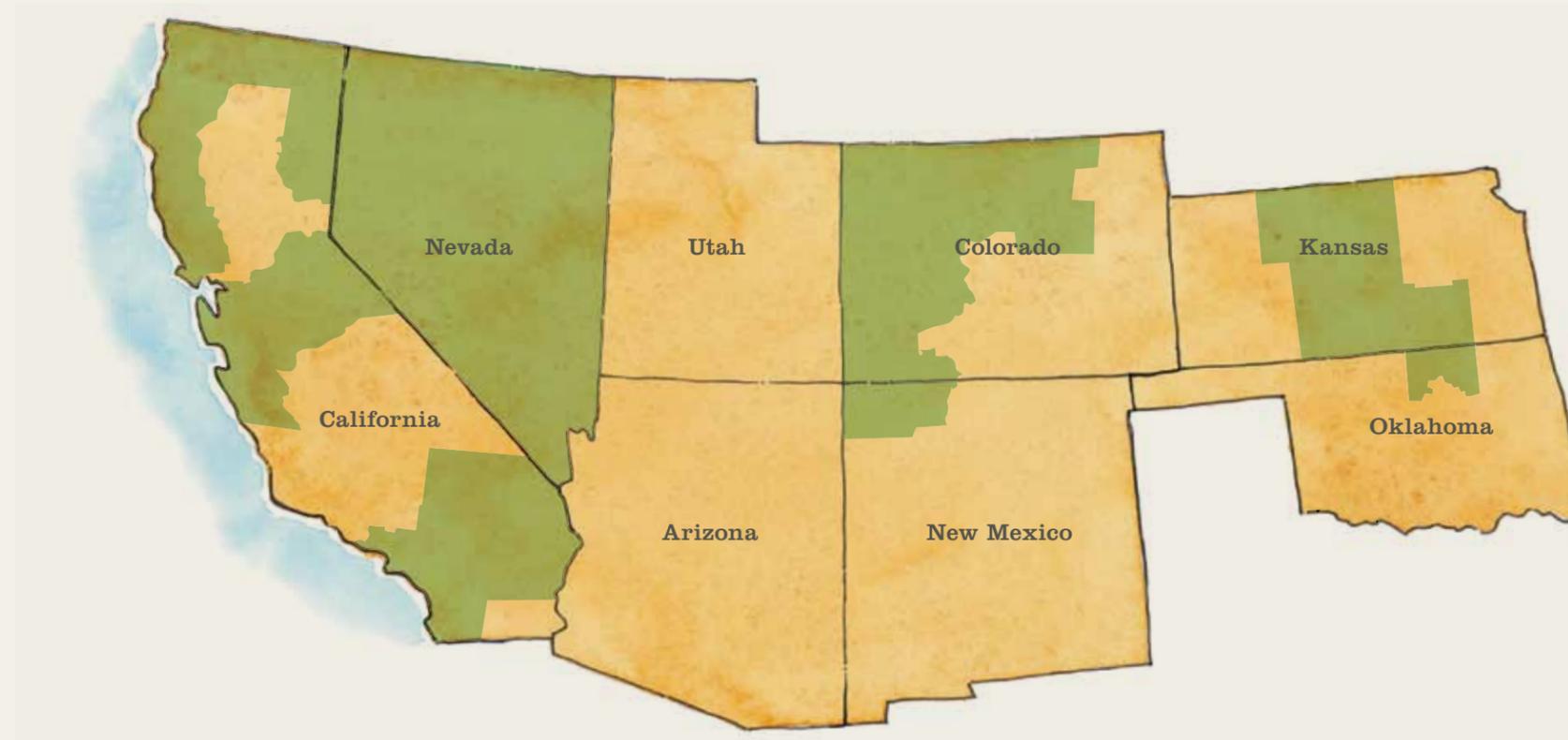
In 1979, Ron Carli was hired as part of the Santa Rosa Federal Land Bank, which had five employees and served three counties covering territory shown on the 1979 California map to the right. Well-known throughout the Farm Credit System as a key innovator, Mr. Carli became one of the youngest CEOs in the System, was the first CEO to merge the Production Credit and Land Bank entities into one cooperative (ACA), and steered American AgCredit into the first merger in the System which saw the integration of two non-contiguous state associations into one. His leadership and vision have set the course for American AgCredit, and have made a valuable impact on the Farm Credit System.



# A HERITAGE OF SUCCESS 1979–2014



~ 1979 ~



~ 2014 ~

American AgCredit was inaugurated with the establishment of the National Farm Lending Association (NFLA) of Santa Rosa in October 1916. By 1979, the Association territory encompassed three counties covering territory shown above. Since then the Association has flourished and expanded through various mergers and partnerships, culminating in what is today an Association covering six states, eight regions, 130 counties, more than 400 employees, and approximately 7,000 customer borrowers.



Through the success of 2013, we arrive on the doorstep of a new year in a stable position with healthy growth and a strong capital base fortifying our foundation.



**FRANK STONEBARGER**  
Board Chairman

With the mission to continue serving agriculture – both big and small – throughout our territory, our efforts have focused primarily on our customers and structuring our processes and people to better serve borrowers in the fastest and most efficient way possible. Our commitment is to keep the Association strong and viable for the long haul.

With nearly all sectors showing growth, we finished 2013 with annual net income of more than \$111 million, significantly exceeding our forecast. At year-end, loans were just over \$6 billion, an increase of 3.9% from last year. Credit quality improved dramatically and nonaccrual loans ended the year at \$61 million, down 36% from last year-end. Bottom line, core earnings remain strong and the Association continues to maintain a strong capital position supporting future growth and continued patronage to our customers.

The Association's 2013 growth was partnered with continued expansion of our crop insurance business, expanding our equipment and facility leasing services, and building and renovating new branch offices throughout our territory. We've had our most successful year to date. The Management's Discussion & Analysis section of this report provides additional information regarding the Association's 2013 performance.

Generally, most commodities performed well during 2013. Dairy and timber have stabilized and show continued improvement. The cattle and wine industries maintained strong market positions for the year. Nuts, grains, and row crops all experienced good performance in 2013. However, extreme weather has

continued throughout much of our lending territory. Should these conditions persist, our borrowers and their operations will likely be adversely impacted.

As of the writing of this letter, our concerns lie in our territories that are struggling through some of the most challenging drought conditions seen in years. Historically, we know this happens, but what's most important is that your Association is built to handle the adverse risks inherent in agriculture. Our financial and business plans are purposefully built to withstand periods of agricultural stress. We've focused on diversifying risk so when any one region, market or commodity experiences stress, we are able to continue providing the financial services needed. We can assist you through tough times and the potential impacts it may have on your business.

The overall economy is still growing but has slowed. The global economic recovery has hit a plateau. Input costs have risen and commodity prices are shifting based on input costs, land values, and the turbulent nature of the weather in various regions. Financial flexibility remains vital so that agribusiness can adapt to any and all of these changing conditions.

With this Annual Report, we are proud to highlight our 2013 success and present a reminder that our strong capital position provides a solid foundation for the future. By balancing growth, risk and planning, we ensure that you – and your Association – are here for the long term.

We appreciate your business and hard work this past year.

*February 28, 2014*



**BYRON E. ENIX**  
Chief Executive Officer

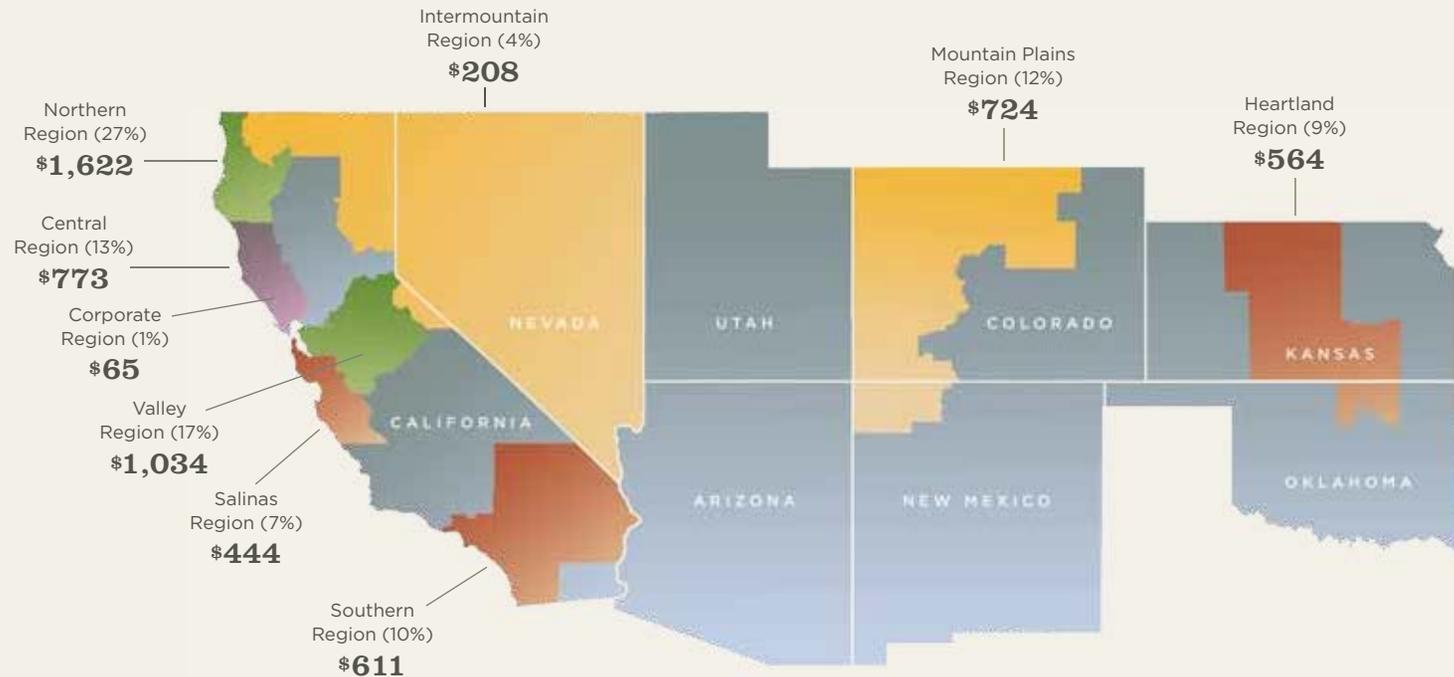
# KEY FINANCIAL DATA

YEAR ENDED DECEMBER 31, (\$ in thousands)	2013	2012	2011	2010	2009
NET INCOME	\$111,238	\$107,258	\$180,656	\$81,376	\$49,384
DIVIDENDS DECLARED	\$36,970	\$44,998	\$34,762	\$26,191	\$15,821
DIVIDENDS AS % OF NET INCOME	33.24%	41.95%	19.24%	32.19%	32.04%
LOAN VOLUME	\$6,045,026	\$5,816,541	\$4,391,248	\$4,574,439	\$4,747,370
RETURN ON AVERAGE ASSETS	1.77%	1.82%	3.99%	1.69%	1.24%
MEMBERS' EQUITY AS % OF TOTAL ASSETS	24.98%	24.51%	24.60%	21.55%	19.56%

Our strategic and long-term business planning takes a focused and measured approach to how and in what manner we develop as an association. Our territory encompasses a broad geographical footprint consisting of six states, and offers capital markets services throughout 30 states and internationally. This scope ensures that American AgCredit leverages risk appropriately — both in geography and in commodity mix.

**GEOGRAPHICAL LOANS** (\$ in millions)

With distinct and unique geographical regions, we manage our loan portfolio and related risks based on the unique characteristics of the agricultural market within each territory. Issues related to geography — such as weather, land pricing, or market commodity — may be offset by the overall strength within other regions, thereby reducing pressure on the overall portfolio.



**COMMODITIES FINANCED**

Through the diversification of our portfolio, we are able to reduce risks associated with a measurable downturn in any one commodity. By diversifying our commodity mix, we can ensure that any material stress on the entire portfolio is minimized.



# DIVIDEND REPORT

I BELIEVE THIS  
**\$37 MILLION**  
BELONGS TO YOU

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AMERICAN AGCREDIT IS RETURNING \$37 MILLION TO OUR CUSTOMERS FOR 2013, BRINGING OUR DIVIDEND TOTAL TO MORE THAN \$215 MILLION SINCE 2006.

***This patronage program is a key benefit for our member-borrowers.***

Unlike most businesses that return company profits to their investors, we share our profits with our members, the farmers and ranchers who use our services. The Board of Directors can choose to distribute some or all of our net income to members in the form of cash dividends, in effect reducing the cost of borrowing.

While this program recognizes the successes of the past year, it is also a key component to sowing the seeds of success for the future, providing American AgCredit with a strong capital position for long-term growth. To put it simply, our patronage program is structured to reward past success while ensuring stability for the future, allowing us to offer competitive interest rates and a constant supply of credit to farmers and ranchers throughout our territory.



A key component of the American AgCredit mission is building a foundation for the future of agriculture in America through a variety of programs designed to support our next generation of farmers and ranchers.

#### **Young, Beginning, and Small Farmer/Rancher Program (YBS)**

The YBS program provides access to a range of financing options for qualified farmers and ranchers just starting their careers in agriculture and for those who run smaller operations.

**YOUNG** - Age 35 or younger

**BEGINNING** - 10 years experience or less in farming/ranching

**SMALL** - Under \$250,000 annual gross income from farming/ranching operation

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#### **Young Farmer and Rancher Executive Institute**

Helping to ensure the successful transition of the family farm from one generation to the next, the Institute focuses on real-life solutions to everyday challenges. This invitation-only program for parents and their adult children provides an overview of the Farm Credit System, while encouraging participants to consider issues that may impact their future operations. The three-day conference also offers insights to family business dynamics and tools for helping young farmers and ranchers develop as successful entrepreneurs.

The Young Farmer and Rancher Executive Institute typically includes about 30 families.

### AgYouth Programs

Targeted specifically to high school students involved in 4-H and FFA, the AgYouth program offers support, education, and interest-free funding for project animals and expenses, as well as a real-life introduction to agricultural finance.

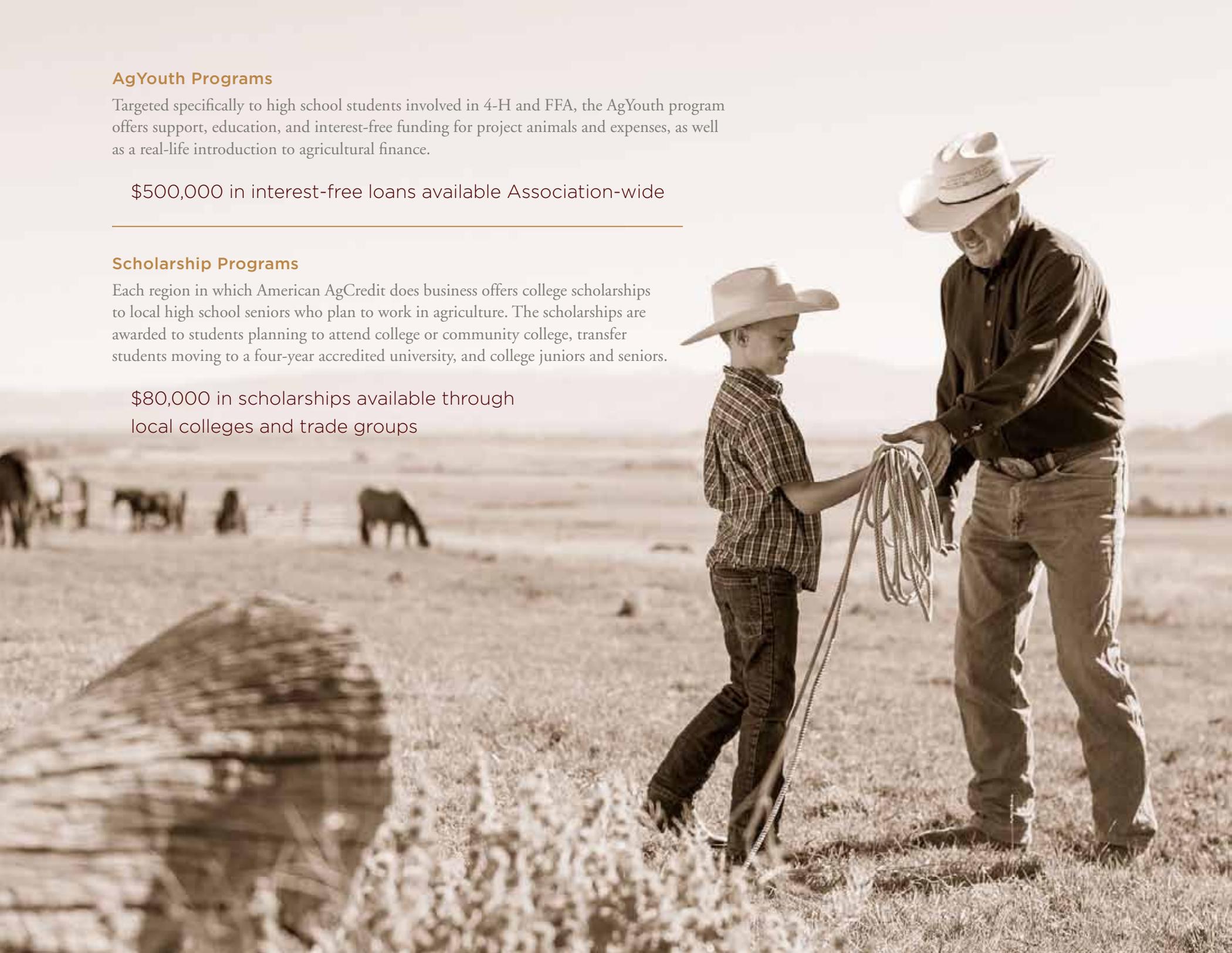
\$500,000 in interest-free loans available Association-wide

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### Scholarship Programs

Each region in which American AgCredit does business offers college scholarships to local high school seniors who plan to work in agriculture. The scholarships are awarded to students planning to attend college or community college, transfer students moving to a four-year accredited university, and college juniors and seniors.

\$80,000 in scholarships available through local colleges and trade groups





American AgCredit sponsors a variety of educational programs and outreach efforts, including middle school, high school, and junior college career days; junior college classroom instruction, and young agricultural exhibitors at local fairs and other events.

As part of our extensive outreach, we collaborate with other Farm Credit institutions to support and promote the continued involvement of young people in farming, and build awareness for the Farm Credit System. By pooling our resources, we are able to promote greater awareness and support farming and agriculture across a broader and more diverse spectrum.

**California YBS Alliance sponsorships include:**

**CA Ag in the Classroom** \$10,000

**CA Ag Leadership Foundation** \$20,000

**CA Farm Bureau – Young Farmer/Rancher  
Conference sponsorship** \$2,500

**CA FFA** \$40,000 annually (\$120,000 pledged)

**CA FFA State Judging Finals** \$14,500

**Cal Poly Finance and Appraisal Chair** \$75,000 annually  
(position funded continually since 2008)

**CA Small Farmer Conference** \$10,000

**Center for Land-Based Learning – Four Farm  
Academy scholarships** \$10,000

**California State University, Fresno – Multicultural  
Scholars in Agriculture program** \$75,000

**University of California, Davis – Small and ethnic farmer  
market tour project** \$70,000

Young Farmer/Rancher Leadership Conference \$10,000

Young Farmer/Rancher – mobile app/website \$12,000

**Colorado YBS outreach & sponsorships include:**

Colorado FFA BIG Conferences \$6,000

FFA Events Program \$10,000

Colorado State University – College of Agricultural  
Sciences Scholarship \$5,000

Colorado State University – Department of Animal  
Sciences Awards \$3,000

Colorado State University Agricultural Education Building \$100,000

Colorado Agricultural Leadership Program Graduation  
Banquet & Ceremony \$4,000

4-H / FFA County Fair Awards \$6,250

**Kansas YBS Alliance sponsorships include:**

Kansas State University – Wheat Innovation Center \$150,000

Kansas FFA \$15,200

KFB Young Farmers and Ranchers \$2,500

Kansas 4-H Foundation \$10,000

Kansas State Fair \$3,300

Kansas Youth Rodeo Association \$3,500

Ag in the Classroom \$5,000

Women Managing the Farm \$5,000

KARL \$5,000

**Oklahoma YBS Alliance sponsorships include:**

Oklahoma State University CASNR:  
Spring State FFA Interscholastic \$10,000

Oklahoma State University Livestock Judging Team \$3,000

Farm Credit Associations of Oklahoma Scholarships \$5,000

Tulsa State Fair – Junior Livestock Judging & Awards \$17,000

Oklahoma Ag Leadership Program \$2,000

Oklahoma State University Chair Level Contribution \$50,000

Oklahoma Youth Expo \$24,000

Women in Agriculture \$600



The Association's consolidated financial statements are prepared by management, which is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates.

In the opinion of management, the accompanying consolidated financial statements fairly present the financial condition and results of operations of the Association, in conformity with generally accepted accounting principles in the United States of America. Other financial information included in this Annual Report is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost must be related to the benefits derived. To monitor compliance, the Association's internal auditors and review staff perform audits of the accounting records, review accounting systems and internal controls, and recommend improvements as needed. The consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent auditors, who consider internal controls in connection with the audit of the financial statements in accordance with generally accepted auditing standards. Their report is located on page 31. The Association is also examined by the Farm Credit Administration (FCA), regulator of the Farm Credit System.

The Association's Board of Directors, which is composed of directors who are not employees, has overall responsibility for the Association's system of internal control and financial reporting.

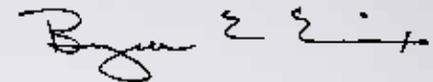
The Board of Directors meets periodically with management, FCA, outside consulting firms, and the internal accountants and auditors to review the manner in which each of these groups perform their responsibilities and to carry out the Board's oversight role with respect to auditing, internal controls, and financial reporting matters. These internal auditors, independent external auditors, and regulators also have access to the Board of Directors and its individual members at any time.

The undersigned certify that the 2013 Annual Report has been reviewed and prepared 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.

*February 28, 2014*



**FRANK STONEBARGER**  
Board Chairman



**BYRON E. ENIX**  
Chief Executive Officer



**VERN ZANDER**  
Chief Financial Officer

The Audit Committee (Committee) is composed of seven members of the Board of Directors. In 2013, eight Committee meetings were held. The Committee oversees the scope of the Association’s internal audit program, the independence of the outside auditors, the adequacy of the Association’s system of internal controls and procedures, and the adequacy of management’s actions with respect to recommendations arising from those auditing activities.

In addition, the Committee approved the appointment of PricewaterhouseCoopers LLP (PwC) as the Association’s independent auditors for 2013. The Committee’s responsibilities are described more fully in the Association’s Internal Control Policy and the Audit Committee Charter.

The fees paid for professional services rendered for the Association by its independent auditors, PwC, during 2013 were \$259,835 for audit services and \$17,900 for tax services.

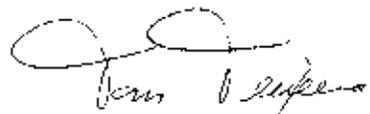
Management is responsible for the Association’s internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the Association’s consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The Committee’s responsibilities include monitoring and overseeing these processes.

In this context, the Committee reviewed and discussed the Association’s Quarterly Reports and audited financial statements for the year ended December 31, 2013 (the “Audited Financial Statements”) with management. The Committee also reviews with PwC the matters required to be discussed by the Statements on Auditing Standards. Both PwC and the Association’s internal auditors directly provide reports on significant matters to the Committee.

The Committee discusses with PwC its independence from the Association. The Committee also reviewed the non-audit services provided by PwC and concluded these services were not incompatible with maintaining the independent auditors’ independence. The Committee has discussed with management and PwC such other matters and received such assurances from them as the Committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Audited Consolidated Financial Statements in the Association’s 2013 Annual Report and for filing with the FCA.

*February 28, 2014*



**THOMAS TEIXEIRA**  
Audit Committee Chairman

**2013 AUDIT COMMITTEE MEMBERS**

- |                 |               |
|-----------------|---------------|
| Thomas Teixeira | James Cooksey |
| Eric Allen      | Jerold Harris |
| Peter Bulthuis  | Larry Solari  |
| Foy Chapin      |               |

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's consolidated financial statements.

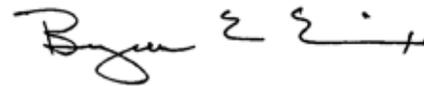
For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors

of the Association; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Association's assets that could have a material effect on its consolidated financial statements.

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

Based on the assessment performed, the Association concluded that as of December 31, 2013, the internal control over financial reporting was effective based upon the COSO 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.

*February 28, 2014*



BYRON E. ENIX  
Chief Executive Officer



VERN ZANDER  
Chief Financial Officer



December 31, (In thousands)	2013	2012(c)	2011	2010	2009(a)
<b>BALANCE SHEET DATA</b>					
Loans	\$6,045,026	\$5,816,541	\$4,391,248	\$4,574,439	\$4,747,370
Less: allowance for loan losses	(10,752)	(15,900)	(12,302)	(18,227)	(12,293)
<b>Net loans</b>	<b>6,034,274</b>	<b>5,800,641</b>	<b>4,378,946</b>	<b>4,556,212</b>	<b>4,735,077</b>
Investment in and receivable from CoBank	279,674	276,029	15,320	13,598	11,622
Investment in and receivable from AgBank	–	–	207,278	119,327	119,327
Accrued interest receivable	42,080	42,659	37,592	42,167	44,792
Other property owned	5,980	1,417	11,227	25,739	4,626
Other assets	103,949	91,648	68,360	69,202	67,730
<b>Total assets</b>	<b>\$6,465,957</b>	<b>\$6,212,394</b>	<b>\$4,718,723</b>	<b>\$4,826,245</b>	<b>\$4,983,174</b>
Obligations with maturities of one year or less	\$4,851,012	\$4,689,710	\$3,557,815	\$3,786,356	\$4,007,495
Obligations with maturities greater than one year	–	–	–	–	781
<b>Total liabilities</b>	<b>4,851,012</b>	<b>4,689,710</b>	<b>3,557,815</b>	<b>3,786,356</b>	<b>4,008,276</b>
Preferred stock	141,580	120,535	104,966	125,957	116,286
Capital stock and participation certificates	7,422	7,502	6,147	6,371	6,722
Unallocated retained earnings	982,706	907,622	845,873	700,997	646,445
Additional paid in capital	490,564	490,564	206,948	206,226	206,226
Accumulated other comprehensive (loss)/income	(7,327)	(3,539)	(3,026)	338	(781)
<b>Total members' equity</b>	<b>1,614,945</b>	<b>1,522,684</b>	<b>1,160,908</b>	<b>1,039,889</b>	<b>974,898</b>
<b>Total liabilities and members' equity</b>	<b>\$6,465,957</b>	<b>\$6,212,394</b>	<b>\$4,718,723</b>	<b>\$4,826,245</b>	<b>\$4,983,174</b>

Year Ended December 31,	2013	2012(d)	2011	2010	2009(b)
<b>STATEMENT OF INCOME DATA</b>					
Net interest income	\$171,482	\$159,918	\$128,245	\$134,702	\$107,396
Reversal of/(Provision for) loan losses	6,949	(2,615)	5,523	(11,000)	(15,714)
Distribution from Farm Credit institutions	24,449	27,378	111,348	8,753	4,076
Non-interest expense, net	(91,635)	(74,094)	(58,362)	(51,448)	(49,275)
(Provision)/Benefit from income taxes	(7)	(3,329)	(6,098)	369	2,901
<b>Net income</b>	<b>\$111,238</b>	<b>\$107,258</b>	<b>\$180,656</b>	<b>\$81,376</b>	<b>\$49,384</b>

**NOTES**

(a) 2009 data includes the combined assets and liabilities of American AgCredit and Farm Credit of the Heartland, which merged on November 30, 2009.

(b) 2009 data includes the results of operations for American AgCredit alone for the months January to November and the combined results of American AgCredit and Farm Credit of the Heartland for the month of December.

(c) 2012 data includes the combined assets and liabilities of American AgCredit and Farm Credit Services of the Mountain Plains, which merged on January 1, 2012. See Note 2 to the Consolidated Financial Statements for further discussion of the Mountain Plains merger. For information presented prior to 2012, refer to note (a).

(d) 2012 data includes the results of operations for American AgCredit and Farm Credit Services of the Mountain Plains, which merged on January 1, 2012. See Note 2 to the Consolidated Financial Statements for further discussion of the Mountain Plains merger. For information presented prior to 2012, refer to note (b).

# KEY FINANCIAL RATIOS

<b>Year Ended December 31,</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Return on average assets	1.77%	1.82%	3.99%	1.69%	1.24%
Return on average members' equity	7.01%	7.17%	16.90%	7.92%	6.42%
Net interest income as a percentage of average earning assets	2.91%	2.90%	2.98%	2.95%	2.81%
Net charge-offs /(recoveries) as a percentage of average loans	(0.03)%	(0.02)%	0.01%	0.11%	0.32%
<b>At Year-End</b>					
Members' common equity as a percentage of total assets	22.79%	22.57%	22.38%	18.94%	17.23%
Members' total equity as a percentage of total assets	24.98%	24.51%	24.60%	21.55%	19.56%
Debt as a ratio to members' equity	3.00:1	3.08:1	3.06:1	3.64:1	4.11:1
Allowance for loan losses as a percentage of loans	0.18%	0.27%	0.28%	0.40%	0.26%
Permanent capital ratio	21.01%	21.12%	21.57%	19.38%	16.27%
Total surplus ratio	18.86%	19.03%	19.01%	16.66%	13.78%
Core surplus ratio	18.09%	18.19%	17.84%	15.88%	13.59%
<b>Other Information</b>					
Cash patronage distributions declared (in thousands)	\$36,970	\$44,998	\$34,762	\$26,191	\$15,821
Loans serviced for others (in millions)	\$3,865	\$4,104	\$3,909	\$4,043	\$4,331



The following commentary explains the principal aspects of the financial condition and results of operations of American AgCredit, ACA (“the Association”) as of December 31, 2013, with comparisons to prior years. The commentary includes significant known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact, our financial condition and results of operations.

The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board. This commentary should be read with the accompanying consolidated financial statements and the related notes appearing in this report. The Association’s past financial results may not be indicative of future performance.

Certain information included in this discussion constitutes forward-looking statements and information that is based on management’s belief, as well as certain assumptions made by and information currently available to management. When used in this discussion, the words “anticipate,” “project,” “expect,” “believe,” and similar expressions are intended to identify forward-looking statements. Although management believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations and projections will prove to be correct. Such forward-looking statements are subject to certain risks, uncertainties, and assumptions. Should one or more of these risks materialize, or should such underlying assumptions prove to be incorrect, actual results may vary materially from those anticipated, projected, or expected. Among key factors that may have a direct bearing on operating results are fluctuations in the economy; the relative strengths and weaknesses in the agricultural credit sectors and in the real estate market; the actions taken by the Federal Reserve for the purpose of managing the economy; the continued growth of the agricultural market consistent with recent historical experience; the continued influx of government payments to borrowers; and Farm Credit Administration (FCA) mandates and rulings.

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### BUSINESS OVERVIEW

The Association is one of the more than 82 Associations of the Farm Credit System (the System), which was created by Congress in 1916 and has served agricultural producers for over 95 years. The System’s mission is to maintain and improve the income and well-being of American farmers, ranchers, and producers or harvesters of aquatic products, and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The System is regulated by the FCA, which is an independent “safety and soundness” regulator.

The Association obtains funding from CoBank, FCB (CoBank). CoBank is a cooperative of which the Association is a member. Prior to its merger with CoBank on January 1, 2012, U.S. AgBank, FCB (AgBank) was our funding bank. CoBank and its related associations are referred to as “the District.”

CoBank is headquartered just outside of Denver, Colorado. As a result of the merger, the investment in AgBank stock was converted to CoBank stock. For purposes throughout this disclosure, “the Bank” refers to AgBank for periods prior to January 1, 2012, and to CoBank for periods subsequent to December 31, 2011.

The Association is materially affected by CoBank’s financial condition and results of operations. The CoBank quarterly and annual reports are on CoBank’s website, [www.CoBank.com](http://www.CoBank.com), or may be obtained at no charge by calling (800) 542-8072 or mailing to CoBank, 5500 S. Quebec St., Greenwood Village, CO 80111. Association Annual Reports are available on the Association’s website within 75 days of year-end, and quarterly reports are available on the Association’s website within 40 days of the calendar quarter-end.

As a cooperative, the Association is owned by the members it serves. The territory served extends across a diverse agricultural region that includes parts of California, Kansas, Oklahoma, Colorado, and New Mexico, as well as the state of Nevada. The Association makes short- and intermediate-term loans for agricultural production or operating purposes and long-term real estate mortgage loans. To meet the diverse needs of its borrowers, the Association is structured along geographical and business industry lines that allow for specialized transactions that are unique to various types of customers. The Association’s success is highly dependent upon the level of satisfaction it can provide to its borrowers. Business priorities are to increase present levels of loan volume, serve the needs of all eligible customers, build capital, increase profitability, and invest in the people and technological resources that will ensure future success.

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### ECONOMIC OVERVIEW

For many years, agriculture has experienced a sustained period of favorable economic conditions due to strong commodity prices, rising land values, and, to a lesser extent, government support and multi-peril insurance programs. These favorable conditions positively impacted our financial results. Production agriculture, however, remains a cyclical business that is heavily influenced by commodity prices, weather patterns, and global supply and demand. The agricultural sector continues to perform well with prices rebounding in many of the industries we

finance. The dairy and forest products industries saw prices rebound during 2013. Beef, wine, and tree fruits and nuts also had a good year. Corn and wheat prices declined, but remained at profitable levels. However, drought conditions remain in parts of the Midwest and have intensified in the West. 2013 was the driest year on record in California. If conditions do not improve, dairymen, farmers, and other livestock producers will be adversely impacted. The negative impact from the drought conditions is somewhat lessened by geographic and commodity diversification and the generally strong financial condition of our agricultural borrowers.

During 2013, economic conditions in our territory generally followed those of the national economy. The economy continued to show steady improvement, albeit slowly. Property values stabilized with pockets of improvement, consumer demand strengthened, and unemployment continued to decline. However, the drought conditions being experienced in the West and Midwest could negatively impact our borrowers and the Association. Should the current drought conditions persist, higher input and operating costs will likely result in higher prices for such basic staples as meat, milk, fruits, and vegetables and will negatively impact the demand for agricultural products. Nevertheless, the Association has the strong capital base necessary to successfully manage through adversity and we are well positioned to work together with our borrowers through these potential adverse conditions.

## FINANCIAL OVERVIEW

**EARNINGS:** The Association produced after-tax earnings of \$111.2 million in 2013, compared to earnings of \$107.3 million in 2012. The increase in earnings from 2012 was primarily due to a \$11.6 million increase in net interest income, a \$6.9 million reversal for loan losses partially offset by a \$15.2 million increase in other expenses.

The Association's 2011 net income of \$180.7 million was significantly impacted by the one-time recapitalization transaction, which accounted for \$75.2 million of 2011 total earnings. In addition, in preparation for its merger with CoBank, AgBank distributed both its 2010 and 2011 patronage refunds during the 2011 fiscal year. In prior years, only one distribution was made. The additional refund for 2011 accounted for \$12.7 million of the year's income. Adjusting for these AgBank merger-related transactions, net income for 2011 would have been \$92.7 million, which compares more directly to 2012's net income of \$107.3 million.

The Association's 2012 earnings of \$107.3 million compared favorably to 2011's adjusted earnings of \$92.7 million predominantly due to the merger with Mountain Plains. The increase was largely due to a \$31.7 million increase in net interest income and a \$5.7 million rebate from the Farm Credit System Insurance Corporation. Offsetting these positive variances was a \$24.7 million increase in non-interest expense and an \$8.1 million increase in the provision for loan losses. The additional increase in earnings for the year was a result of the factors described in the following pages.

The major components of change in net income over the past two years are summarized below and discussed in the following pages.

(In thousands)	2013 vs. 2012	2012 vs. 2011
Net income, prior year	\$107,258	\$180,656
(Decrease)/Increase in interest income	(1,800)	40,503
Decrease/(Increase) in interest expense	13,364	(8,830)
Increase/(Decrease) in net interest income	11,564	31,673
Decrease/(Increase) in provision/reversal for loan losses	9,564	(8,138)
(Decrease)/Increase in non-interest income	(5,256)	(74,969)
(Increase)/Decrease in other expense	(15,214)	(24,733)
Decrease/(Increase) in income tax benefit/provision	3,322	2,769
<b>Increase/(Decrease) in net income</b>	<b>3,980</b>	<b>(73,398)</b>
<b>Net income, current year</b>	<b>\$111,238</b>	<b>\$107,258</b>

**NET INTEREST INCOME:** The chart below provides an analysis of the individual components of the change in net interest income for 2013 and 2012.

(In thousands)	2013 vs. 2012	2012 vs. 2011
Net interest income, prior year	\$159,918	\$128,245
Increase/(Decrease) in net interest income due to changes in:		
Net interest margin	668	(3,568)
Volume of average earning assets	10,851	36,249
Margin/Volume combination	45	(1,008)
<b>Increase/(Decrease) in net interest income</b>	<b>11,564</b>	<b>31,673</b>
<b>Net interest income, current year</b>	<b>\$171,482</b>	<b>\$159,918</b>

2013 net interest income was \$171.5 million, an increase of \$11.6 million. The 7.2% increase over 2012 was primarily due to the strong accrual loan volume growth experienced during the year. Average earning assets grew by \$373 million during 2013, representing a year-over-year growth rate of 6.9%.

Net interest income in 2012 increased 24.7% from \$128.2 million in 2011 to \$159.9 million. The increase was driven by the increase in average earning assets as a result of the Mountain Plains merger. Average earning assets increased in 2012 by \$1.2 billion due to the merger along with strong organic loan growth.

	2013	2012	2013 (Decrease)/ Increase
Average rate on earning assets	4.28%	4.60%	(0.32)%
Average rate on interest-bearing liabilities	1.75%	2.17%	(0.42)%
Average interest rate spread	2.53%	2.43%	0.10%

The Association administers its variable-rate loans based on its cost of funds. Although adjustments to borrower variable rates have generally followed changes in the Prime Rate, that rate has become increasingly less relevant as an indicator of credit demand. The Association's variable cost of funds is indexed to a blend of two rates – the Farm Credit Discount Note Rate and the London Interbank Offered Rate (LIBOR). Management closely monitors interest rate movements and will adjust variable rates to customers to preserve adequate net interest income to sustain the growth of the Association.

**PROVISION FOR LOAN LOSSES:** Management reviews the allowance quarterly and makes adjustments that reflect the changing risks in the loan portfolio. Generally speaking, increased loan volume requires additional allowance for loan losses. As discussed above, the Association experienced strong loan volume growth in 2013. However, loan portfolio credit quality also improved dramatically, resulting in a \$6.9 million reversal for loan losses in 2013. In 2012, increased loan volume required an increase in the allowance for loan losses, which, in turn, resulted in a \$2.6 million provision for loan loss. Loan portfolio credit quality remained relatively unchanged in 2012.

**NON-INTEREST INCOME:** Non-interest income consists primarily of CoBank patronage, origination and servicing fees, insurance income, and other gains and losses. The Association recorded \$24.4 million of CoBank patronage for 2013 compared to \$27.4 million during 2012. The \$3.0 million decrease is primarily due to participation portfolio patronage income recognized in 2012. As a result of the CoBank merger, the Association recognized the 2011 participation patronage income in 2012 along with the 2012 participation patronage income accrual. Beginning in 2013, only the current year's accrual is recognized. Loan origination and servicing fees were \$13.8 million in 2013, representing a slight increase compared to 2012. Insurance income, a component of miscellaneous income, totaled \$4.8 million in 2013, an increase from the \$3.3 million recognized in 2012. FCSIC premium rebate declined significantly in 2013 relative to 2012.

The decrease was due to a \$5.7 million rebate of previously expensed Farm Credit System Insurance Corporation (FCSIC) insurance premiums during 2012. This rebate came as a result of a determination that the System-wide insurance fund was over-funded based on the current volume and quality of System assets. No such rebate was received in 2013.

**OTHER EXPENSES:** Other expenses consist of salaries and benefits, occupancy costs, insurance fund premiums, supervisory expenses, and other operating costs. Other expenses increased from \$100.3 million in 2012 to \$115.5 million in 2013. The 2013 increase was impacted by an \$8.3 million increase in salaries and benefits as a result of normal salary and benefit adjustments, a net increase in the number of employees, and payments under the Association's incentive plan. FCSIC insurance premiums increased \$2.3 million during 2013 as a result of increased premiums rates due to System loan growth. The Association continues to invest in its technology platform, resulting in a \$2.9 million increase in technology expenses, a component of other operating expenses. Other expenses increased from 2011 to 2012 primarily as a result of the Mountain Plains merger.

**PROVISION FOR INCOME TAXES:** The Association's effective tax rate is primarily affected by the mix of taxable and tax-exempt lending activities. The provision decreased significantly in 2013 as the Association determined that it is highly unlikely that we would incur tax liabilities due to our patronage program. The provision decreased in 2012 compared to 2011 due largely to two factors: the 2011 write-off of operating loss carryforwards deemed to be not realizable and the reduction of the deferred tax asset associated with the loan loss allowance, which was reduced during 2011. The Association also recorded a \$1.1 million valuation allowance to its deferred tax asset during 2012. The valuation allowance was deemed necessary as the probability of the Association experiencing future tax liabilities became increasingly unlikely due to our well-established patronage program.

**OTHER COMPREHENSIVE LOSS:** Accumulated other comprehensive loss arises from the recognition of an unfunded pension liability. It is included in the Association's equity portion of the Consolidated Balance Sheet. The liability and the associated other comprehensive loss may fluctuate from year to year depending on the pension plan's performance and underlying actuarial assumptions and obligations. The actual loss or income to be realized as pension liabilities are paid will not be determinable until the liabilities expire. See Note 11 to the consolidated financial statements for further discussion.

**LIQUIDITY AND FUNDING:** Liquidity is necessary to meet our financial obligations, such as paying our note with CoBank, funding loans and other commitments, and funding operations in a cost-effective manner. Our liquidity policy is intended to manage short-term cash flow, maximize debt reduction, and liquidate nonearning assets. Our direct loan with CoBank, cash on hand, and borrower loan repayments provide adequate liquidity to fund our ongoing operations and other commitments. Even with the volatility in the financial markets, we anticipate liquidity levels will be adequate to meet our obligations. The Association also has the ability to sell qualified loans to the Federal Agricultural Mortgage Corporation's secondary market programs to generate additional liquidity as needed.

The Association's primary source of funds (excluding capital) and largest liability is its direct loan from CoBank, administered under a General Financing Agreement. The Association applies substantially all cash received to the direct loan and draws all cash disbursements from it. The Association's ability to incur debt from other sources is subject to statutory and regulatory restrictions.

CoBank's primary source of funds is the sale of securities to investors through the Federal Farm Credit Banks' Funding Corporation. The continued liquidity of the Association is therefore directly dependent upon the ability of the Farm Credit System to continue to sell debt securities at competitive rates. Historically, this access has provided a dependable source of competitively priced debt that is critical for supporting our mission of providing credit to agriculture and rural America. Although financial markets have experienced significant volatility, the Association anticipates continued access to the funding necessary to support its lending and business operations. CoBank is generally responsible for all District-wide funding decisions.

At December 31, the direct loan payable to CoBank consisted of the following:

Type	Weighted Average Interest Rate			YTD Average Balance (In millions)		
	2013	2012	2011	2013	2012	2011
Mortgage loan payable	2.40%	2.76%	3.01%	\$3,592.8	\$3,352.1	\$2,677.3
Commercial loan payable	0.93%	1.03%	1.34%	957.8	908.8	704.9
<b>Total</b>				<b>\$4,550.6</b>	<b>\$4,260.9</b>	<b>\$3,382.2</b>

The Association's direct note with CoBank provides composite rates on separate commercial and mortgage segments of the note. These rates are adjusted monthly based on market conditions and the product mix of the loans funded. The 2013 decrease in mortgage and commercial rates reflects the impact of new loan volume being priced in the historically low interest rate environment. Additionally, existing loans were repriced during the year resulting in a reduction of mortgage and commercial rates.

The Association also obtains a measurable amount of funding from customer Funds Held accounts and preferred H Stock. Funds Held accounts currently pay an interest rate that is comparable to the rate that is paid on the direct loan payable to CoBank. The accounts are uninsured and the rate is variable. The dividend rate on H Stock is variable and is currently slightly higher than the interest rate the Association pays on the direct loan. From a funding perspective, in combination, Funds Held and H Stock provide a cost-effective alternative to the loan from CoBank. Both are offered to customers of the Association as investment vehicles for excess operating funds. Restrictions apply to the purpose for which the Funds Held may be withdrawn and the maximum dollar amount a customer may maintain in Funds Held.

## LOAN PORTFOLIO

The Association's loan portfolio consists of accrual loans, nonaccrual loans on which the accrual of interest has been suspended, and other loans such as sales contracts arising from the sale of property acquired through foreclosure.

Accrual loans as of December 31 were \$6.0 billion and \$5.7 billion for 2013 and 2012, respectively. The \$228 million increase represents a 4.6% year-over-year growth rate and was due to organic growth. The following table shows the fluctuations in major categories of total loans from December 31, 2011, to December 31, 2013.

(In millions)	December 31					
	2013	Percent of Total	2012	Percent of Total	2011	Percent of Total
Real estate mortgage	\$3,600.0	60%	\$3,513.1	60%	\$2,805.1	64%
Production and intermediate-term	1,069.7	18%	1,040.4	18%	725.9	17%
Agribusiness	1,167.0	18%	1,062.2	18%	815.6	18%
Communication	71.3	1%	68.6	1%	5.1	–
Energy	104.8	2%	89.8	2%	–	–
Other	32.2	1%	42.4	1%	39.5	1%
<b>Total loans</b>	<b>\$6,045.0</b>	<b>100%</b>	<b>\$5,816.5</b>	<b>100%</b>	<b>\$4,391.2</b>	<b>100%</b>

Factors affecting the changes in loan categories are discussed below.

**REAL ESTATE LOANS:** Real estate volume increased 2.5%, or \$86.9 million, during 2013. The growth was due to the continuation of the improved economic environment experienced in 2012. Borrowers have been willing to expand their operations and increase their debt obligations. The increase in total mortgage volume was spread across all of the Association's financed commodities.

**PRODUCTION AND INTERMEDIATE-TERM LOANS:** Production loan volume also increased during 2013. This portfolio increased 2.8%, or \$29.3 million, compared to year-end 2012. Similar to the real estate portfolio, the increase was primarily a result of improved economic conditions and borrowers' inclinations to increase leverage to expand operations.

**AGRIBUSINESS LOANS:** These loans are made to benefit the throughput of agricultural goods to the marketplace. Such loans are generally long-term mortgages on the facilities and equipment of a processor. The agribusiness portfolio experienced significant growth in 2013 and increased by \$104.8 million, resulting in a year-over-year growth rate of 9.9%.

**COMMUNICATION AND ENERGY LOANS:** This portfolio contains loans primarily purchased through CoBank and consists of loans to energy cooperatives and communication companies servicing rural America.

**OTHER LOANS:** These loans consist of loans made for sales contracts and for homes located in rural areas.

Small loans (less than \$250,000) accounted for 69.3% of the total number of loans but only 10.9% of loan volume at December 31, 2013. Credit risk on small loans, in many instances, is also reduced by non-farm income sources. Loans greater than \$5 million account for 1.4% of the total number of loans but 27.3% of the total loan volume.

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## COMMODITIES FINANCED

Major commodities financed by the Association are shown in the illustration on page 8. Vineyards and wineries, the largest segment of the loan portfolio, experienced a solid year in 2013. Industry demand has increased and vineyard rootstock is in short demand as the industry is in an expansion mode. Most of the Association's vineyard portfolio is in the super- and ultra-premium segments of the wine market. Historically, these segments are generally more stable and more insulated from price fluctuations than other segments of the wine market. However, this segment of the industry was the hardest hit during the economic downturn as customers were buying down the wine list to less expensive segments. This segment has recovered along with the overall economic environment. The wine industry continues to consolidate, and successful operators possess the capacity, brand accumulation, economies of scale, and marketing strength to compete effectively.

The dairy industry constantly grapples with volatile price fluctuations. However, the industry saw improved margins in 2013 as dairy prices improved and feed costs declined. Milk prices were helped by improved domestic demand and



continued export growth. In addition to swings in milk price, dairy farmers have experienced significant changes in prices of feed and other production inputs. Feed is the single largest milk production cost input. Feed and water costs will likely become more challenging should the drought conditions continue in the West and Midwest.

The Association's beef portfolio consists primarily of cow/calf operations and feedlots. Because the cattle/beef industry depends on feed grains and grain supplies, their prices can significantly impact beef production and profitability. Feed costs have improved and strong calf and feeder prices positively impacted the industry's profitability in 2013. As with the dairy industry, the beef industry is beginning to experience stress due to drought-induced water and feed issues.

The vegetable industry continues to remain strong, with good market conditions throughout much of the year. Fresh vegetable markets are highly cyclical, with short-term price swings dependent upon supply and demand. Water resources will be the primary concern in 2014 should the current drought conditions continue.

Field crops consist primarily of wheat, alfalfa, soybean, corn, sorghum, and other grains. Crop producers have enjoyed an extended period of profitability due to historically high grain prices and generally favorable growing conditions. As a result, land values continue to remain strong. However, wheat and corn prices both fell significantly in 2013. Water availability and export demand are ongoing concerns for grain farmers.

The extended housing market slump has adversely affected borrowers in the forest products industry. However, housing starts have increased during 2013, home values have stabilized, and the industry has greatly improved. Lumber prices increased during 2013 and show continued signs of improvement as the housing market continues its recovery.

The classification "Tree fruits and nuts" largely consists of almond orchards in the Valley Region. California produces 82% of the world's almonds. The 2013 almond crop was expected to yield 1.85 billion pounds, the third-largest crop in history and just slightly below 2012's crop of 1.88 billion pounds. Prices remain strong and at record high levels. Record shipments continue for both domestic and export markets. Drought-related water issues are a concern as almonds are a relatively thirsty crop and require irrigation during dry weather.

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## GEOGRAPHIC CONCENTRATIONS

The Association's territory covers 38 California counties from the Oregon border to the Mexican border, the entire state of Nevada, central Kansas, parts of northern Oklahoma, western Colorado, and northwest New Mexico. The geographical distribution of loan volume as of December 31, 2013, 2012, and 2011 is shown on the following page. This table indicates from where the loan volume is serviced. The Association originates and services loans in areas outside of its chartered territory with the concurrence of the Farm Credit associations where those loans are physically located.

Geographic Distribution of Loans (In millions)	2013		2012		2011	
	Loan Volume	Percent of Total	Loan Volume	Percent of Total	Loan Volume	Percent of Total
Northern Region (northern California)	\$1,622.1	27%	\$1,531.6	26%	\$900.9	20%
Heartland Region (central Kansas and northern Oklahoma)	564.1	9%	556.3	10%	568.7	13%
Mountain Plains Region (western Colorado and northwest New Mexico)	723.6	12%	734.3	13%	–	–
Central Region (northern coastal California)	773.5	13%	732.4	13%	689.5	16%
Southern Region (southern California)	611.1	10%	583.5	10%	598.7	14%
Valley Region (central valley California)	1,033.5	17%	1,016.9	17%	972.4	22%
Salinas Region (central coastal California)	444.4	7%	390.9	7%	386.1	9%
Intermountain Region (Nevada and northeastern California)	207.9	4%	197.2	3%	196.8	4%
Corporate Loans (Santa Rosa, California)	64.8	1%	73.4	1%	78.1	2%
<b>Total</b>	<b>\$6,045.0</b>	<b>100%</b>	<b>\$5,816.5</b>	<b>100%</b>	<b>\$4,391.2</b>	<b>100%</b>



We are party to a Territorial Approval Agreement (Agreement) with other associations in the states of Oklahoma, Colorado, Kansas, and New Mexico. The Agreement eliminates territorial restrictions and allows associations that are a party to the Agreement to make loans in any other association's territory regardless of a borrower's place of residence, location of operations, location of loan security, or location of headquarters. This Agreement can be terminated upon the earlier to occur of the following:

- 1) the time when all but one association has withdrawn as a party to the Agreement; or
- 2) December 31, 2025; or
- 3) when requested by FCA.

The Association routinely sells portions of large loans to other financial institutions to manage portfolio risk. These institutions are geographically dispersed and come from within the Farm Credit System, the commercial banking industry, and life insurance companies. In addition, the Association has entered into participation agreements with these institutions in which the Association services the entire loan but owns only a small portion. Participating in or selling loans allows the Association to manage its lending limits and its internal capital requirements,

as well as to diversify risk. Neither the principal nor any unused commitments related to the participated or sold portion of these loans are included on the Association's Consolidated Balance Sheet. Participation and other multi-lender activity at December 31 is summarized below.

(In millions)	2013	2012	2011
Loans sold to others	\$2,297.9	\$2,502.0	\$2,324.0
Retained interest in sold loans	\$761.3	\$769.8	\$581.5
Loans purchased from others	\$760.2	\$779.2	\$383.9
Syndications serviced for others	\$1,566.8	\$1,568.4	\$1,142.9

To further manage portfolio credit risk, the Association participates in a Farmer Mac guarantee program. Under this program, the Association pays a guarantee fee to Farmer Mac to assume the balance of predesignated loans if they become delinquent. Management considers these fees to be intrinsic credit enhancement costs that affect the yield on the pool of guaranteed loans. The Association paid \$128,836, \$188,008, and \$224,000 in guarantee fees during 2013, 2012, and 2011, respectively. These fees are included in interest expense. Farmer Mac guaranteed loans at December 31, 2013, 2012, and 2011 were \$23.2 million, \$30.2 million, and \$46.8 million, respectively.

## CREDIT QUALITY

Management reviews the credit quality of the loan portfolio regularly 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.

In addition to the Uniform Classification System, the Association uses more detailed credit risk classifications to further subdivide credits according to projected probability of default and projected loss given default. Currently, there are 14 classifications under which probability of default may be assigned, and four categories for estimating loss given default for loans.

The Association utilizes a portfolio risk management process to evaluate and monitor the risk associated with major commodity groups, credit classifications, unsecured loans, and purchased loans. This process employs the use of shock analysis to determine the impact of significant credit deterioration in any one group on the portfolio as a whole. Credit classification trends are identified and monitored as an early warning sign of potential non-performing assets. The Association employs management personnel to perform the risk management process that the Board of Directors oversees. In addition, the Association conducts internal credit reviews to evaluate the efficacy of the process.

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

	2013	2012	2011
Acceptable and OAEM	97.8%	95.8%	95.9%
Substandard	2.2%	4.2%	4.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Despite recent economic conditions that have created challenges for some borrowers, the Association's credit quality improved in 2013 to 97.8% Acceptable and OAEM. Virtually all agricultural sectors we finance have seen credit quality

improvements over the past year. There were no loans classified as Doubtful or Loss for any of the three years presented. The credit quality of the Association's loan portfolio remains strong due to continued emphasis on sound underwriting standards. Agriculture remains a cyclical business that is heavily influenced by production, operating costs, and commodity prices. Each of these can be significantly affected by uncontrollable events. While credit quality is anticipated to remain sound in 2014, potential water issues associated with the current drought are a concern. Should the drought persist, it is likely that our borrowers and credit quality will be negatively impacted.

## CREDIT COMMITMENTS

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers. These financial instruments include commitments to extend 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. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2013.

(In thousands)	Less than 1 Year	1-3 Years	4-5 Years	Over 5 Years	Total
Commitments to extend credit	\$306,715	\$575,726	\$587,132	\$285,451	\$1,755,024
Standby letters of credit	51,484	3,042	314	6,000	60,840
<b>Total commitments</b>	<b>\$358,199</b>	<b>\$578,768</b>	<b>\$587,446</b>	<b>\$291,451</b>	<b>\$1,815,864</b>

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their contractual amounts are not reflected on the Consolidated Balance Sheet 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 the Association applies the same credit policies to these commitments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

## HIGH-RISK ASSETS

FCA regulations specify three high-risk loan performance categories – nonaccrual, restructured, and loans 90 days past due still accruing interest. These are referred to as impaired loans. Loans outstanding, including accrued interest, for each loan performance category as of December 31 follows.

(In thousands)	2013	2012	2011
Nonaccrual	\$61,183	\$94,928	\$79,286
Restructured	–	–	255
Accrual > 90 days past due	405	–	–
Total impaired loans	61,588	94,928	79,541
Other property owned	5,980	1,417	11,227
<b>Total high-risk assets</b>	<b>\$67,568</b>	<b>\$96,345</b>	<b>\$90,768</b>
Nonaccrual loans/total loans	1.01%	1.63%	1.81%
Nonaccrual loans current as to principal and interest	\$36,141	\$52,190	\$24,773

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of principal and/or interest. Nonaccrual loan volume declined significantly in 2013 from \$94.9 million at December 31, 2012, to \$61.2 million at December 31, 2013. The \$33.7 million reduction represents a year-over-year reduction of 36%. Nonaccrual loan volume increased slightly in 2012 primarily due to the Mountain Plains merger. Nonaccrual loan volume measured as a percentage of total loans has improved each of the last three years from 1.81% at year-end 2011 to 1.01% as of the end of 2013.

High-risk asset volume could increase in the future as the Association has experienced record-high credit quality in recent years. Given the cyclical nature of agriculture, management anticipates that factors such as product oversupply, water issues, regulatory demands, increasing interest rates, and public demand for commodities may adversely impact high-risk volume over time. The continued U.S. economic recovery anticipated in 2014 should add to our credit quality stability. However, should the current drought conditions persist, water issues will likely have a negative impact on our borrowers and the credit quality of our loan portfolio. The Association maintains a Risk Management Department to proactively monitor and address portfolio risk.

## ALLOWANCE FOR LOAN LOSSES

The Association maintains an allowance for loan losses at a level consistent with the probable losses identified by management. The allowance for loan losses at each period end was considered to be adequate to absorb probable losses existing in the loan portfolio. Because the allowance for loan losses considers factors such as current agricultural and economic conditions, loan loss experience, portfolio quality, and loan portfolio composition, there will be a direct impact to the allowance for loan losses and our income statement when there is a change in any of those factors.

The allowance for loan losses decreased from \$15.9 million to \$10.8 million in 2013. The reduction was primarily the result of improved loan quality slightly offset by the increase in loan volume during the year. The allowance for loan losses increased \$3.6 million in 2012 primarily as a result of loan growth related to the Mountain Plains merger, along with other modest changes to appropriately reflect the credit quality in the Association's loan portfolio. Overall, charge-off activity remains low relative to the size of our loan portfolio. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 is shown in the following table.

	2013	2012	2011
Allowance for loan losses as a percentage of:			
Loans	0.18%	0.27%	0.28%
Impaired loans	17.46%	16.75%	15.47%

Further discussion of the allowance can be found in Note 3 to the consolidated financial statements.

## CREDIT RISK MANAGEMENT

Credit risk arises from the potential failure of a borrower to meet repayment obligations that result in a financial loss to the lender. Credit risk exists in our loan portfolio (including letters of credit and unfunded loan commitments), and is actively managed on an individual and portfolio basis through application of sound lending and underwriting standards, policies, and procedures. Underwriting standards are developed and utilized to determine an applicant's operational, financial, and management resources available for repaying debt within the terms of the note or loan agreement. Underwriting standards include, among other things, an evaluation of the following:

**CHARACTER:** borrower integrity and credit history;

**CAPACITY:** repayment capacity of the borrower based on cash flows from operations or other sources of income;

**COLLATERAL:** to protect the lender in the event of default and also serve as a secondary source of loan repayment;

**CAPITAL:** ability of the operation to survive unanticipated risks; and,

**CONDITIONS:** including use of the loan funds, terms, restrictions, etc.

Processes for information gathering, balance sheet and income statement verification, loan analysis, credit approvals, disbursements of proceeds, and subsequent loan servicing actions are established and followed. Underwriting standards vary by industry and are updated periodically to reflect market and industry conditions.

By regulation, the Association cannot have loan commitments to one borrower for more than 15% of permanent capital. Additionally, the Association has set lending limits to manage loan concentration. Lending limits are established for individual loan size, commodity, special lending programs, and geographic concentrations. The Association has established internal lending delegations to properly control the loan approval process. Delegations to staff are based on the Association's risk-bearing ability, loan size, complexity, type, and risk, as well as the expertise of the credit staff member. Larger and more complex loans are typically approved by a loan committee with the most experienced and knowledgeable credit staff serving as members.

One method for managing concentration is through the use of participation programs with other System and non-System institutions. Buying and selling loan volume, within and outside the System, can help reduce concentrations and manage growth and capital positions while allowing for a sharing of credit expertise. Concentrations and credit risk are also managed through the utilization of government guarantee programs and Farmer Mac guarantee programs. The Association has further diversified concentrations in agricultural production by developing rural residence, part-time farmer, and agribusiness portfolios. Rural resident and part-time farmers often derive a significant portion of earnings from nonagricultural sources, thus helping diversify repayment risk to sources other than agricultural production income.

The majority of Association lending is first-mortgage real estate lending. Production and intermediate-term lending accounts for most of the remaining volume and is typically secured. Collateral evaluations are made within FCA and Uniform Standards of Professional Appraisal Practices requirements. All property is appraised at market value. Certain appraisals must be performed by individuals with a state certification or license.

The Association utilizes a Combined System Risk Model (Model) in its loan and portfolio management processes. The Model is a two-dimensional risk rating system that estimates each loan's probability of default and loss given default. The Model uses objective and subjective criteria to identify inherent strengths, weaknesses, and risks in each loan. The Model estimates loan losses with levels of risk granularity, particularly related to acceptable loans. The Model's 14-point scale provides for nine acceptable categories, one OAEM category, two substandard categories, one doubtful category, and one loss category. This Model also serves as the basis for future economic capital modeling.

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## INTEREST RATE RISK

The interest rate risk inherent in the loan portfolio is substantially mitigated through the funding relationship with CoBank and allows for loans to be match-funded with CoBank. Borrowings from CoBank match the pricing, maturity, and option characteristics of the loans to borrowers. CoBank manages interest rate risk through the direct loan pricing and asset/liability management processes. Although CoBank incurs and manages the primary sources of interest rate risk, the Association may still be exposed to interest rate risk from the impact of interest rate changes on earnings generated from our loanable funds.

To stabilize earnings from loans financed by equity, the Association has committed excess loanable funds with CoBank at a fixed rate for a specified term as part of CoBank's Fixed Term Investment Program. This program enables the Association to stabilize the earnings on its loans financed by equity without significantly increasing our overall interest rate risk position. The balance of the Fixed Term Investments totaled \$21 million at December 31, 2013, and will mature by the end of 2015. The average interest rate on this balance as of December 31, 2013, was 2.24%.

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## FUNDS MANAGEMENT

Net interest income is affected by the spread between the rates the Association earns on its assets and the rates it pays on interest-bearing liabilities. The Association manages this spread by offering various loan products with differing interest rates, maturities, and re-pricing terms. Net interest income expressed as a percentage of average total earning assets is referred to as the net interest margin. For 2013, the net interest margin was 2.91%, up slightly from 2.90% in 2012. Although the market remains competitive, the Association was able to maintain its margin during 2013. The chart on page 21 shows other factors that affected net interest income during the year.

Approximately 31% of the Association's loan portfolio is in variable-interest rate plans that provide for periodic interest rate adjustments based on management's discretion. Adjustable-rate loans were approximately 18% of the portfolio and consisted of loans tied to a specific market index such as LIBOR or the Prime Rate. The remaining 51% of the portfolio is in interest rate programs where the Association is able to lock in an interest rate spread for the term of the loan, thereby mitigating interest rate risk. These programs enhance the Association's ability to manage net interest income and avoid interest rate risk exposure during periods of interest rate volatility.

The Association has a differential pricing policy for fees and interest rates, which is based on loan size, servicing requirements, and credit risk of a loan. Management's objective is to maintain interest rates that are competitive with other lenders providing similar-type loans. The Association's competitiveness is evaluated by periodic surveys of other lending institutions in its lending territory.

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## CAPITAL RESOURCES

The following table summarizes the Association's capital position at December 31. Total capital increased by \$92 million during 2013 primarily as a result of continued strong Association earnings offset by distributions back to our borrowers through our patronage dividend program. The \$362 million increase in 2012 was primarily a result of the Mountain Plains merger.

	2013	2012	2011
Total capital (in millions)	\$1,614.9	\$1,522.7	\$1,160.9
Debt to capital	3.00:1	3.08:1	3.06:1
Capital to net loans	26.8%	26.3%	26.5%
Capital to total assets	25.0%	24.5%	24.6%
Capital to total liabilities	33.3%	32.5%	32.6%

As a prudent business practice, the Association has established a capital adequacy plan that outlines objectives relating to maintaining a stable, secure capital base. Permanent capital, as defined by FCA regulations, is generated from two sources: retained earnings and at-risk stock. Retained earnings represented 90.8% and 91.6% of total capital at December 31, 2013 and 2012, respectively. For a description of classes of stock and regulatory capital requirements, as well as a description of the Association's Capital Adequacy Plan, please see Note 8 to the consolidated financial statements. The Board and management consider current capital ratios to be adequate in view of anticipated loan growth, operating performance, and identified risks.

Association bylaws require each borrower to invest in the capital stock of the Association. The Association may require additional capital contributions in accordance with federal regulations. Equities purchased by members and surplus accumulated from earnings provide the capital resources used in the Association's operation. Total loan volume growth during 2013 was 3.9%. Excluding the loan growth resulting from the Mountain Plains merger, year-over-year loan growth was 6.7% during 2012.

The Association utilizes a pool of Farmer Mac guaranteed loans to manage capital deployment. Because of the Farmer Mac guarantee, which provides for the sale of loans to Farmer Mac in the event these loans become delinquent, the loans receive a lesser risk weighting for capital ratio calculations than non-guaranteed loans. These guaranteed loans increased the permanent capital ratio by 0.11% in 2013. Because these loans are fully guaranteed, they are bifurcated from the analysis of the allowance for loan losses.

The Board of Directors has adopted an Obligating Resolution to distribute 2014 patronage-sourced earnings to patrons of the Association, contingent upon the Association achieving certain capital criteria.

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## ACCUMULATED OTHER COMPREHENSIVE INCOME AND LOSSES (AOCI)

Accumulated other comprehensive (loss) totaled \$(7.3) million at December 31, 2013, an increase of \$3.8 million compared with year-end 2012. Certain employees participate in a non-qualified Defined Benefit Pension Restoration Plan (Plan). The Association follows accounting guidance, which requires recognition of the Plan's underfunded status and unamortized actuarial gains and losses and prior service costs or credits as a liability with an offsetting adjustment to accumulated other comprehensive income.

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## BOARD OVERSIGHT

The Association is governed by a 21-member Board that oversees the management of our Association. Of these directors, 17 are elected by the stockholders and four are appointed by the elected directors. The Board of Directors represents the interests of our stockholders and meets regularly to perform the following functions, among others:

- Select, evaluate, and compensate the chief executive officer;
- Establish the strategic plan and approve annual operating plan and budget;
- Oversee the lending operations;
- Advise and counsel management on significant issues; and,
- Oversee the financial reporting process, communications with stockholders, and legal and regulatory compliance.

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## DIRECTOR INDEPENDENCE

All directors must exercise sound judgment in deciding matters in the Association's interest. All directors are independent from the perspective that no management or staff serves as Board members. However, as a financial service cooperative, the Association is required by the Farm Credit Act and FCA regulations to have elected directors that have a loan relationship with the Association.

The elected directors, as borrowers, have a vested interest in ensuring the Association remains strong and successful. However, the borrowing relationship could be viewed as having the potential to compromise the independence of an elected director. For this reason, the Board has established independence criteria to ensure that a loan relationship does not compromise the independence of the Board. Annually, in conjunction with the independence analysis and reporting on loans to directors, each director provides financial information and any other documentation and/or assertions needed for the Board to determine the independence of each Board member.



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### **AUDIT COMMITTEE**

The Audit Committee is composed of seven members and is responsible for oversight of financial reporting and examinations. During 2013, eight meetings were held. The Audit Committee responsibilities include, but are not limited to, the following:

- Oversight of the financial reporting risk and the accuracy of the quarterly and annual shareholder reports;
- Oversight of the system of internal controls related to the preparation of quarterly and annual shareholder reports;
- Review and assessment of the impact of accounting and auditing developments on the consolidated financial statements; and,
- Establishment and maintenance of procedures for the receipt, retention, and treatment of confidential and anonymous submission of concerns regarding accounting, internal accounting controls, and auditing matters.

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### **COMPENSATION COMMITTEE**

The Compensation Committee is responsible for the oversight of employee and director compensation. The Committee is composed of seven members and meets regularly to review and evaluate all aspects of compensation, including benefits programs. Seven meetings were held in 2013.

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### **GOVERNANCE COMMITTEE**

The Governance Committee is composed of six members. Six meetings were held in 2013. The Board has monitored the requirements of public companies under the Sarbanes-Oxley Act. While not subject to the requirements of this law, the Association strives to implement steps to strengthen governance and financial reporting. The Association maintains strong governance and financial reporting through the following:

- A system for the receipt and treatment of whistleblower complaints;
- A code of ethics for the President/CEO, Chief Financial Officer, and Chief Credit Officer;
- Open lines of communication between the independent auditors, management, and the Audit Committee;
- “Plain English” disclosures;
- Officer certification of accuracy and completeness of the consolidated financial statements; and
- Information disclosure through the Association’s website.

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### **REGULATORY MATTERS**

As of December 31, 2013, the Association had no enforcement actions in effect and FCA took no enforcement actions during the year.

The Farm Credit Administration is considering the promulgation of Tier 1 and Tier 2 capital standards for Farm Credit System institutions. The Tier 1/Tier 2 capital structure would be similar to the capital tiers delineated in the Basel Accord that other federal financial regulatory agencies have proposed for the banking organizations they regulate.

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### **CUSTOMER PRIVACY**

FCA regulations require that borrower information be held in confidence by Farm Credit institutions, their directors, officers, and employees. FCA regulations specifically restrict Farm Credit institution directors and employees from disclosing information not normally contained in published reports or press releases about the institution or its borrowers or members. These regulations also provide Farm Credit institutions clear guidelines for protecting their borrowers’ nonpublic information.

**To the Board of Directors & Shareholders of American AgCredit, ACA and Subsidiaries:**

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

**MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

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

**AUDITOR'S 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.

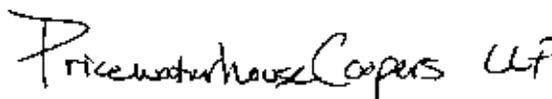
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether 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 American AgCredit, 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.

*February 28, 2014*




**PricewaterhouseCoopers LLP**  
 One Utah Center  
 201 South Main Street, Suite 900  
 Salt Lake City, Utah 84111

# CONSOLIDATED BALANCE SHEET

December 31, (In thousands)	2013	2012	2011
<b>ASSETS</b>			
Loans	\$6,045,026	\$5,816,541	\$4,391,248
Less: allowance for loan losses	(10,752)	(15,900)	(12,302)
<b>Net loans</b>	<b>6,034,274</b>	<b>5,800,641</b>	<b>4,378,946</b>
Cash	7,975	14,123	18,070
Accrued interest receivable	42,080	42,659	37,592
Investment in AgBank	–	–	194,567
Investment in CoBank	252,696	251,328	15,320
Premises and equipment, net	55,303	47,284	36,894
Deferred tax assets, net	–	–	3,221
Other property owned	5,980	1,417	11,227
Other assets	67,649	54,942	22,886
<b>Total assets</b>	<b>\$6,465,957</b>	<b>\$6,212,394</b>	<b>\$4,718,723</b>
<b>LIABILITIES</b>			
Notes payable CoBank	\$4,681,353	\$4,539,666	\$4,740
Notes payable AgBank	–	–	3,449,403
Funds held accounts	42,095	31,581	17,501
Accrued interest payable	15,134	15,837	12,439
Dividends payable	37,148	46,946	34,762
Other liabilities	75,282	55,680	38,970
<b>Total liabilities</b>	<b>4,851,012</b>	<b>4,689,710</b>	<b>3,557,815</b>
<i>Commitments and contingencies (Note 14)</i>			
<b>MEMBERS' EQUITY</b>			
Preferred stock	141,580	120,535	104,966
Common capital stock and participation certificates	7,422	7,502	6,147
Additional paid in capital	490,564	490,564	206,948
Unallocated retained surplus	982,706	907,622	845,873
Accumulated other comprehensive (loss) / gain	(7,327)	(3,539)	(3,026)
<b>Total members' equity</b>	<b>1,614,945</b>	<b>1,522,684</b>	<b>1,160,908</b>
<b>Total liabilities and members' equity</b>	<b>\$6,465,957</b>	<b>\$6,212,394</b>	<b>\$4,718,723</b>

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





**CONSOLIDATED** STATEMENT  
 of Comprehensive Income

For the Year Ended December 31, (In thousands)	2013	2012	2011
<b>INTEREST INCOME</b>			
Loans	\$252,278	\$254,078	\$213,575
<b>Total interest income</b>	<b>252,278</b>	<b>254,078</b>	<b>213,575</b>
<b>INTEREST EXPENSE</b>			
Notes payable CoBank	80,349	93,357	220
Notes payable AgBank	-	-	84,390
Funds held and other interest	447	803	720
<b>Total interest expense</b>	<b>80,796</b>	<b>94,160</b>	<b>85,330</b>
<b>Net interest income</b>	<b>171,482</b>	<b>159,918</b>	<b>128,245</b>
Reversal of / (Provision for) loan losses	6,949	(2,615)	5,523
<b>Net interest income after provision for loan losses</b>	<b>178,431</b>	<b>157,303</b>	<b>133,768</b>
<b>NON-INTEREST INCOME</b>			
Loan origination fees and late charges	10,247	8,711	9,275
Servicing fees	3,519	3,431	3,288
Recapitalization distribution from AgBank	-	-	75,240
Patronage distribution from Farm Credit institutions	24,449	27,378	36,108
Other gains, net	23	108	648
FCSIC premium rebate	-	5,709	-
Miscellaneous	10,043	8,200	3,947
<b>Total non-interest income</b>	<b>48,281</b>	<b>53,537</b>	<b>128,506</b>
<b>NON-INTEREST EXPENSES</b>			
Salaries and employee benefits	77,752	69,423	48,577
Occupancy and equipment expense	9,497	7,017	5,806
Insurance fund premiums	4,361	2,083	2,245
Supervisory and examination expense	2,561	2,747	2,363
Losses on other property owned, net	352	1,070	3,115
Merger costs	21	57	338
Other operating expenses	20,923	17,856	13,076
<b>Total non-interest expenses</b>	<b>115,467</b>	<b>100,253</b>	<b>75,520</b>
Income before income taxes	111,245	110,587	186,754
(Provision) / Benefit for income taxes	(7)	(3,329)	(6,098)
<b>Net income</b>	<b>\$111,238</b>	<b>\$107,258</b>	<b>\$180,656</b>
Comprehensive income			
Change in retirement obligation	(3,788)	(513)	(3,364)
<b>Total comprehensive income</b>	<b>\$107,450</b>	<b>\$106,745</b>	<b>\$177,292</b>

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

# CONSOLIDATED STATEMENT of Changes in Members' Equity

(In thousands)	Stock and Participation Certificates	Preferred Stock	Additional Paid in Capital	Unallocated Retained Surplus	Other Comprehensive Income/(Loss)	Total Members' Equity
<b>BALANCE AT DECEMBER 31, 2010</b>	<b>\$6,371</b>	<b>\$125,957</b>	<b>\$206,226</b>	<b>\$700,997</b>	<b>\$338</b>	<b>\$1,039,889</b>
Comprehensive income				180,656	(3,364)	177,292
Capital stock/participation certificates issued	647					647
Capital stock/participation certificates retired	(871)					(871)
Preferred stock issued		156,597				156,597
Preferred stock retired		(178,131)				(178,131)
Preferred stock dividends paid		543		(543)		
Patronage distribution declared				(34,762)		(34,762)
Reversal of prior year patronage declared but not paid				247		247
Adjustment to prior year deferred tax provision			722	(722)		
<b>BALANCE AT DECEMBER 31, 2011</b>	<b>\$6,147</b>	<b>\$104,966</b>	<b>\$206,948</b>	<b>\$845,873</b>	<b>\$(3,026)</b>	<b>\$1,160,908</b>
Comprehensive income				107,258	(513)	106,745
Capital stock/participation certificates issued	691					691
Capital stock/participation certificates retired	(765)					(765)
Preferred stock issued		219,980				219,980
Preferred stock retired		(204,761)				(204,761)
Equity issued or re-characterized upon merger	1,429		283,616			285,045
Preferred stock dividends paid		350		(511)		(161)
Patronage distribution declared				(44,998)		(44,998)
<b>BALANCE AT DECEMBER 31, 2012</b>	<b>\$7,502</b>	<b>\$120,535</b>	<b>\$490,564</b>	<b>\$907,622</b>	<b>\$(3,539)</b>	<b>\$1,522,684</b>
Comprehensive income				111,238	(3,788)	107,450
Capital stock/participation certificates issued	650					650
Capital stock/participation certificates retired	(730)					(730)
Preferred stock issued		284,269				284,269
Preferred stock retired		(263,832)				(263,832)
Preferred stock dividends paid		608				608
Preferred stock dividends accrued				(624)		(624)
Patronage distribution declared				(36,970)		(36,970)
Reversal of prior year patronage declared but not paid				1,440		1,440
<b>BALANCE AT DECEMBER 31, 2013</b>	<b>\$7,422</b>	<b>\$141,580</b>	<b>\$490,564</b>	<b>\$982,706</b>	<b>\$(7,327)</b>	<b>\$1,614,945</b>

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



# CONSOLIDATED STATEMENT of Changes in Cash Flows

INCREASE / (DECREASE) IN CASH (In thousands)	For the Year Ended December 31,		
	2013	2012	2011
<b>Cash flows from operating activities:</b>			
Net income	\$111,238	\$107,258	\$180,656
Adjustments to reconcile net income to net cash provided by operating activities:			
AgBank stock redistribution	–	–	(75,240)
Provision/(Benefit) for loan losses	(6,949)	2,615	(5,523)
Depreciation	5,042	3,817	2,898
Accretion of yield related to loans and notes payable acquired in merger	(1,958)	(3,761)	(1,259)
Other property owned carrying value adjustments	124	1,383	2,264
Other (gains)/losses, net	(23)	(108)	–
Gain on sale of other property owned, net	(14)	(313)	(1,421)
Stock patronage from CoBank	(1,368)	(1,713)	(1,722)
<b>Change in assets and liabilities</b>			
Decrease in accrued interest receivable	579	2,955	4,575
Decrease in deferred tax asset	–	3,221	6,091
(Increase) in other assets	(10,699)	(14,296)	(13,263)
Decrease in accrued interest payable	(703)	(1,978)	(3,402)
Increase/(Decrease) in other liabilities	15,812	9,822	(1,291)
<b>Net cash provided by operating activities</b>	<b>\$111,081</b>	<b>\$108,902</b>	<b>\$93,363</b>
<b>Cash flows from investing activities:</b>			
(Increase)/Decrease in loans, net	\$(247,875)	\$(346,310)	178,122
Recovery of loans charged off	4,157	3,690	440
Acquisition of premises and equipment, net	(13,289)	(9,472)	(6,032)
Proceeds from sale of premises and equipment	252	148	–
Proceeds from sale of other property owned, net of expenses	278	14,234	15,659
Investment in AgDirect	(2,008)	(3,865)	–
<b>Net cash (used in)/provided by investing activities</b>	<b>\$(258,485)</b>	<b>\$(341,575)</b>	<b>\$188,189</b>

INCREASE / (DECREASE) IN CASH (In thousands)	For the Year Ended December 31,		
	2013	2012	2011
<b>Cash flows from financing activities:</b>			
Net draws / (repayments) on note payable to CoBank/AgBank	\$155,729	\$266,302	\$(236,976)
Increase / (Decrease) in funds held accounts	10,514	(4,798)	6,087
Cash distributions paid	(45,344)	(47,923)	(26,082)
Issuances of capital stock and participation certificates	650	691	647
Retirement of capital stock and participation certificates	(730)	(765)	(871)
Issuance of preferred stock	284,269	219,980	156,597
Retirement of preferred stock	(263,832)	(204,761)	(178,131)
<b>Net cash provided by / (used in) financing activities</b>	<b>\$141,256</b>	<b>\$228,726</b>	<b>\$(278,729)</b>
Net (decrease) / increase in cash	\$(6,148)	\$(3,947)	\$2,823
Cash at beginning of year	14,123	18,070	15,247
<b>Cash at end of year</b>	<b>\$7,975</b>	<b>\$14,123</b>	<b>\$18,070</b>

SUPPLEMENTAL SCHEDULE OF NON-CASH TRANSACTIONS (In thousands)	For the Year Ended December 31,		
	2013	2012	2011
Dividends currently payable	\$37,148	\$46,946	\$34,762
Stock patronage from CoBank	\$1,368	\$1,713	\$1,722
Loan charge-offs	\$2,356	\$2,707	\$842
Other property owned in settlement of loans	\$4,950	\$4,312	\$11,219
Financed sales of other property owned	–	\$4,775	\$10,255
Amortization of fair market value of net assets acquired in merger	\$1,958	\$3,761	\$1,259
Dividend accrual adjustment to prior year	\$1,440	–	\$247
Impact of merger transaction:			
Assets acquired	–	\$1,157,701	–
Liabilities assumed	–	\$872,656	–
Equity issued	–	\$285,045	–
<b>Supplemental information:</b>			
Cash paid for interest	\$(95,542)	\$(98,620)	\$(94,219)
Cash paid for income taxes	\$(7)	\$(7)	\$(6)

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

**NOTE 1 ~ ORGANIZATION AND OPERATIONS**

**A. ORGANIZATION:** American AgCredit, ACA and subsidiaries, American AgCredit PCA and American AgCredit FLCA (collectively called “the Association”), is a member-owned cooperative that provides credit and credit-related services to and for the benefit of eligible borrowers/stockholders for qualified agricultural purposes in the state of Nevada and the following California counties: Alameda, Alpine, Amador, Calaveras, Contra Costa, Del Norte, El Dorado, Humboldt, Lake, Lassen, Marin, Mariposa, Mendocino, Merced, Modoc, Mono, Monterey, Napa, Plumas, Riverside, Sacramento, San Benito, San Bernardino, San Diego, San Francisco, San Joaquin, San Mateo, Santa Clara, Santa Cruz, Sierra, Siskiyou, Sonoma, Stanislaus, Tuolumne, and portions of Los Angeles, Fresno, and Trinity. In Kansas, the Association serves the counties of Barber, Barton, Butler, Chautauqua, Cloud, Comanche, Cowley, Edwards, Elk, Ellis, Ellsworth, Graham, Greenwood, Harper, Harvey, Jewell, Kingman, Kiowa, Lincoln, McPherson, Mitchell, Norton, Osborne, Ottawa, Pawnee, Phillips, Pratt, Reno, Republic, Rice, Rooks, Rush, Russell, Saline, Sedgwick, Smith, Stafford, Sumner, and Trego. In Oklahoma, the Association serves the counties of Kay, Noble, and Osage. In Colorado, the Association serves the counties of Adams, Arapahoe, Archuleta, Boulder, Clear Creek, Delta, Denver, Dolores, Douglas, Eagle, part of Elbert, Garfield, Gilpin, Grand, Gunnison, part of Hinsdale, Jackson, Jefferson, La Plata, Larimer, Mesa, Moffat, Montezuma, Montrose, Ouray, Pitkin, Rio Blanco, Routt, San Juan, San Miguel, part of Saquache, Summit, and Weld. The Association also serves the counties of San Juan and half of Rio Arriba that lies west of the Continental Divide in the state of New Mexico.

The Association is a lending institution of the Farm Credit System (the System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). At December 31, 2013, the System was comprised of three Farm Credit Banks (FCBs), one Agricultural Credit Bank (ACB), and approximately 82 associations. Each FCB and the ACB serve Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans, and/or Agricultural Credit Associations (ACAs) that may originate and service long-term, short-term, and intermediate-term loans. PCAs (Production Credit Associations), FLCAs, and ACAs are collectively referred to as associations.

Effective January 1, 2012, U.S. AgBank, FCB (AgBank) merged with and into CoBank, FCB, a wholly owned subsidiary of CoBank, ACB (CoBank). As a result of the merger, CoBank became the funding bank of the Association beginning January 1, 2012. For purposes throughout this disclosure, “the Bank” refers to AgBank for periods prior to January 1, 2012, and to CoBank for periods subsequent to December 31, 2011.

CoBank, its related associations, and AgVantis, Inc. (AgVantis) are collectively referred to as “the District.” CoBank provides the funding to associations within the District and is responsible for supervising certain activities of the District associations. AgVantis, which is owned by the entities it serves, provides technol-

ogy and other operational services to certain associations and to CoBank. As of December 31, 2013, the CoBank District consisted of CoBank; 27 agricultural credit associations, which each have two wholly owned subsidiaries (a FLCA and a PCA); two FLCAs; and AgVantis.

ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. Generally, the FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

Congress has delegated authority to the FCA to regulate the System banks and associations. The FCA examines the activities of System institutions to ensure their compliance with the Farm Credit Act, FCA regulations, and safe and sound banking practices.

The Farm Credit Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). By law, the Insurance Fund is required to be used to insure the timely payment of principal and interest on System-wide debt obligations (Insured Debt), ensure the retirement of protected borrower capital at par or stated value, and for other specified purposes. The Insurance Fund is also available for discretionary uses by the FCSIC in providing assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. 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 outstanding insured debt adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments until the assets in the Insurance Fund reach the “secure base amount,” which is defined in the Farm Credit Act as 2.0% of the aggregate insured debt or such other percentage of the insured debt as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums as necessary to maintain the Insurance Fund at the 2.0% level. As required by the Farm Credit Act, as amended, the FCSIC may return excess funds above the secure base amount to System institutions. The Bank passes this premium expense and the return of excess funds as applicable through to the District associations based on their average adjusted note payable with the Bank.

**B. OPERATIONS:** The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow from the Association, and financial services that can be offered by the Association. 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 also serves as an intermediary in offering credit life insurance and multi-peril crop insurance.

## NOTE 2 ~ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Association conform to 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 amounts reported in the financial statements and accompanying notes. Significant estimates are discussed in these notes as applicable. Actual results may differ from these estimates.

The consolidated financial statements include the accounts of American AgCredit PCA and American AgCredit FLCA. All significant inter-company transactions have been eliminated in consolidation.

**A. MERGER ACCOUNTING:** Effective January 1, 2012, American AgCredit merged with Farm Credit Services of the Mountain Plains (Mountain Plains), a Farm Credit System association within the CoBank District. The primary reason to merge was based on a determination that the combined organization should be financially and operationally stronger than either association on a stand-alone basis. The merger was accounted for under the acquisition method of accounting.

As the accounting acquirer, American AgCredit accounted for the transaction by using American AgCredit's historical information and accounting policies and adding the identifiable assets and liabilities of Mountain Plains as of the acquisition date of January 1, 2012, at their respective fair values.

As cooperative organizations, Farm Credit associations operate for the mutual benefit of their borrowers and other customers and not for the benefit of equity investors. As such, their capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and the bylaws, the Associations can issue stock only at its par value of \$5 per share, the stock is not tradable, and the stock can be retired only for the lesser of par value or book value. In these and other respects, the shares of Mountain Plains stock that were converted in the merger and the shares of American AgCredit stock to which they were converted had identical rights and attributes. For this reason, the conversion of Mountain Plains stock pursuant to the merger occurred at a one-for-one exchange ratio (i.e., each Mountain Plains share was converted into one share of American AgCredit stock with an equal par value).

Management believes that because the stock in each association is fixed in value (although subject to impairment), the American AgCredit stock issued pursuant to the merger provided no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, American AgCredit undertook a process to identify and estimate the acquisition-date fair value of Mountain Plains' equity interests instead of the acquisition-date fair value of American AgCredit's equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed from Mountain Plains, were measured based on various estimates using assumptions that American AgCredit management believes are reasonable utilizing information currently available. Use of different estimates and judgments could yield materially different results.

The evaluation produced a fair value of identifiable assets acquired and liabilities assumed that was substantially equal to the fair value of the member interests transferred in the merger. As a result, management recorded no goodwill.

The following table summarizes the fair values of the identifiable assets acquired and liabilities assumed from Mountain Plains as of January 1, 2012.

(In thousands)	Fair Value	Book Value	Contractual Amounts Not Expected To Be Collected
<b>Assets</b>			
Loans receivable:			
Long-term mortgage	\$660,349	\$638,147	\$2,108
Production and intermediate-term	183,144	184,786	3,852
Loans to cooperatives	38,553	38,862	
Processing and marketing	99,223	98,896	
Farm-related businesses	7,423	7,101	
Communication loans	40,745	40,919	
Energy loans	25,195	23,521	
International loans	21,677	21,370	
Other	9,016	8,675	
<b>Total loans receivable</b>	<b>\$1,085,325</b>	<b>\$1,062,277</b>	<b>\$5,960</b>
Investments in Farm Credit institutions	39,389		
Property and equipment, net	4,775	6,133	
Other assets	28,212		
<b>Total assets</b>	<b>\$1,157,701</b>		
<b>Liabilities</b>			
Notes payable	\$827,080	\$798,243	
Interest payable	5,376		
Funds held	18,878		
Other liabilities	21,322		
<b>Total liabilities</b>	<b>\$872,656</b>		
<b>Net assets acquired</b>	<b>\$285,045</b>		

The contractual cash flows, carrying amounts, expected cash flows to be collected from the purchased impaired loans, and the amount of accretible yield relating to all loans acquired are summarized as follows:

(In millions)	January 1, 2012	December 31, 2012	December 31, 2013
Purchased impaired loans:			
Contractual cash flows	\$16.6	\$11.8	\$2.0
Carrying amount	\$10.6	\$4.6	\$1.5
Cash flows expected to be collected	\$10.6	\$4.6	\$1.5
Accretible yield all loans acquired	\$27.9	\$23.5	\$12.7

The acquisition method of accounting requires the financial statement presentation of combined balances as of the date of merger, but not for previous periods. The Consolidated Balance Sheet reflects the merged balances as of December 31, 2012 and 2013. The Consolidated Statement of Income reflects the results of the merged entity for the period of January 1 to December 31 for 2012 and 2013. For 2012 and 2013, the Consolidated Statement of Changes in Members' Equity reflects the changes in members' equity for American AgCredit as a merged entity. For 2012 and 2013, the Consolidated Statement of Cash Flows reflects the cash flows for American AgCredit as a merged entity. Information presented in the Notes to the Consolidated Financial Statements for 2012 and 2013 reflects the balances of the merged Association as of December 31, or in the case of transactional activity, of the merged Association for the period of January 1 to December 31.

The capital position of the Association is measured by regulatory standards issued by the FCA. The impact of the merger on capital was a minimal decrease to the December 31, 2012 Permanent Capital Ratio by approximately 0.46%. The capital ratio is also affected by annual net earnings, patronage dividends, asset size, and other factors. There were no regulatory conditions affecting the use of capital as a result of the merger.

On November 30, 2009, American Agcredit merged with Farm Credit of the Heartland, a Farm Credit association within the former U.S. AgBank District. The merger transaction was accounted for under the acquisition method of accounting.

**B. RECENTLY ISSUED OR ADOPTED ACCOUNTING PRONOUNCEMENTS:** In February 2013, the FASB issued guidance, "Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income." The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The guidance is effective for

public entities for annual periods beginning after December 15, 2012, and for nonpublic entities for annual periods beginning after December 15, 2013. The Association management decided to early adopt the guidance. The adoption of this guidance did not impact the financial condition or results of operations, but resulted in additional disclosures.

**C. LOANS AND ALLOWANCE FOR LOAN LOSSES:** Long-term real estate mortgage loans generally have maturities ranging up to 30 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less.

Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

Loans acquired in a business combination are initially recognized at fair value based on current interest rates and taking into account the borrowers' credit quality; and therefore, no "carryover" of the allowance for loan losses is permitted. The Association carries the loans acquired from the merger transaction at their fair value and the difference between the book value and fair value of these loans at acquisition date is accreted into interest income during the estimated remaining life of the acquired loans. Those loans with evidence of credit quality deterioration at purchase price are required to follow the authoritative accounting guidance. This guidance addresses accounting for differences between contractual cash flows and cash flows expected to be collected from the initial investment in loans if those differences are attributable, at least in part, to credit quality. The initial fair values for these types of loans are determined by discounting both principal and interest cash flows expected to be collected using an observable discount rate for similar instruments with adjustments that management believes a market participant would consider in determining fair value. Subsequent decreases to expected principal cash flows will result in a charge to the provision for loan losses and a corresponding increase to allowance for loan losses. Subsequent increases in expected principal cash flows will result in recovery of any previously recorded allowance for loan losses, to the extent applicable, and a reclassification from non-accretible difference to accretible yield for any remaining increase. For variable-rate loans, expected future cash flows were initially based on the rate in effect at acquisition; expected future cash flows are recalculated as rates change over the lives of the loans.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (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) and/or included in the recorded investment asset balance. 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. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest.

When loans are in nonaccrual status, loan payments are generally applied against the recorded investment in the loan asset. Nonaccrual loans may, at times, be maintained on a cash basis. Generally, cash basis refers to the recognition of interest income from cash payments received on certain nonaccrual loans for which the collectibility of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered charge-off associated with it. Nonaccrual loans may be transferred to accrual status when contractual 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 as “Doubtful” or “Loss.” Loans are charged-off at the time they are determined to be uncollectible.

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. In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual term of the loan, the loan is classified as a restructured loan. If the borrowers’ ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

Loan origination fees and certain direct origination costs for mortgage loans and commercial loans with terms greater than one year are capitalized and the net fee or cost is amortized over the life of the related loan as an adjustment of the yield of the related loan.

The Association purchases loan and lease participations from other System and non-System entities to generate additional earnings and diversify risk related to existing commodities financed and the geographic area served. Additionally, the Association sells a portion of certain large loans to other System and non-System entities to reduce risk and comply with established lending limits. Loans are accounted for following the accounting requirements for sale treatment.

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 probability of default 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.

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 allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is increased through provision for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, environmental conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions, and prior loan loss experience. The allowance for loan losses encompasses various judgments, evaluations, and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty, imprecision, and variability. Changes in the agricultural economy and environment and their impact on borrower repayment capacity will cause various judgments, evaluations, and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the Association’s expectations and predictions of those circumstances. Management considers the following macro-economic factors in determining and supporting the level of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects, and weather-related influences.

A specific allowance may be established for impaired loans under GAAP. Impairment of these loans is measured by the present value of expected future cash flows discounted at the loan’s effective interest rate or, as practically expedient, by the loan’s observable market price, or fair value of the collateral, if the loan is collateral dependent.

**D. CASH:** Cash, as included in the consolidated financial statements, represents cash on hand and on deposit at financial institutions.

**E. INVESTMENT IN COBANK:** The Association’s required investment in CoBank is in the form of Class A Stock. The minimum required investment is 4.0% of the prior year’s average direct loan volume. The investment in CoBank is comprised of patronage-based stock and purchased stock.

Prior to the merger on January 1, 2012, the Association’s investment in AgBank was in the form of Class A Common Stock. The minimum required investment in AgBank was 5.0% of average direct loan volume, net of excess investment. The required investment was adjusted on a quarterly basis to reflect changes in direct loan volume, net of excess investment. The required investment was comprised of AgBank surplus attributed to the Association, patronage-based stock, and purchased stock. On the date of the merger, AgBank stock was converted to CoBank stock.

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

**G. PREMISES AND EQUIPMENT:** Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation and amortization computed principally by the straight-line method over the estimated useful lives of the assets. Useful lives for buildings are 39 years and range from 4 to 7 years for furniture, equipment, and automobiles. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are expensed, and improvements above certain thresholds are capitalized.

**H. OTHER ASSETS AND OTHER LIABILITIES:** Other assets are composed primarily of accounts receivable, prepaid expenses, and investments in Farm Credit institutions. Significant components of other liabilities primarily include accounts payable and employee benefits.

**I. FUNDS HELD ACCOUNTS:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such Funds Held is restricted, the Funds Held are netted against the borrower's related loan balance. Unrestricted Funds Held are included in liabilities. Restricted Funds Held are primarily associated with mortgage loans, while unrestricted are primarily related to production and intermediate-term loans and insurance proceeds on mortgage loans. Funds Held are not insured. Interest is generally paid by the Association on Funds Held accounts.

**J. EMPLOYEE BENEFIT PLANS:** Substantially all employees of the Association participate in either the Ninth Farm Credit District Pension Plan (Pension Plan) or the Eleventh District Defined Benefit Retirement Plan (Defined Benefit Plan) and/or the Farm Credit Foundations Defined Contribution/401(k) Plan (Defined Contribution Plan). The Pension Plan and Defined Benefit Plan are noncontributory defined benefit plans. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. The Defined Benefit Plan was closed to employees hired after December 31, 1997. The Pension Plan was closed to employees beginning January 1, 2007.

The Defined Contribution Plan has two components. Employees who do not participate in the Defined Benefit Plans may receive benefits through the Employer Contribution portion of the Defined Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association

matches a certain percentage of employee contributions. Employees hired on or after January 1, 1998, are eligible to participate only in the Defined Contribution Plan. All defined contribution costs are expensed in the same period that participants earn employer contributions.

The Association also participates in the Ninth and Eleventh District Nonqualified Defined Benefit Pension Restoration Plans. These plans provide retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under the plans are offset by the benefits payable from the Pension Plan and the Defined Benefit Plan.

Certain eligible employees may also participate in a nonqualified deferred compensation plan where they are able to defer a portion of their compensation. The Association matches a certain percentage of employee contributions to the plan.

The Association also provides certain health and life insurance benefits to eligible current and retired employees through the Farm Credit Foundation Retiree Medical and Retiree Life Plans. Substantially all employees may become eligible for those benefits if they reach normal retirement age while working for the Association. The anticipated costs of these benefits are accrued during the period of the employee's active service. The authoritative accounting guidance requires the accrual of the expected cost of providing postretirement benefits during the years that the employee renders service necessary to become eligible for these benefits.

**K. INCOME TAXES:** As previously described, the ACA holding company conducts its business activities through two wholly owned subsidiaries. Long-term mortgage lending activities are operated through a wholly owned FLCA subsidiary, which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through a wholly owned PCA subsidiary. The ACA, which is the holding company, and the PCA subsidiary are subject to income taxes. The Association accounts for income taxes under the liability method. Accordingly, deferred taxes are recognized for estimated taxes ultimately payable or recoverable based on federal, state, or local laws. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation.

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock, or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the carrying amounts reflected in the financial statements and tax bases of assets and liabilities. In addition, a valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50% probability), based on management's estimate, that the deferred tax assets will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings.

At December 31, 2013, deferred income taxes have not been provided on approximately \$78.7 million of patronage refunds received from the Bank before January 1, 1993, the adoption date of accounting guidance on income taxes. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. Management's intent is to permanently invest these undistributed earnings in CoBank, thereby indefinitely postponing their conversion to cash.

The Association has not provided deferred income taxes on amounts allocated to the Association that relate to the Bank's post-1992 earnings to the extent that such earnings will be passed through to Association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on the Bank's post-1992 unallocated earnings. CoBank currently has no plans to distribute unallocated CoBank earnings and does not contemplate circumstances that, if distributions were made, would result in taxes being paid at the Association level.

On December 31, 2011, AgBank, in anticipation of its January 1, 2012, merger with CoBank, recapitalized and distributed stock to its Association members. Deferred taxes have not been recorded by the Association on that distribution as management's intent, if that stock is ever converted to cash, is to pass through any related earnings to Association borrowers through qualified patronage allocations.

For state tax purposes, the Association can exclude from taxable income all patronage-sourced income. Therefore, the provision for state income taxes is made only on non-patronage-sourced taxable earnings.

**L. PATRONAGE DISTRIBUTION FROM COBANK:** Effective January 1, 2012, patronage distributions from CoBank are accrued by the Association in the year earned. Prior to the bank merger, the Association historically recorded patronage distributions from AgBank upon the declaration and receipt of the distribution. Effective December 31, 2011, the Association accrued the AgBank patronage from its 2011 earnings as the distribution was declared. This resulted in the Association recognizing two years of patronage income from AgBank in 2011. The accrued 2011 patronage was paid by CoBank to the Association in March 2012.

**M. OTHER COMPREHENSIVE INCOME/LOSS:** Other comprehensive income/loss refers to revenue, expenses, gains, and losses that under generally accepted accounting principles are recorded as an element of members' equity and comprehensive income but are excluded from net income. The Association records other comprehensive income/loss associated with the liability under the Pension Restoration Plan.

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

**Level 1:** Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets include assets held in trust funds that relate to the Association's deferred compensation plan and supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

**Level 2:** Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current, or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks, and default rates; and (d) inputs derived principally from or corroborated by observable market data by correlation or other means.

**Level 3:** Unobservable inputs are those that are supported by little or no market activity and that are significant to the determination of the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. Level 3 assets include loans, other property owned, and note payable to CoBank.

The fair value disclosures are presented in Note 15.

**O. OFF-BALANCE-SHEET CREDIT EXPOSURES:** Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

**NOTE 3 ~ LOANS AND ALLOWANCE  
FOR LOAN LOSSES**

Components of loans in the Consolidated Balance Sheet are as follows:

	December 31,		
	2013	2012	2011
Real estate mortgage	\$3,599,831	\$3,513,135	\$2,805,103
Production and intermediate-term	1,069,715	1,040,382	725,897
Agribusiness	1,166,976	1,062,221	848,997
Communication	71,361	68,554	-
Energy	104,830	89,814	6,174
Other	32,313	42,435	5,077
<b>Total</b>	<b>\$6,045,026</b>	<b>\$5,816,541</b>	<b>\$4,391,248</b>

In conjunction with the mergers as more fully explained in Note 2, the unamortized premium remaining at December 31, 2013, 2012, and 2011, was \$15.2 million, \$27.3 million, and \$8.3 million, respectively.

The Association, in the normal course of business, purchases and sells participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration regulations. All loans sold to others are sold without recourse. The table below presents information regarding participations purchased and sold as of December 31, 2013.

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	PARTICIPATIONS PURCHASED	PARTICIPATIONS SOLD	PARTICIPATIONS PURCHASED	PARTICIPATIONS SOLD	PARTICIPATIONS PURCHASED	PARTICIPATIONS SOLD
Real estate mortgage	\$71,989	\$513,612	\$54,417	\$98	\$126,406	\$513,710
Production and intermediate-term	125,483	755,998	10,567	15,000	136,050	770,998
Agribusiness	336,748	991,098	4,043	-	340,791	991,098
Communication	71,482	-	-	-	71,482	-
Energy	51,489	7,127	-	-	51,489	7,127
Other	34,000	15,000	-	-	34,000	15,000
<b>Total</b>	<b>\$691,191</b>	<b>\$2,282,835</b>	<b>\$69,027</b>	<b>\$15,098</b>	<b>\$760,218</b>	<b>\$2,297,933</b>

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's lending activities is collateralized and the exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

Commodity	December 31,					
	2013		2012		2011	
	Amount	%	Amount	%	Amount	%
Vineyards and wineries	\$1,121,613	19%	\$975,432	17%	\$867,041	20%
Field crops	820,293	14%	806,432	14%	503,234	12%
Dairies	723,799	12%	750,558	13%	630,776	14%
Beef	670,121	11%	671,700	12%	304,992	7%
Forest products	623,440	10%	589,798	10%	489,056	11%
Tree fruits and nuts	619,509	10%	592,273	10%	536,411	12%
Vegetables	324,162	5%	308,057	5%	304,233	7%
Other	1,142,089	19%	1,122,291	19%	755,505	17%
<b>Total</b>	<b>\$6,045,026</b>	<b>100%</b>	<b>\$5,816,541</b>	<b>100%</b>	<b>\$4,391,248</b>	<b>100%</b>



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

One credit quality indicator utilized by the Association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

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

The determination of the allowance for loan losses is based on estimates that are susceptible to changes in the economic environment and market conditions, and is based on the Association's past loss experience, known and inherent risks in the portfolio, the estimated value of the underlying collateral, and current economic conditions. Management believes that as of December 31, 2013, the allowance for loan losses is adequate based on information currently available.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of December 31.

December 31,	2013	2012	2011
<b>Real estate mortgage</b>			
Acceptable	93.60%	91.74%	89.43%
OAEM	3.26	3.13	5.88
Substandard/Doubtful	3.14	5.13	4.69
	100.00%	100.00%	100.00%
<b>Production and intermediate-term</b>			
Acceptable	94.17%	89.45%	85.48%
OAEM	4.75	7.02	13.15
Substandard/Doubtful	1.08	3.53	1.37
	100.00%	100.00%	100.00%
<b>Agribusiness</b>			
Acceptable	95.39%	92.75%	89.73%
OAEM	4.04	4.49	6.04
Substandard/Doubtful	0.57	2.76	4.23
	100.00%	100.00%	100.00%
<b>Communication</b>			
Acceptable	100.00%	100.00%	–
OAEM	–	–	–
Substandard/Doubtful	–	–	–
	100.00%	100.00%	–
<b>Energy</b>			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/Doubtful	–	–	–
	100.00%	100.00%	100.00%
<b>Other</b>			
Acceptable	99.60%	99.84%	90.92%
OAEM	0.18	0.16	3.28
Substandard/Doubtful	0.22	–	5.80
	100.00%	100.00%	100.00%
<b>Total loans</b>			
Acceptable	94.27%	91.80%	88.85%
OAEM	3.56	3.96	7.10
Substandard/Doubtful	2.17	4.24	4.05
	100.00%	100.00%	100.00%



Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms. The following table presents information relating to impaired loans.

December 31,	2013	2012	2011
<b>Nonaccrual:</b>			
Current as to principal and interest	\$36,141	\$52,190	\$24,773
Past due	25,042	42,738	54,513
Total nonaccrual	61,183	94,928	79,286
<b>Accrual:</b>			
Accrual > 90 days past due	405	–	–
Accruing restructured loans	–	–	255
Total impaired accrual loans	405	–	255
<b>Total impaired loans</b>	<b>\$61,588</b>	<b>\$94,928</b>	<b>\$79,541</b>

Commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2012, and December 31, 2011, totaled \$1.5 million and \$3.9 million, respectively. There were no commitments to debtors whose loans were impaired at December 31, 2013.

High-risk assets consist of impaired loans and other property owned. The following table presents these in a more detailed manner than the previous table. These non-performing assets (including accrued interest) are as follows:

December 31,	2013	2012	2011
<b>Nonaccrual loans:</b>			
Real estate mortgage	\$52,948	\$87,061	\$65,960
Production and intermediate-term	6,815	5,960	4,996
Agribusiness	1,350	1,907	8,330
Other	70	–	–
<b>Total nonaccrual loans</b>	<b>61,183</b>	<b>94,928</b>	<b>79,286</b>
<b>Accruing restructured loans:</b>			
Real estate mortgage	–	–	255
Total accruing restructured loans	–	–	255
<b>Accruing loans 90 days or more past due:</b>			
Production and intermediate-term	405	–	–
Total accruing loans 90 days or more past due	405	–	–
<b>Total non-performing loans</b>	<b>61,588</b>	<b>94,928</b>	<b>79,541</b>
Other property owned	5,980	1,417	11,227
<b>Total non-performing assets</b>	<b>\$67,568</b>	<b>\$96,345</b>	<b>\$90,768</b>

Additional impaired loan information follows:

	AT DECEMBER 31, 2013			FOR THE YEAR ENDED DECEMBER 31, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
<b>Impaired loans with a related allowance for credit losses:</b>					
Real estate mortgage	\$7,269	\$9,883	\$53	\$10,175	–
Production and intermediate-term	687	1,026	123	1,450	–
Agribusiness	–	–	–	360	–
<b>Total</b>	<b>\$7,956</b>	<b>\$10,909</b>	<b>\$176</b>	<b>\$11,985</b>	<b>–</b>
<b>Impaired loans with no related allowance for credit losses:</b>					
Real estate mortgage	\$45,679	\$51,219	–	\$75,653	\$6,056
Production and intermediate-term	6,533	6,858	–	8,522	1,424
Agribusiness	1,350	2,683	–	1,278	134
Other	70	70	–	23	–
<b>Total</b>	<b>\$53,632</b>	<b>\$60,830</b>	<b>–</b>	<b>\$85,476</b>	<b>\$7,614</b>
<b>Total impaired loans:</b>					
Real estate mortgage	\$52,948	\$61,102	\$53	\$85,828	\$6,056
Production and intermediate-term	7,220	7,884	123	9,972	1,424
Agribusiness	1,350	2,683	–	1,638	134
Other	70	70	–	23	–
<b>Total</b>	<b>\$61,588</b>	<b>\$71,739</b>	<b>\$176</b>	<b>\$97,461</b>	<b>\$7,614</b>

	AT DECEMBER 31, 2012			FOR THE YEAR ENDED DECEMBER 31, 2012	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
<b>Impaired loans with a related allowance for credit losses:</b>					
Real estate mortgage	\$12,384	\$13,300	\$2,195	\$12,763	–
Production and intermediate-term	3,674	9,562	983	5,042	\$(31)
Agribusiness	–	–	–	1,073	–
<b>Total</b>	<b>\$16,058</b>	<b>\$22,862</b>	<b>\$3,178</b>	<b>\$18,878</b>	<b>\$(31)</b>
<b>Impaired loans with no related allowance for credit losses:</b>					
Real estate mortgage	\$74,677	\$85,983	–	\$74,327	\$1,722
Production and intermediate-term	2,286	4,990	–	3,410	237
Agribusiness	1,907	3,459	–	2,072	659
<b>Total</b>	<b>\$78,870</b>	<b>\$94,432</b>	<b>–</b>	<b>\$79,809</b>	<b>\$2,618</b>
<b>Total impaired loans:</b>					
Real estate mortgage	\$87,061	\$99,283	\$2,195	\$87,090	\$1,722
Production and intermediate-term	5,960	14,552	983	8,452	206
Agribusiness	1,907	3,459	–	3,145	659
<b>Total</b>	<b>\$94,928</b>	<b>\$117,294</b>	<b>\$3,178</b>	<b>\$98,687</b>	<b>\$2,587</b>

	AT DECEMBER 31, 2011			FOR THE YEAR ENDED DECEMBER 31, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
<b>Impaired loans with a related allowance for credit losses:</b>					
Real estate mortgage	\$14,062	\$14,683	\$2,385	\$8,417	–
Production and intermediate-term	317	1,324	179	465	\$(2)
Agribusiness	5,861	6,217	702	4,411	–
<b>Total</b>	<b>\$20,240</b>	<b>\$22,224</b>	<b>\$3,266</b>	<b>\$13,293</b>	<b>\$(2)</b>
<b>Impaired loans with no related allowance for credit losses:</b>					
Real estate mortgage	\$52,153	\$54,858	–	\$45,228	\$636
Production and intermediate-term	4,679	5,743	–	9,883	140
Agribusiness	2,469	3,930	–	5,167	88
<b>Total</b>	<b>\$59,301</b>	<b>\$64,531</b>	<b>–</b>	<b>\$60,278</b>	<b>\$864</b>
<b>Total impaired loans:</b>					
Real estate mortgage	\$66,215	\$69,541	\$2,385	\$53,645	\$636
Production and intermediate-term	4,996	7,067	179	10,348	138
Agribusiness	8,330	10,147	702	9,578	88
<b>Total</b>	<b>\$79,541</b>	<b>\$86,755</b>	<b>\$3,266</b>	<b>\$73,571</b>	<b>\$862</b>

Note: The recorded investment in the loan 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 loan receivable.

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2. The following table presents interest income recognized on impaired loans.

For the Year Ended December 31,	2013	2012	2011
Interest income recognized on:			
Nonaccrual loans	\$7,570	\$2,587	\$847
Accruing restructured loans	–	–	15
Accrual loans 90 days or more past due	44	–	–
<b>Interest income recognized on impaired loans</b>	<b>\$7,614</b>	<b>\$2,587</b>	<b>\$862</b>

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans follows.

For the Year Ended December 31,	2013	2012	2011
Interest income that would have been recognized under the original loan terms	\$12,726	\$8,427	\$2,107
Less: interest income recognized	(7,570)	(2,587)	(862)
<b>Foregone interest income</b>	<b>\$5,156</b>	<b>\$5,840</b>	<b>\$1,245</b>

The following tables provide an age analysis of past due loans (including accrued interest).

<b>December 31, 2013</b>	<b>30–89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total Past Due</b>	<b>Not Past Due or Less Than 30 Days Past Due</b>	<b>Total Loans</b>
Real estate mortgage	\$7,057	\$14,911	\$21,968	\$3,607,877	\$3,629,845
Production and intermediate-term	1,844	6,570	8,414	1,067,395	1,075,809
Agribusiness	759	–	759	1,171,838	1,172,597
Communication	–	–	–	71,389	71,389
Energy	–	–	–	104,897	104,897
Other	32	–	32	32,467	32,499
<b>Total</b>	<b>\$9,692</b>	<b>\$21,481</b>	<b>\$31,173</b>	<b>\$6,055,863</b>	<b>\$6,087,036</b>

<b>December 31, 2012</b>	<b>30–89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total Past Due</b>	<b>Not Past Due or Less Than 30 Days Past Due</b>	<b>Total Loans</b>
Real estate mortgage	\$20,422	\$38,402	\$58,824	\$3,485,925	\$3,544,749
Production and intermediate-term	1,191	1,265	2,456	1,043,886	1,046,342
Agribusiness	331	–	331	1,066,789	1,067,120
Communication	–	–	–	68,578	68,578
Energy	–	–	–	89,858	89,858
Other	–	–	–	42,522	42,522
<b>Total</b>	<b>\$21,944</b>	<b>\$39,667</b>	<b>\$61,611</b>	<b>\$5,797,558</b>	<b>\$5,859,169</b>

<b>December 31, 2011</b>	<b>30–89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total Past Due</b>	<b>Not Past Due or Less Than 30 Days Past Due</b>	<b>Total Loans</b>
Real estate mortgage	\$16,260	\$46,038	\$62,298	\$2,770,754	\$2,833,052
Production and intermediate-term	2,306	681	2,987	727,911	730,898
Agribusiness	1,204	–	1,204	852,388	853,592
Energy	–	–	–	6,175	6,175
Other	196	–	196	4,903	5,099
<b>Total</b>	<b>\$19,966</b>	<b>\$46,719</b>	<b>\$66,685</b>	<b>\$4,362,131</b>	<b>\$4,428,816</b>



A restructuring of debt constitutes a troubled debt restructuring if the creditor for economic reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider.

The following table presents additional information regarding troubled debt restructurings (TDR), whether accrual or nonaccrual, that occurred during the year.

Year Ended December 31, 2013	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings:		
Real estate mortgage	\$12,549	\$15,076
Production and intermediate-term	1,018	1,018
<b>Total</b>	<b>\$13,567</b>	<b>\$16,094</b>

\*Pre-modification represents the recorded investment in the loan receivable just prior to restructuring and post-modification represents the recorded investment in the loan receivable immediately following the restructuring. The recorded investment is the face amount of the loan receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the loan receivable.

	LOANS MODIFIED AS TDRs			TDRs IN NONACCRUAL STATUS		
	December 31, 2013	December 31, 2012	December 31, 2011	December 31, 2013	December 31, 2012	December 31, 2011
Real estate mortgage	\$15,891	\$2,045	\$6,697	\$15,891	\$2,045	\$6,697
Production and intermediate-term	341	-	-	341	-	-
Agribusiness	592	841	993	592	841	993
<b>Total</b>	<b>\$16,824</b>	<b>\$2,886</b>	<b>\$7,690</b>	<b>\$16,824</b>	<b>\$2,886</b>	<b>\$7,690</b>

The following table presents troubled debt restructure (TDR) balances by type of concession that occurred during 2013.

	Interest Rate Reduction	Re-amortization
Real estate mortgage	\$11,947	\$602
Production and intermediate-term	1,018	-
<b>Total</b>	<b>\$12,965</b>	<b>\$602</b>

In the allowance for loan loss analysis, troubled debt restructured loans are individually evaluated and a specific allowance is established based on the likelihood the current events will result in an anticipated loss on the individual loans.

The following table provides information on outstanding principal balance of loans restructured in troubled debt restructurings (TDRs) at period end. These loans are included as impaired loans in the impaired loan table.

During 2013, 2012, and 2011, the Association had no new troubled debt restructurings for which there was a payment default during these reporting periods.

There were no additional commitments to lend to borrowers whose loans have been modified in TDRs at December 31, 2011, 2012, and 2013.

To mitigate the risk of loan losses, the Association may enter into Long-Term Standby Commitment to Purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac). The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event a delinquency of four months occurs, subject to certain conditions. The balance of the loans under the Long-Term Standby Commitment to Purchase agreements was \$23.2 million, \$30.2 million, and \$46.8 million at December 31, 2013, 2012, and 2011, respectively. Fees paid to Farmer Mac for such commitments totaled \$129, \$188, and \$224 for the years ended December 31, 2013, 2012, and 2011, respectively. These amounts are classified as interest expense. Farmer Mac has not purchased any loans under this agreement.

A summary of changes in the allowance for loan losses and period-end recorded investment in loans is in the following tables.



Ending Balance at December 31, 2013	Allowance for Loan Losses		Recorded Investments in Loans Outstanding	
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate mortgage	\$53	\$3,875	\$7,269	\$3,622,576
Production and intermediate-term	123	2,994	687	1,075,122
Agribusiness	–	3,180	–	1,172,597
Communication	–	139	–	71,389
Energy	–	353	–	104,897
Other	–	35	–	32,499
<b>Total</b>	<b>\$176</b>	<b>\$10,576</b>	<b>\$7,956</b>	<b>\$6,079,080</b>

Ending Balance at December 31, 2012	Allowance for Loan Losses		Recorded Investments in Loans Outstanding	
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate mortgage	\$2,195	\$3,402	\$12,384	\$3,532,365
Production and intermediate-term	983	4,984	3,674	1,042,667
Agribusiness	–	3,738	–	1,067,120
Communication	–	234	–	68,578
Energy	–	337	–	89,858
Other	–	27	–	42,522
<b>Total</b>	<b>\$3,178</b>	<b>\$12,722</b>	<b>\$16,058</b>	<b>\$5,843,110</b>

Ending Balance at December 31, 2011	Allowance for Loan Losses		Recorded Investments in Loans Outstanding	
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate mortgage	\$2,385	\$3,366	\$14,062	\$2,818,990
Production and intermediate-term	179	2,634	317	730,581
Agribusiness	702	2,982	5,860	847,732
Energy	–	48	–	6,175
Other	–	6	–	5,099
<b>Total</b>	<b>\$3,266</b>	<b>\$9,036</b>	<b>\$20,239</b>	<b>\$4,408,577</b>

	Balance at December 31, 2012	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at December 31, 2013
Real estate mortgage	\$5,597	\$(1,624)	\$172	\$(217)	\$3,928
Production and intermediate-term	5,967	(649)	3,967	(6,168)	3,117
Agribusiness	3,738	(83)	18	(493)	3,180
Communication	234	-	-	(95)	139
Energy	337	-	-	16	353
Other	27	-	-	8	35
<b>Total</b>	<b>\$15,900</b>	<b>\$(2,356)</b>	<b>\$4,157</b>	<b>\$(6,949)</b>	<b>\$10,752</b>

	Balance at December 31, 2011	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at December 31, 2012
Real estate mortgage	\$5,752	\$(969)	\$3,601	\$(2,787)	\$5,597
Production and intermediate-term	2,813	(1,727)	89	4,792	5,967
Agribusiness	3,683	(11)	-	66	3,738
Communication	-	-	-	234	234
Energy	48	-	-	289	337
Other	6	-	-	21	27
<b>Total</b>	<b>\$12,302</b>	<b>\$(2,707)</b>	<b>\$3,690</b>	<b>\$2,615</b>	<b>\$15,900</b>

	Balance at December 31, 2010	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at December 31, 2011
Real estate mortgage	\$5,710	\$(692)	\$147	\$587	\$5,752
Production and intermediate-term	8,934	(150)	253	(6,224)	2,813
Agribusiness	3,568	-	40	75	3,683
Energy	15	-	-	33	48
Other	-	-	-	6	6
<b>Total</b>	<b>\$18,227</b>	<b>\$(842)</b>	<b>\$440</b>	<b>\$(5,523)</b>	<b>\$12,302</b>



#### NOTE 4 ~ INVESTMENT IN COBANK

At December 31, 2013, the Association's investment in CoBank is in the form of Class A Stock with a par value of \$100 per share. The Association is required to own stock in CoBank to capitalize its direct loan balance and participation loans sold to CoBank. The current requirement for capitalizing its direct loan from CoBank is 4.0% of the Association's prior year average direct loan balance. The 2013 requirement for capitalizing its patronage-based participation loans sold to CoBank is 8.0% of the Association's prior 10-year average balance of such participations sold to CoBank. Under the current CoBank capital plan applicable to such participations sold, patronage from CoBank related to these participations sold is paid 75% cash and 25% Class A Stock. The capital plan is evaluated annually by CoBank's board and management and is subject to change.

CoBank may require the holders of its equities to subscribe for such additional capital as may be needed to meet its capital requirements or its joint and several liability under the Act and regulations. In making such a capital call, CoBank shall take into account the financial condition of each such holder and such other considerations, as it deems appropriate.

Pursuant to the January 1, 2012, merger between CoBank and AgBank, at year-end 2011, AgBank undertook a recapitalization transaction in order to align all associations with CoBank's stock investment requirement. The recapitalization involved the tax-free issuance of AgBank common stock to each association in exchange for an equal amount of attributed surplus previously allocated on a patronage basis to such association. As a result of the merger, the Association's investment in AgBank stock was converted to CoBank stock.

Prior to the AgBank/CoBank merger, the Association was required to maintain an investment in AgBank equal to 5.0% of average direct loan volume, net of excess investment. The Association's investment in AgBank may have consisted of AgBank surplus attributed to the Association, patronage-based stock, and purchased stock. The Association's stock investment in AgBank was in the form of Class A Stock. The investment in AgBank was adjusted on a quarterly basis to reflect changes in direct loan volume. If needed to meet capital adequacy requirements, AgBank required the Association to purchase at-risk stock subject to a limit of 1.0% of the Association's average direct loan volume in a 12-month period.

The Association owned approximately 9.5% of the outstanding common stock of CoBank at December 31, 2013.

#### NOTE 5 ~ PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

	December 31,		
	2013	2012	2011
Buildings and improvements	\$41,158	\$36,749	\$32,029
Furniture and equipment	19,961	18,662	12,961
Land	12,117	4,447	3,596
Construction in progress	3,426	5,165	3,451
Vehicles	2,061	1,623	894
Premises and equipment at cost	78,723	66,646	52,931
Less: accumulated depreciation	(23,420)	(19,362)	(16,037)
<b>Premises and equipment, net</b>	<b>\$55,303</b>	<b>\$47,284</b>	<b>\$36,894</b>

The Association is obligated under various non-cancelable operating leases of certain vehicles and equipment. At December 31, 2013, future minimum lease payments for all non-cancelable leases are as follows:

2014	2015	2016	2017	2018	Thereafter	Total
\$1,388	\$1,048	\$447	\$151	\$22	\$1,504	\$4,560

#### NOTE 6 ~ OTHER PROPERTY OWNED

Gains and losses on other property owned, as reflected on the Consolidated Statement of Income, consisted of the following:

	December 31,		
	2013	2012	2011
<b>Gains</b>			
Gains on sale	\$14	\$770	\$1,653
Carrying value adjustments	-	-	1,293
Total gains	14	770	2,946
<b>Losses</b>			
Loss on sale	-	457	232
Carrying value adjustments	124	1,277	3,557
Operating expense, net	242	106	2,272
Total losses	366	1,840	6,061
<b>Losses on other property owned, net</b>	<b>\$352</b>	<b>\$1,070</b>	<b>\$3,115</b>

## NOTE 7 ~ NOTES PAYABLE

The Association's indebtedness to CoBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets to CoBank and is governed by a General Financing Agreement (GFA), which provides a borrowing base controlled line of credit. The GFA is subject to renewal periodically in accordance with normal business practice and requires the Association to comply with certain covenants. The GFA matures on May 31, 2018. Management expects renewal of the GFA at that time. Substantially all borrower loans are match-funded with CoBank. Payments and disbursements are made on the note payable to CoBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by CoBank based on the terms and conditions of the borrowing. The weighted average interest rate was 2.09% at December 31, 2013, compared with 2.39% at December 31, 2012, and 2.62% at December 31, 2011.

In conjunction with the mergers as more fully explained in Note 2, the Association carries the liabilities assumed from the merger transactions at their fair value as of the acquisition date of the mergers. The primary liability assumed was the note payable to CoBank. The difference between the book value and fair value of the CoBank note at acquisition date is amortized into interest expense during the estimated remaining life of the acquired loans, which are funded by the note payable. The unamortized premiums remaining at December 31, 2013, 2012, and 2011, were \$16.8 million, \$30.8 million, and \$9.8 million, respectively.

The Association has the opportunity to commit loanable funds with CoBank in the Fixed Term Investments Program at a fixed rate for a specified time frame. Participants in the program receive a fixed-rate credit on the committed funds balance that is classified as a reduction of interest expense. These committed loanable funds, which are netted against the note payable to CoBank, as of December 31 follow:

	2013	2012	2011
Committed funds	\$21,000	\$28,500	\$10,700
Average rates	2.24%	1.93%	2.50%

Under the Farm Credit Act, the Association is obligated to borrow from CoBank, unless CoBank gives approval to borrow elsewhere. Prior to AgBank merging with CoBank, the Association received approval from AgBank in 2006 to borrow from CoBank, ACB (CoBank). The Association, AgBank, and CoBank were parties to a memorandum of understanding (MOU) under which CoBank extended funds, with the transaction-by-transaction consent of AgBank, to fund specified transactions. Such financing did not overlap with the funding received from AgBank. Each transaction was evidenced by a confirmation detailing the terms of that transaction and was consented to by AgBank. At December 31, 2011, there was \$4.7 million in direct funding outstanding under the MOU. As a result of the merger on January 1, 2012, the MOU was incorporated into the Association's GFA with CoBank.

## NOTE 8 ~ MEMBERS' EQUITY

A description of the Association's capitalization requirements, capital protection mechanisms, regulatory capitalization requirements and restrictions, and equities is 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 capital stock (for agricultural loans) or participation certificates (for rural home and farm-related business loans) in the Association as a condition of borrowing. In accordance with the Association's capitalization bylaws, the required investment is currently the lesser of \$1,000 or 2% of the total borrower's commitment.

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 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. At the discretion of the Board of Directors, retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

**B. ADDITIONAL PAID IN CAPITAL:** The additional paid in capital represents the excess value received over the par value of capital stock and participation certificates issued, and arose from the issuance of American AgCredit capital stock and participation certificates in connection with the Association's acquisition of Farm Credit of the Heartland and Farm Credit Services of the Mountain Plains (as described in Note 2).

**C. REGULATORY CAPITALIZATION REQUIREMENTS AND RESTRICTIONS:** FCA's capital adequacy regulations require the Association to maintain permanent capital of at least 7.0% of average risk-adjusted assets. Failure to meet the 7.0% capital requirement can initiate certain mandatory and possibly additional discretionary actions by the 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 the prescribed capital standard is met. FCA regulations also require other additional minimum standards for capital be maintained. These standards require all System institutions to achieve and maintain ratios of total surplus as a percentage of risk-adjusted assets of 7.0% and of core surplus (generally unallocated surplus) as a percentage of average risk-adjusted assets of 3.5%. The Association's permanent capital, total surplus, and core surplus ratios at December 31, 2013, were 21.0%, 18.9%, and 18.1%, respectively.

The Association maintains a Capital Adequacy Plan (Plan) to identify key risk components of the Association's operations and to estimate capital levels to compensate for those risks. The Plan establishes minimal levels for permanent, total, and core capital (as defined by FCA regulations) and sets optimal targets for those ratios. The target for the permanent capital ratio is greater than 15.0%. The target

for total surplus ratio is greater than 13.0%. The target for the core surplus ratio is greater than 11.0%. The Association's capital ratios at December 31, 2013, have all exceeded these targets.

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

#### D. DESCRIPTION OF EQUITIES:

**Class A Common Stock:** (Nonvoting, at-risk, 2,062 shares outstanding, \$5 par value.) Class A Common Stock may be issued as a patronage distribution or in exchange for a like number of shares of Class C Common Stock when said holder has fully retired his loan or loans with the Association and has not had a borrowing relationship with the Association for two years. Class A Common Stock may be converted to Class C Common Stock if the holder becomes a borrower eligible to own Class C Common Stock, and to Class F Participation Certificates if the holder becomes a borrower eligible to own Class F Participation Certificates.

**Class C Common Stock:** (Voting, at-risk, 1,448,971 shares outstanding, \$5 par value.) Each owner of Class C Common Stock is entitled to a single vote. Other classes of borrower equities do not provide voting rights to their owners. Voting stock may not be transferred to another person unless such person is eligible to hold voting stock.

**Class D Common Stock:** (Nonvoting, at-risk, no shares outstanding, \$1,000 par value.) Issued to CoBank or to any person through direct sale. Retirement is at the sole discretion of the Board of Directors.

**Class F Participation Certificates:** (Voting, at-risk, 33,319 shares outstanding, \$5 par value.) Class F Participation Certificates may be issued or transferred to rural residents, persons furnishing farm-related services, or to other persons eligible to borrow for the purpose of qualifying for services offered by the Association who are not eligible to hold Class C Common Stock.

**Class H Preferred Stock:** Class H Preferred Stock may be issued to, and may be acquired by, members and equity holders who at the time of such issuance or acquisition, hold any class of common stock or participation certificates. Class H Preferred Stock is transferable only to another holder of Class H Preferred Stock, and then only after the transferor provides written notice to the Association in a form prescribed by the Association's Board. The holders of the H Stock are limited to voting on matters that would affect any preference accorded to the H Stock and any amendments that would authorize a new class of preferred stock. Each holder of the H Stock is entitled to receive dividends in an amount equal to a specified percentage ("Dividend Rate") as declared by the Board of Directors. The Dividend Rate is a per annum rate that may change monthly at the discretion of the Board, but is limited to 8.0% per annum. Dividends accrue daily and will accumulate until declared and paid in the form of additional shares of H Stock. The H Stock is redeemable at par plus cumulative unpaid dividends. At December 31, 2013, the Dividend Rate was 0.50%.

H Stock is considered "at risk" as redemption of the H Stock is at the discretion of the Board and such redemption is not assured due to future financial operational or regulatory limitations on the Association. In the event of liquidation or dissolution of the Association and after satisfaction of all liabilities, each share of H Stock is entitled to a first liquidation preference of any assets remaining, pro rata, to the extent of par value plus any accrued but unpaid dividends. At December 31, 2013, there were 141,579,859 shares of the H Stock outstanding at a par value of \$1.00 per share.

The Association has the authority to issue other classes of stock, no shares of which are outstanding. The voting rights, duties, and liabilities of such classes of stock are similar to those discussed above.

Losses that result in impairment of capital stock and participation certificates will be allocated to the common classes of equity described above on a pro rata basis and then to preferred stock. Upon liquidation of the Association, any assets remaining after the settlement of all liabilities will be distributed first to redeem the par value of equities, beginning with preferred stock. After the retirement of stock, any remaining assets will be distributed to holders of allocated surplus as evidenced by nonqualified written notices of allocation. Any assets remaining after such distribution will be shared pro rata on a patronage basis by all common stock and certificate holders of record immediately before the liquidation distribution.

**E. PATRONAGE DISTRIBUTIONS:** The Association's bylaws provide for the payment of patronage distributions. All patronage distributions to a borrower shall be on such proportionate patronage basis as may be approved by the Association's Board of Directors, consistent with the requirement of Subchapter T of the Internal Revenue Code.

In December 2013, the Association's Board of Directors adopted a resolution establishing the distribution of 2013 patronage-sourced net earnings. The resolution established the cash dividend in the amount of 0.75% of the Association's borrowers' average daily loan balances. This calculation resulted in a cash dividend of \$37.0 million, which will be distributed to qualified patrons in 2014. This amount was recognized as a liability on the Association's Consolidated Balance Sheet at December 31, 2013.

Also in December 2013, the Association's Board of Directors adopted an Obligor Resolution to distribute 2014 patronage-sourced earnings to patrons of the Association, contingent upon the Association maintaining certain capital criteria.

Cash dividends of \$45.3 million and \$34.8 million were paid on the Association's patronage-sourced earnings for 2012 and 2011, respectively. These amounts were recognized as a liability on the Association's balance sheet at December 31 in the year they were declared and paid in the first quarter of the following year. The cash dividends represented 1.0% and 1.0% of the Association's borrowers' average daily loan balances for 2012 and 2011, respectively.

As part of the Mountain Plains merger, the Association assumed a \$13 million liability for cash dividends due to qualified patrons. The payment of these dividends is included in total cash dividends paid in 2012.

**F. UNALLOCATED RETAINED EARNINGS:** Net income can be distributed annually in the form of cash or allocated retained earnings; it may also be retained as unallocated retained earnings. Thus, unallocated retained earnings include patronage-sourced net income that is retained each year. The Board of Directors must approve any use of unallocated retained earnings.

**G. ACCUMULATED COMPREHENSIVE INCOME/(LOSSES):** The Association reports accumulated comprehensive income/(loss) in its Consolidated Statement of Changes in Members' Equity. As more fully described in Note 11, other comprehensive income/(loss) results from the recognition of the Pension Restoration Plan's net unamortized gains and losses and prior service costs or credits of \$(3.8) million, \$(513), and \$(3.4) million in 2013, 2012, and 2011, respectively. There were no other items affecting comprehensive income or loss.

### NOTE 9 ~ PATRONAGE DISTRIBUTIONS FROM SYSTEM INSTITUTIONS

Patronage income recognized from Farm Credit institutions to the Association follows:

	2013	2012	2011
CoBank	\$24,449	\$27,378	\$32,225
AgBank	-	-	3,883
<b>Total</b>	<b>\$24,449</b>	<b>\$27,378</b>	<b>\$36,108</b>

Patronage distributed from CoBank was in cash and stock. Patronage distributed from AgBank was in cash. The amount earned in December 2013 was accrued and will be paid by CoBank in March 2014. The amount earned and accrued in 2012 was paid by CoBank in March 2013. The amount declared in December 2011 by AgBank was accrued in 2011 and was paid in March 2012 by CoBank. Patronage received in March 2011 for 2010 was recognized when the distribution was received.

### NOTE 10 ~ INCOME TAXES

The benefit for income taxes follows:

Year Ended December 31,	2013	2012	2011
Current tax provision	\$7	\$7	\$7
Deferred tax provision/(benefit)	-	3,322	6,091
<b>Total provision/(benefit) for income taxes</b>	<b>\$7</b>	<b>\$3,329</b>	<b>\$6,098</b>

The following table quantifies the differences between the provision/(benefit) for income taxes and the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income of the Association.

Year Ended December 31,	2013	2012	2011
Federal tax at statutory rate	\$37,823	\$37,633	\$63,496
State tax, net	4	3	2
Tax-exempt FLCA income	(34,053)	(35,809)	(48,969)
Effect of tax-free recapitalization distribution from bank merger	-	-	(8,756)
Patronage dividends paid	(2,922)	-	(3,168)
Write-off of NOL carryforward	-	-	3,486
Write-off NOL	-	371	-
Change in deferred tax valuation allowance	(859)	1,116	-
Other	14	15	7
<b>Provision/(Benefit) for income taxes</b>	<b>\$7</b>	<b>\$3,329</b>	<b>\$6,098</b>

Deferred tax assets and liabilities result from the following:

Year Ended December 31,	2013	2012	2011
<b>Gross deferred tax asset:</b>			
Allowance for loan losses	\$1,486	\$2,055	\$1,723
Deferred loan fees	899	771	780
Nonaccrual loan interest	221	613	790
Gross deferred tax asset	2,606	3,439	3,293
<b>Gross deferred tax liabilities:</b>			
Mineral depletion	(75)	(74)	(73)
Accrued CoBank patronage	(2,274)	(2,249)	-
Net deferred tax asset before valuation allowance	257	1,116	3,221
Deferred tax asset valuation allowance	(257)	(1,116)	-
<b>Net deferred tax asset</b>	<b>\$0</b>	<b>\$0</b>	<b>\$3,221</b>

The calculation of deferred tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings. The valuation allowance shown in the table for 2013 above reflects the uncertainty of these estimates and assumptions. In 2012, the Association determined the value of its deferred tax assets was unlikely to be used to reduce future taxable income. Accordingly, a valuation allowance was established to offset net deferred tax assets. The Association will continue to evaluate the likely realization of these deferred tax assets and adjust the valuation allowance accordingly.

As a result of the merger of AgBank and CoBank, in 2011 the Association received a recapitalization distribution of \$75.2 million as a result of a tax-free reorganization.

The Association had no uncertain tax positions to be recognized as of December 31, 2013, 2012, and 2011.

The Association recognizes interest and penalties related to unrecognized tax benefits as an adjustment to income tax expense. There were no interest or penalties recognized in 2013, 2012, or 2011. The Association did not have any positions for which it is reasonably possible that the total amounts of unrecognized tax positions will significantly increase or decrease within the next 12 months. The Association accounts for income taxes in accordance with ASC 740, which provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Association's tax returns to determine whether the tax positions are more likely than not of being sustained upon examination by the applicable tax authority, based on the technical merits of the tax position, and then measuring the tax benefit that is more likely than not to be realized. Tax positions not deemed to meet the more likely than not threshold would be recorded as a tax expense in the current reporting period. The tax years that remain open for federal and major state income tax jurisdictions are 2009 and forward.

#### NOTE 11 ~ EMPLOYEE BENEFIT PLANS

Certain employees participate in the Ninth and Eleventh Retirement Plans, multi-employer defined benefit retirement plans. The Department of Labor has determined the plans to be governmental plans; therefore, the plans are not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plans are not subject to ERISA, the plans' benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plans' termination is contingent on the sufficiency of the plans' net assets to provide benefits at that time. The plans are noncontributory and cover eligible employees. The assets, liabilities, and costs of the plans are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if the Association chooses to stop participating in the plan, it may be required to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Because of the multi-employer nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee moves to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of these plans.

The defined benefit pension plans reflect an unfunded liability totaling \$58.5 million for the Ninth Plan and \$50.8 million for the Eleventh Plan at December 31, 2013. The pension benefits funding status reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these consolidated financial statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels.

The projected benefit obligation and fair value of the multi-employer plan assets at December 31 follows:

(In millions)	2013	2012	2011
<b>Projected benefit obligation</b>			
Ninth Plan	\$203.2	\$210.1	\$224.1
Eleventh Plan	\$207.8	\$219.4	\$216.3
<b>Fair value of plan assets</b>			
Ninth Plan	\$144.7	\$116.2	\$122.2
Eleventh Plan	\$157.0	\$141.0	\$143.6

The amount of the pension benefits funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. The Association recognizes its proportional share of expense and contributes a proportional share of funding.

Costs and contributions for the multi-employer plans at December 31 follows:

(In millions)	2013	2012	2011
<b>Total plan expenses for all participating employers</b>			
Ninth Plan	\$15.8	\$25.4	\$10.2
Eleventh Plan	\$3.3	\$8.8	\$1.8
<b>The Association's allocated share of plan expenses included in salaries and benefits</b>			
Ninth Plan	\$3.6	\$3.0	\$0.9
Eleventh Plan	\$1.1	\$1.1	\$0.6
<b>Total plan contributions for all participating employers</b>			
Ninth Plan	\$14.5	\$12.8	\$8.3
Eleventh Plan	\$4.0	\$5.7	\$0.2
<b>The Association's allocated share of plan contributions</b>			
Ninth Plan	\$3.3	\$3.0	\$0.8
Eleventh Plan	\$1.3	\$1.9	\$0.1

While the plans are governmental plans and are not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plans with sufficient assets to meet the benefits to be paid to participants. The amount of the total employer contributions expected to be paid into the pension plans during 2014 is \$7.4 million. The Association's allocated share of these pension contributions is expected to be \$3.1 million. The amount ultimately to be contributed and the amount ultimately recognized as expense, as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than anticipated.

Post-retirement benefits other than pensions are provided through the Farm Credit Foundations Retiree Medical Plan to eligible current and retired employees of the Association. Benefits provided are determined on a graduated scale based on years of service. The anticipated costs of these benefits were accrued during the period of the employee's active service. Post-retirement benefits (primarily health care benefits) included in salaries and employee benefits were \$178 for 2013, \$146 for 2012, and \$83 for 2011. These expenses are equal to the Association's cash contributions for each year.

The Association participates in two nonqualified defined benefit Pension Restoration Plans that are unfunded. The plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under the Pension Restoration Plans are offset by the benefits payable from the Pension Plans. Pension Restoration Plan expenses included in salaries and employee benefits were \$1.5 million for 2013, \$1.8 million for 2012, and \$724 for 2011.

The funded status and the amounts recognized in the Consolidated Balance Sheet for the Association's Pension Restoration Plans follow:

	Nonqualified Pension Restoration Benefits		
	2013	2012	2011
<b>Change in benefit obligation:</b>			
Benefit obligation at beginning of the period	\$13,359	\$10,222	\$6,627
Benefit obligation acquired in merger	–	1,202	–
Service cost	465	634	397
Interest cost	544	578	354
Net actuarial loss/(gain)	4,255	1,063	3,338
Benefits paid	(1,077)	(340)	(494)
<b>Benefit obligation at December 31</b>	<b>\$17,546</b>	<b>\$13,359</b>	<b>\$10,222</b>
<b>Amounts recognized in the Consolidated Balance Sheet consist of:</b>			
Accrued benefit liability	\$17,546	\$13,359	\$10,222
Net amount recognized	\$17,546	\$13,359	\$10,222

The following table represents the amounts included in accumulated other comprehensive income/loss for the Pension Restoration Plans:

	2013	2012	2011
Net actuarial loss/(gain)	\$7,325	\$3,537	\$3,026
Prior service costs	2	2	–
<b>Total amount recognized in AOCI/loss</b>	<b>\$7,327</b>	<b>\$3,539</b>	<b>\$3,026</b>

An estimated net actuarial loss of \$1,560 for the Pension Restoration Plans will be amortized into income during 2014.

The projected and accumulated benefit obligation for the Pension Restoration Plans at December 31 was as follows:

	2013	2012	2011
Projected benefit obligation	\$17,546	\$13,359	\$10,222
Accumulated benefit obligation	\$14,939	\$11,894	\$8,053

The net periodic pension expense for the defined benefit Pension Restoration Plans included in salaries and benefits in the Consolidated Statement of Income is composed of the following at December 31.

	Pension Benefits		
	2013	2012	2011
<b>Components of net periodic benefit cost</b>			
Service cost	\$465	\$634	\$397
Interest cost	544	578	354
Net amortization and deferral	468	549	(29)
<b>Net periodic cost</b>	<b>\$1,477</b>	<b>\$1,761</b>	<b>\$722</b>

Changes in benefit obligation recognized in accumulated other comprehensive income are included in the following table.

	2013	2012	2011
Current year net actuarial (gain)/loss	\$4,256	\$1,062	\$3,336
Amortization of prior service cost/(credit)	–	(1)	13
Amortization of net actuarial (gain)/loss	(468)	(853)	16
Settlement expense	–	305	–
<b>Total recognized in other comprehensive loss/(income)</b>	<b>\$3,788</b>	<b>\$513</b>	<b>\$3,365</b>

Weighted average assumptions used to determine benefit obligation at December 31 follows:

	Nonqualified Pension Restoration Benefits		
	2013	2012	2011
Discount rate – Eleventh Plan	4.85%	4.05%	5.05%
Discount rate – Ninth Plan	4.90%	4.15%	5.10%
Rate of compensation increase – Eleventh Plan	4.50%	4.50%	4.50%
Rate of compensation increase – Ninth Plan	5.00%	5.00%	5.00%

The Association estimates it will contribute \$1,094 to the pension restoration plans in 2014.

#### ESTIMATED FUTURE BENEFIT PAYMENTS

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

2013	2014	2015	2016	2017	2018–2022
\$1,094	\$1,938	\$4,091	\$3,200	\$1,539	\$8,544

The Association participates in the Farm Credit Foundations Ninth and Eleventh District Defined Contribution/401(k) Plans. Under these plans, the Association matches a certain percentage of employee contributions. The plans have two components. Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Contribution Plans. In these plans, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Under both plans, employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions. Employer contributions to the Ninth and Eleventh Contribution Plans included in salaries and employee benefits were \$3.5 million in 2013, \$3.8 million for 2012, and \$2.8 million for 2011.



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**NOTE 12 ~ RELATED PARTY TRANSACTIONS**

In the ordinary course of business, the Association enters into loan transactions with directors or employees of the Association, their immediate families, and other organizations with which such directors or employees of the Association may be associated (related party borrowers). These loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

The Association has a policy that loans to directors and senior officers must be maintained at an Acceptable or Other Assets Especially Mentioned (OAEM) credit classification. If the loan falls below the OAEM credit classification, corrective action must be taken and the loan brought back to either Acceptable or OAEM within a year. If not, the director or senior officer must resign from the Board or employment.

Loan information to related parties for the years ended December 31 is shown below.

	2013	2012	2011
New loans	\$195,303	\$127,030	\$18,381
Repayments	153,883	127,252	17,573
Loans no longer related parties	10,317	90	1,702
Loans acquired in merger	–	13,282	–
<b>Ending balance</b>	<b>\$74,237</b>	<b>\$43,134</b>	<b>\$30,164</b>

In the opinion of management, none of these loans outstanding at December 31, 2013, involved more than a normal risk of collectibility.

The Association also has business relationships with certain other System entities. The Association paid \$297 in 2013, \$269 in 2012, and \$286 in 2011 to Foundations for human resource services.

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**NOTE 13 ~ REGULATORY ENFORCEMENT MATTERS**

There are no regulatory enforcement actions in effect for the Association.

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**NOTE 14 ~ COMMITMENTS AND CONTINGENCIES**

The Association has various commitments outstanding and contingent liabilities.

The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated 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. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2013, \$1.76 billion of commitments to extend credit were outstanding.

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 Sheet until funded or drawn upon. The credit risk associated with issuing commitments 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.

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, \$60.8 million of standby letters of credit were outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2014 to 2019. The maximum potential amount of future payments the Association is required to make under the guarantees is \$60.8 million.

With regard to contingent liabilities, there are no actions pending against the Association in which claims for monetary damages are asserted.

## NOTE 15 ~ FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. The fair value measurement is not an indication of liquidity. See Note 2 for additional information.

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

Assets measured at fair value on a non-recurring basis at December 31 for each of the fair value hierarchy values are summarized below.

	Hierarchy Level 3	Total Fair Value	Total Gain/(Loss)
<b>2013</b>			
Loans	\$9,777	\$9,777	\$352
Other property owned	\$6,477	\$6,477	\$(124)
<b>2012</b>			
Loans	\$17,029	\$17,029	\$(2,875)
Other property owned	\$1,824	\$1,824	\$(353)
<b>2011</b>			
Loans	\$18,152	\$18,152	\$(2,906)
Other property owned	\$12,075	\$12,075	\$(1,020)

Assets measured at fair value on a recurring basis at December 31 for each of the fair value hierarchy values are summarized below.

Assets Held in Nonqualified Benefits Trusts	Hierarchy Level 1	Total Fair Value
2013	\$12,527	\$12,527
2012	\$10,949	\$10,949
2011	\$2,449	\$2,449

During the three years presented, the Association recorded no transfers in or out of Levels 1, 2, or 3. The Association has no liabilities measured at fair value on a recurring basis for the periods presented.

**VALUATION TECHNIQUES:** As more fully discussed in Note 2, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following presents a brief summary of the valuation techniques used by the Association for assets and liabilities subject to fair value measurement.

**A. Loans:** Fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the District's current loan origination rates as well as management estimates of credit risk. Management has no basis to determine whether the estimated fair values presented would be indicative of the assumptions and adjustments that a purchaser of the Association's loans would seek in an actual sale.

For purposes of determining the fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair value of loans in a nonaccrual status is estimated as described above, with appropriately higher interest rates, which reflect the uncertainty of continued cash flows. For noncurrent nonaccrual loans, it is assumed that collection will result only from the disposition of the underlying collateral. Fair value of these loans is estimated to equal the aggregate net realizable value of the underlying collateral, discounted at an interest rate, which appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. Where the net realizable value of the collateral exceeds the legal obligation for a particular loan, the legal obligation is generally used in place of the net realizable value.

For certain loans evaluated for impairment under accounting impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral, and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established and the net loan is reported at its fair value.

**B. Investment in AgBank:** Estimating the fair value of the Association's investment in AgBank was not practicable because the stock is not traded. As described in Note 4, the investment was a requirement of borrowing from AgBank and was carried at cost plus allocated equities in the accompanying Consolidated Balance Sheet. The Association owned 21.8% of the issued stock of AgBank as of December 31, 2011. As of that date, AgBank's assets totaled \$25.1 billion and shareholders' equity totaled \$1.3 billion. AgBank's earnings were \$129.1 million during 2011.

**C. Investment in CoBank:** Estimating the fair value of the Association's investment in CoBank is not practicable because the stock is not traded. As described in Note 4, the investment is a requirement of borrowing from CoBank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheet. The Association owned 9.5% of the issued stock of CoBank as of December 31, 2013. As of that date, CoBank's assets totaled \$97.6 billion and shareholders' equity totaled \$6.7 billion. CoBank's net income was \$856.5 million during 2013.

**D. Assets Held in Nonqualified Benefits Trusts:** Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

**E. Notes Payable:** 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 note 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 plus accrued interest on the notes payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

**F. Funds Held Accounts:** The carrying value is a reasonable estimate of fair value as these funds are held in cash.

**G. Commitments to Extend Credit and Standby Letters of Credit:** The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of standby letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

**H. Other Property Owned:** Other property owned is generally classified as Level 3. The process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. As a result, these fair value measurements fall within Level 3 of the hierarchy. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

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#### NOTE 16 ~ SUBSEQUENT EVENTS

The Association has evaluated subsequent events through February 28, 2014, which is the date the financial statements were issued, and no material subsequent events were identified.

**The estimated fair values of the Association's financial instruments measured at carrying amount on the consolidated statement of condition at December 31 are in the table below.**

	2013		2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets:</b>						
Loans, net of allowance	\$6,034,274	\$6,071,741	\$5,800,642	\$5,935,823	\$4,378,946	\$4,337,742
Mission-related investment, held-to-maturity	\$824	\$863	\$932	\$1,042	\$1,033	\$1,033
Investment in AgBank	–	–	–	–	\$194,567	\$194,567
Investment in CoBank	\$252,696	\$252,696	\$251,328	\$251,328	\$15,320	\$15,320
Assets held in nonqualified benefits trusts	\$12,527	\$12,527	\$10,949	\$10,949	\$2,449	\$2,449
<b>Financial liabilities:</b>						
Notes payable	\$4,681,353	\$4,691,292	\$4,539,666	\$4,686,387	\$3,454,143	\$3,455,325
Funds held accounts	\$42,095	\$42,095	\$31,581	\$31,581	\$17,501	\$17,501
Commitments to extend credit and standby letters of credit	–	\$3,439	–	\$3,238	–	\$1,950

**FINANCIAL STATEMENTS**

The Association will post the Annual Report and Quarterly Reports to Shareholders on the Association’s website (www.AgLoan.com) approximately four to six weeks after the end of each calendar quarter for the Quarterly Report and 75 days after year-end for the Annual Report. Hard copies of these reports may be obtained free of charge by contacting American AgCredit, P.O. Box 1120, Santa Rosa, CA 95402, or by telephone (800) 800-4865.

**LEGAL PROCEEDINGS AND ENFORCEMENT ACTIONS**

There are no matters that came to the attention of the Board of Directors or management regarding the involvement of current directors or senior officers in specified legal proceedings that are required to be disclosed. There are no enforcement actions against the Association.

**RELATIONSHIP WITH INDEPENDENT EXTERNAL AUDITORS**

There has been no change in independent external auditors and no material disagreements on any matters of accounting principles or financial statement disclosures during the period.

**YOUNG, BEGINNING, AND SMALL FARMER AND RANCHER PROGRAM**

American AgCredit offers a grouping of complementary Young, Beginning, and Small (YBS) farmer and rancher programs to meet the credit and related needs of YBS customers and potential customers in our chartered territory.

Per FCA regulations, qualified YBS programs are made up of the following categories:

**Young:** A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger.

**Beginning:** A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience.

**Small:** A farmer, rancher, or producer or harvester of aquatic products who normally generates less than \$250,000 in annual gross sales of agricultural or aquatic products.

**OUR YBS MISSION**

Provide credit and related services tailored to the specific needs of the YBS market via:

- Support of AgYouth Programs
- Young Farmer/Rancher Executive Institute
- Support of youth programs in the community, such as ag training, exhibits, and other outreach
- Program promotion via YBS webpage, brochure, and ad slicks
- Offer Association special lending programs as well as state and federal guarantee programs

- Provide scholarships to students interested in working in or studying agriculture
- Offer paid internships to young professionals interested in learning about agriculture and ag financing

To facilitate credit offerings to this specialized customer base, we have adopted financing programs and use government-guaranteed loan programs. We are actively involved in developing and sponsoring educational opportunities, leadership training, business financial training, and insurance services for YBS farmers and ranchers.

**DEMOGRAPHICS**

To ensure these groups are adequately serviced, demographic research known as Ag Census is completed by the U.S. Department of Agriculture every five years, and those demographics are compared to our borrower base. Part of adequately servicing these segments is understanding how farming is changing within the Association’s lending territory.

The latest data available is from the 2007 Ag Census, which was released in February 2009. Compared to the 2002 Ag Census, the 2007 research showed the number of farms overall, as well as the number of Beginning and Small Farmers, has remained relatively stable, with very slight growth ranging from 2% –5% in the counties in which American AgCredit operates.

However, there has been a continuing shift in farm demographics in the Young Farmer category. The total number of Young Farmers has been nearly cut in half, and the ratio of young farmers to farms overall has spread even further. This is a general reflection of the overall population, combined with some young farmers aging out of the category, as well as the challenge in the credit market for riskier investments with younger people.

The following table outlines the percentage of Young and Beginning loans in the loan portfolio (by number) as of December 31, 2013, compared to the total number of loans in the portfolio.

Category (Dollars in thousands)	Number of Loans	Percent of Total Loans	Volume Outstanding	Percent of Total Volume
Total loans and commitments outstanding at year-end	13,065	100.00%	\$7,860,890	100.00%
Young farmers and ranchers	1,533	11.73%	\$411,575	5.24%
Beginning farmers and ranchers	2,500	19.14%	\$847,208	10.78%

The following table provides a breakdown of small farmer and rancher loans by size as of December 31, 2013.

<b>Number/Volume Outstanding</b> (Dollars in thousands)	<b>\$0 – \$50.0</b>	<b>\$50.1 – \$100.0</b>	<b>\$100.1 – \$250.0</b>	<b>\$250.1 and greater</b>
Total number of loans and commitments outstanding at year-end	3,298	2,115	2,972	4,680
Total number of loans to small farmers and ranchers	1,741	1,273	1,430	795
Percent of loans to small farmers and ranchers	52.79%	60.19%	48.12%	16.99%
Total loan volume outstanding at year-end	\$69,671	\$159,792	\$496,072	\$7,135,355
Total loan volume to small farmers and ranchers	\$46,206	\$95,234	\$225,212	\$494,408
Percent of loan volume to small farmers and ranchers	66.32%	59.60%	45.40%	6.93%

#### FUNDING OUTREACH

Through alliance partnerships with other Farm Credit institutions, we sponsor a multitude of events and activities aimed at not only promoting Farm Credit and the services offered by the System as a whole, but also to inform and educate young, beginning, and small farmers. We believe that by supporting the full spectrum of agricultural efforts, all agriculture benefits. Some of our more significant contributions and outreach go toward university education and research. They include:

**Agribusiness Chair at Cal Poly San Luis Obispo:** This funding is intended to develop farmer/agribusiness-related seminars that will be available to our customers. The program also funds a professorship and three new advanced finance and appraisal classes. More than \$400,000 has been donated to date since 2008.

**Multicultural Scholars in Agriculture at Fresno State University:** In late 2012, American AgCredit partnered with Farm Credit West, Fresno-Madera Farm Credit, and CoBank to contribute \$75,000 to Fresno State University. This contribution will be used to establish an endowment to support Multicultural Scholars in Agriculture. Future contributions to this endowment fund may be made by each of the participating organizations.

**Wheat Innovation Center:** \$150,000 has been donated to develop the Kansas Wheat Innovation Center at Kansas State University through the Kansas Farm Credit Alliance.

**Colorado State University Center for Agricultural Education:** In 2013, American AgCredit coordinated with CoBank, Farm Credit of Southern Colorado, and Premier Farm Credit to donate \$1.025 million for construction of a modern Center for Agricultural Education at Colorado State University that will train new generations of agricultural teachers and leaders

#### YBS PROGRAM SAFETY AND SOUNDNESS

American AgCredit offers diverse and accessible financing options for qualified farmers and ranchers within the territories covered by American AgCredit. The YBS Program provides alternate financing and guarantee options for farmers and ranchers who are just getting started, as well as small or part-time operations. To better serve YBS customers, special lending qualifications and requirements allow young, beginning, and small farmers and ranchers access to financing, leasing, and other services for which they might not otherwise qualify.

Procedures have been established to streamline the delivery of small loans utilizing credit scoring. Loans will continue to be made on a sound basis, with proper emphasis on the fundamentals of sound credit. Loans made under this program meet all our requirements for eligibility and scope of financing, interest rates, and length of term. Co-makers and guarantors (financially responsible family members or other individuals) and secondary collateral are utilized when available and appropriate to minimize risk. Excessively ambitious growth plans are restricted and loans are closely monitored on a regular basis.

The Association's YBS Exception Program (YBS X-Program) is aimed at those who do not meet all underwriting criteria and exhibit higher-than-normal risk factors. While the program provides for approval of credit with a higher-than-normal risk profile, approved loans are well protected from loss by adequate collateral and/or financial support of a guarantor to minimize risk of loss.

To qualify for the YBS X-Program, the borrower/applicant must meet at least two of the criteria for YBS farmer, and the loan amount is limited to \$1 million or less. The Association has set aside \$10 million in funding as support for this program.

#### BORROWER PRIVACY

As a member-owner of this institution, your privacy and the security of your personal information are vital to our continued ability to serve your ongoing credit needs. FCA regulations require that borrower information be held in confidence by Farm Credit institutions, their directors, officers, and employees. FCA regulations specifically restrict Farm Credit institution directors and employees from disclosing information not normally contained in published reports or press releases about the institution or its borrowers or members. These regulations also provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic information.



It is the Association's policy to reimburse directors and senior officers for mileage as well as documented business expenses while serving in an official capacity. A copy of the Association's reimbursement policies is available to shareholders upon request. There were five regularly scheduled Board meetings in 2013. Committee meetings are called as needed to address Association business.

The following identifies all Board members who served during the year and describes the business activities and principal occupation for the past five years, as well as current committee assignments, for those directors serving on the Board during the year.

**FRANK STONEBARGER, CHAIRMAN**

Term Expires: 2015

Committee(s): Executive

Mr. Stonebarger has been involved in Farm Credit since 1977 and began farming in 1973. He produces walnuts, cherries and apples, and provides custom farming services. He attended five Board meetings and nine committee meetings for which he was compensated \$55,700.

**CHARLES TALBOTT, VICE CHAIRMAN**

Term Expires: 2015

Committee(s): Executive & Strategic Initiatives

Mr. Talbott resides in Palisade, Colorado. His business experience is in tree fruit and wine grape production, packing, processing, and marketing. He attended five Board meetings and six committee meetings for which he was compensated \$47,500.

**ERIC ALLEN, OUTSIDE DIRECTOR**

Term Expires: 2018

Committee(s): Audit

Mr. Allen resides in Reno County, Kansas, and has been a public accountant for 40 years. He currently manages farm interests producing corn, wheat, pinto beans, and milo. In 2004, he retired from Kansas State University after serving as an agricultural economist for 31 years. He attended five Board meetings and eight committee meetings for which he was compensated \$40,000.

**JAMES BOYD, DIRECTOR**

Term Expires: 2017

Committee(s): Governance

Mr. Boyd owns/operates with his son a grain, alfalfa, mint, and cattle operation in Tulelake, California. Prior to serving on the American AgCredit Board, he served on the Intermountain FLCA board for 12 years. He attended five Board meetings and eight committee meetings for which he was compensated \$40,250.

**PETER BULTHUIS, DIRECTOR**

Term Expires: 2016

Committee(s): Audit

Mr. Bulthuis was elected to his first term on the AgCredit Financial board of directors in 1999. He produces wine grapes, cherries, and almonds. He also owns a farm chemical and supply business. He has been farming since 1970 and became a member of Farm Credit in 1975. He is a member of California Almond Growers, Wine Grape Growers, and California Association of Pest Control Advisors. He also is a member of the NISEI Farmers League and SJFB Foundation for Agriculture Education. He attended five Board meetings and eight committee meetings for which he was compensated \$40,240.

**DENNIS CAKEBREAD, DIRECTOR**

Term Expires: 2015

Committee(s): Compensation

Mr. Cakebread is a co-owner, Vice-Chairman of the Board, and is the Senior Vice President responsible for sales and marketing for Cakebread Cellars, in the Napa Valley, California. He has been active in industry associations and issues for many years. He attended four Board meetings and five committee meetings for which he was compensated \$24,000.

**JOHN CALDWELL, DIRECTOR**

Term Expires: 2015

Committee(s): Governance & Executive

Mr. Caldwell resides in Longmont, Colorado. His business experience is in cattle feeding and brokerage, grain merchandising, and farming. He attended five Board meetings and eight committee meetings for which he was compensated \$40,000.

**FOY CHAPIN, DIRECTOR**

Term Expires: 2018

Committee(s): Governance

Mr. Chapin operates Chapin Dairy, a fifth-generation farm located in Weldona, Colorado, with four generations currently active in its operation. Mr. Chapin is also a partner with his children in Riverside Milk LLC, located in Snyder, Colorado. He attended four Board meetings and six committee meetings for which he was compensated \$32,000.

**JAMES COOKSEY, DIRECTOR**

Term Expires: 2014

Committee(s): Audit

Mr. Cooksey resides in Roggen, Colorado. His business experience is in farming and ranching. He attended five Board meetings and eight committee meetings for which he was compensated \$40,000.

**CLINTON ECK, DIRECTOR**

Term Expires: 2015

Committee(s): Compensation

Mr. Eck served on the Board until his resignation in August 2013. He attended two Board meetings and four committee meetings for which he was compensated \$29,333.

**JOHN ENGELLAND, DIRECTOR**

Term Expires: 2014

Committee(s): Compensation & Strategic Initiatives

Mr. Engelland resides in Rice County, Kansas, farms irrigated and dryland crops, and is engaged in custom farming and ranching with cow-calf, stocker/background, and finishing cattle. He also serves on the Sterling Historic Preservation Board. He attended five Board meetings and 10 committee meetings for which he was compensated \$40,000.

**GEORGE FONTES, DIRECTOR**

Term Expires: 2014

Committee(s): Governance

Mr. Fontes is a fourth-generation farmer in the Salinas Valley, California. Currently, he owns and operates Fontes Farms LLC, a farm management and aluminum irrigation pipe leasing and repair business. He also recently retired from Comgro Incorporated as president and co-owner. Comgro farmed 1,800 acres of lettuce, broccoli, mix lettuce, and spinach in Salinas. He also serves on the board of Farm Credit Foundations headquartered in St. Paul, Minnesota. He attended five Board meetings and 12 committee meetings for which he was compensated \$45,000.

**JEROLD HARRIS, OUTSIDE DIRECTOR**

Term Expires: 2014

Committee(s): Audit & Strategic Initiatives

Mr. Harris is retired. He was formerly employed as the President and CEO of U.S. AgBank in Wichita, Kansas. He attended five Board meetings and 10 committee meetings for which he was compensated \$38,000.

**LINDA INGO, DIRECTOR**

Term Expires: 2018

Committee(s): Governance

Ms. Ingo resides on the family ranch near Ridgeway, Colorado. Working together with family, they raise hay and Red Angus cattle, host big-game hunters, and manage their water, wildlife, and timber resources. She attended five Board meetings and six committee meetings for which she was compensated \$40,000.

**KIRVIN KNOX, OUTSIDE DIRECTOR**

Term Expires: 2015

Committee(s): Compensation & Executive

Dr. Knox resides in Fort Collins, Colorado. His business experience is in energy, production agriculture, academic administration, and agriculture research. He attended five Board meetings and seven committee meetings for which he was compensated \$40,049.

**ALAN LIST, DIRECTOR**

Term Expires: 2018

Committee(s): Governance

Mr. List served as a board member and chairman of both Intermountain Farm Credit and AgCredit Financial prior to their merger into American AgCredit. He is the owner and operator of a hay, grain, and seed business in Lovelock, Nevada, and serves as a director of List Cattle Co., Lovelock Hay Market Inc., and Nevada Agricultural Self Insurance Group. He attended five Board meetings and nine committee meetings for which he was compensated \$40,000.

**MARY BORBA PARENTE, DIRECTOR**

Term Expires: 2014

Committee(s): Compensation

Ms. Parente served on the Board until her resignation in December 2013. She attended five Board meetings and seven committee meetings for which she was compensated \$40,000.

**GREG RINGLER, DIRECTOR**

Term Expires: 2018

Committee(s): Compensation

Mr. Ringler runs a diversified operation consisting of wheat, milo, beans, alfalfa, and beef cattle in Kansas. He attended four Board meetings and six committee meetings for which he was compensated \$34,000.

**DAVID SANTOS, DIRECTOR**

Term Expires: 2017

Committee(s): Governance

Mr. Santos is an apricot and cherry farmer in Stanislaus County, California. He is a partner of Lucich & Santos Farms and Blossom Hill Packing Company, a packing and marketing company. He is also a member of the Apricot Producers Board. He attended five Board meetings and six committee meetings for which he was compensated \$40,250.

**JOE SCHOONOVER, DIRECTOR**

Term Expires: 2017

Committee(s): Compensation

Mr. Schoonover owns and manages farmland in Pratt County, Kansas, raising corn, soybeans, wheat, and alfalfa. He is currently American AgCredit's representative to the CoBank District Farm Credit Council, giving him the opportunity to work with state and national legislators on issues affecting the Farm Credit System and the farmers and ranchers that we serve. He attended five Board meetings, 12 committee meetings, and three other meetings for which he was compensated \$49,200.

**LARRY SOLARI, OUTSIDE DIRECTOR**

Term Expires: 2017

Committee(s): Audit

Mr. Solari is a Certified Public Accountant and partner in Croce & Company Accountancy Corporation located in Stockton, California. He was appointed as an outside director of the Association Board of Directors in January 1994. He also serves on the San Joaquin County Assessment Appeals Board. He attended five Board meetings and eight committee meetings for which he was compensated \$41,875.

**THOMAS TEIXEIRA, DIRECTOR**

Term Expires: 2018

Committee(s): Audit & Executive

Mr. Teixeira is partner/owner of Teixeira and Sons and grows 6,000 acres of alfalfa, almonds, cantaloupes, corn, cotton, fresh-market tomatoes, processing tomatoes, and wheat. Teixeira and Sons also operate a tomato-transplant greenhouse facility and are part owners in Pacific Ginning LLC, Eagle Valley Ginning LLC, and 360 Agri LLC. Pacific Ginning and Eagle Valley Ginning are cotton ginning operations and 360 Agri is a custom cotton harvesting company. He attended five Board meetings and 14 committee meetings for which he was compensated \$45,625.

**DENNIS WILLIAMS, DIRECTOR**

Term Expires: 2016

Committee(s): Compensation

Mr. Williams farms and ranches in Noble County, Oklahoma. His diversified family operation consists of wheat and corn as cash crops integrated with a stocker cattle and cow-calf program. He attended five Board meetings and six committee meetings for which he was compensated \$38,000.

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For 2013, directors were compensated for their services based on annual retainers as follows:

<b>Chairman</b>	\$55,000
<b>Vice Chairman</b>	\$47,500
<b>Audit Committee Chairman</b>	\$47,500
<b>Compensation Committee Chairman</b>	\$45,000
<b>Governance Committee Chairman</b>	\$45,000
<b>Regular Member</b>	\$40,000

Retainer amounts are adjusted for meeting absences or attendance at meetings in excess of scheduled board meetings. The total compensation paid directors for 2013, as described above, amounted to \$921,022. The aggregate amount of compensation and reimbursements for travel, subsistence, and other related expenses for all directors were \$1,315,000 for 2013, \$1,247,000 for 2012, and \$874,000 for 2011.



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## SENIOR OFFICERS

**BYRON E. ENIX, CHIEF EXECUTIVE OFFICER**

Mr. Enix was promoted to Chief Executive Officer on January 1, 2014. He previously served as Chief Operating Officer and Senior Vice President – Credit, Heartland Region since 2012 and 2010, respectively. Prior to the Farm Credit Services of the Mountain Plains merger and since 2006, he served as Chief Financial Officer – Mountain Plains. He has 30 years of Farm Credit System experience in credit, operations, and finance fields.

**ROGER BASTOW, CHIEF ADMINISTRATIVE OFFICER**

Mr. Bastow has served as Chief Administrative Officer since 2009. He previously served as Senior Vice President – Finance and Operations from 1999 to 2009 at Farm Credit of the Heartland. He is a Certified Public Accountant and has served in human resources, operations, and finance roles over the past 22 years in the Farm Credit System and is a member of the Farm Credit Foundations Trust Committee.

**WLODEK KULAWIAK, CHIEF TECHNOLOGY OFFICER**

Mr. Kulawiak has served as Chief Information Officer since 2008 and has been employed by the Association since 2007. He has 28 years of experience in the technology field, working for global companies in diverse industries.

**TERRY LINDLEY, CHIEF MARKETING OFFICER**

Mr. Lindley has served as the Chief Marketing Officer of American AgCredit since 2013 and previously served as Senior Vice President – Marketing for 15 years. He has over 37 years of Farm Credit experience and, for the last 17 years, served as a Trustee at Santa Rosa Junior College.

**FLOYD RIDENHOUR, CHIEF ADMINISTRATIVE OFFICER**

Mr. Ridenhour has served as Chief Administrative Officer since 1993, and has a total of 34 years of Farm Credit experience. He is Treasurer of the Sonoma County 4-H Foundation, Vice President of the Larkfield Owner's Association in Santa Rosa, and President of the Harvest Plaza Owner's Association in Turlock.

**JERRY ROSE, CHIEF RISK OFFICER**

Mr. Rose has served as Chief Risk Officer since 2013 and previously served as Senior Vice President – Risk Management since 2012. He's held risk and financial management roles for the past 25 years in the Farm Credit System.

**GREG SOMERHALDER, CHIEF CORPORATE STRATEGIST**

Mr. Somerhalder has served as Chief Corporate Strategist since 2013 and has over 31 years experience with Farm Credit in many areas of banking, including lending, credit, risk, and strategy. He serves on the board of three charity organizations: St. George Christian Orthodox Endowment, The Treehouse, and LaHam Family Foundation.

**RACHEL STEVENSON, GENERAL COUNSEL**

Ms. Stevenson has served as General Counsel since 2013 and previously served as Deputy General Counsel since 2012. She is an attorney with 19 years of business, banking, probate and real property law and litigation experience. She also serves as a director for the Farm Bureau Foundation of Sonoma County.

**KATHERINE WHEELOCK, CHIEF CREDIT OFFICER**

Ms. Wheelock has served as Chief Credit Officer since 2012. She previously served as Chief Risk Officer and Senior Vice President – Risk Management since 2012 and 2005, respectively. She has over 31 years of banking experience including capital markets, commercial banking, and loan syndications.

**VERN ZANDER, CHIEF FINANCIAL OFFICER**

Mr. Zander has served as Chief Financial Officer since 2012. He previously served as Vice President – Relationship Manager in the Association's Capital Markets Group. He is a Certified Public Accountant and has been with American AgCredit for the last 11 years, with a total of 26 years of Farm Credit service.

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## REGIONAL/DEPARTMENTAL SENIOR VICE PRESIDENTS

**MIKE BANKS**

SVP Credit Management

**ROBERT LABRIER**

SVP Credit, Western District

**WILLIAM "BUD" BENSLEY**

SVP Credit

**SEAN O'DAY**

SVP Credit,  
Northern District/Capital Markets

**PATRICIA CURTIAN**

SVP Controller

**DEB SEEDORF**

SVP Enterprise Solutions

**ALAN FEIT**

SVP Credit, Midwest District

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## SENIOR OFFICERS' COMPENSATION

The Compensation Committee of the Board of Directors follows a comprehensive compensation philosophy where the objective is to:

- Provide market-based compensation through base salary and annual and long-term incentive components that will allow the Association to attract, motivate and retain superior executive talent;
- Place a portion of total compensation for the executive at risk and contingent upon the Association remaining financially sound and meeting established performance goals; and
- Ensure that long-term financial stability of the Association is emphasized over short-term results and decisions.

Compensation is designed to:

- Reward successful fiscal year results through an annual Incentive Compensation Plan (ICP);
- Foster long-term financial stability through Leadership Retention and Transition incentives (LRT); and
- Significantly contribute to the retention of the President/Chief Executive Officer (CEO) and other Senior Officers.

The Compensation Committee annually reviews market information related to the level and mix of salaries, benefits, and incentive plans for the CEO and other senior officers. The Association maintains the annual ICP for senior officers and employees that rewards performance based on objective criteria. Such criteria include achievement of personal goals, the attainment of earnings, and other corporate goals. The ICP is administered at the discretion of the Board of Directors Compensation Committee and may be discontinued at any time. There are no predetermined payment schedules and there were no significant amendments to the ICP in 2013.

Select senior officers may also participate in a supplemental incentive compensation plan. A supplemental incentive plan includes specialized earnings goals. A supplemental incentive compensation plan is administered at the discretion of the Board of Directors Compensation Committee and may be discontinued at any time. There are no predetermined payment schedules and there were no significant amendments in 2013.

LRT incentives provide targeted long-term awards for senior officers based on position and responsibilities. For select senior officers, a long-term award was established and communicated at the beginning of the plan term. The payout of these awards are six or more years later and is conditioned upon satisfactory performance of the senior officer and the Association. Senior officers that voluntarily terminate employment or do not maintain satisfactory performance forfeit these long-term awards.

Due to the cooperative business structure of the Association, compensation for senior officers does not contain stock-based compensation components.

Compensation earned by the CEO and aggregate compensation of other senior officers and highly compensated employees for the year ended December 31, 2013, amounted to \$6.7 million.

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% 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 5.0% 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% or greater increase was 2013. No association has 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. 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.

Disclosure of fiscal year 2013 compensation for the CEO and senior officers as defined by regulation, or to any other employee whose compensation is among the five highest amounts paid by the Association, is included in the Annual Meeting Information Statement sent to shareholders and is available to the public at the Association’s offices upon request.

The Association’s policies on loans to and transactions with its senior officers and directors are incorporated herein by reference from Note 12 to the financial statements entitled “Related Party Transactions” included in the Annual Report to Shareholders. No loans to senior officers, directors, their immediate families, and affiliated organizations at December 31, 2013, involved more than a normal risk of collectibility.



## CALIFORNIA

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## COLORADO

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**Montrose**

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## KANSAS

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## NEVADA

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## ADMINISTRATIVE OFFICE

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*All owned office buildings and land are pledged to CoBank as collateral for the note payable.*



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**AMERICAN AGCREDIT**

MONEY FOR AGRICULTURE