

2013

Annual Report



Southwest Georgia Farm Credit, ACA
2013 ANNUAL REPORT

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Management

Richard S. Monson.....	Chief Executive Officer
Richard H. Horn	Chief Credit Officer
Tarrell Bennett.....	Chief Lending Officer
Ryan G. Burt.....	Chief Financial Officer
Paxton W. Poitevint.....	Chief Relationship Manager
Liz Nogowski.....	Marketing and Administrative Officer

Board of Directors

Bobby J. Brooks	Chairman
Robert B. Moss.....	Vice Chairman
T. E. Allen, III	Director
Jeffrey A. Clark	Director
James H. Dixon, Jr.	Director
Clifford Dollar, Jr.	Director
Robert L. Holden, Sr.	Director
Kimbley D. Rentz.....	Director

President's Message

From Richard S. Monson

As a financial cooperative dedicated to agriculture we view our mission as twofold. First, we must provide our members with a value proposition that enhances their financial circumstances. Second, we desire to provide a competitive influence within the marketplace so that agriculture has access to reasonably priced and reliable credit—irrespective of the health of the industry. In fact, the original charters promulgated by Congress early in the twentieth century were specifically designed to be both narrowly focused (Agriculture and rural America) and explicitly non-depository in nature. The concept was to create a counterbalance to the commercial banking system in order to ensure agriculture was continually afforded a reliable and competitive source of credit.

The Significance of Mission Accomplishment

So how should we evaluate our performance? The first part of our mission—enhancing the value proposition for our member-owners—is relatively straightforward, in that it is the degree to which we are able to offer a market rate of interest and then use our profits to reduce that market rate of interest through patronage distributions. The second measure, however, is much more difficult, because it necessitates understanding what the credit market would be like if our Farm Credit association did not have a presence in the marketplace.

Southwest Georgia Farm Credit has a long tradition of achieving value for its stockholders. Unlike other forms of corporate ownership, a stockholder in a cooperative business model derives value when the cooperative distributes profits on the basis of use; not on the basis of how many shares of stock are owned. In other words, the value proposition for the Farm Credit stockholder is monetized through the effective cost of borrowing, or the average rate paid less the monies returned through patronage distributions. Our goal, historically, has been to operate at an efficiency level that translates to a patronage distribution equating to a greater than 1 percent reduction in the cost of borrowing.

Evaluating the Value Proposition

As a result of a favorable earnings performance, the association will distribute \$5.5 million, with 50 percent paid in cash and 50 percent in allocated equity. On an allocation basis this represents a patronage factor of 29.55 percent of total interest earned (essentially, all interest paid by the stockholders). As a performance indicator, however, the better metric to use to evaluate stockholder value is the distribution as a percent of patronage based assets—meaning the percentage calculated by dividing the patronage distribution by the aggregate of patronage based loan volume. At 1.30 percent, this metric suggests the effective cost of borrowing, on average, is the stockholder's rate less the 1.30 percent. This is a pretty good value in anybody's book, especially when considering the average stock investment isn't but .26 percent. When all is said and done, the true value proposition for the cooperative borrower is the all-in cost of financing—factoring in the 1.30 percent patronage return.

Translating Commitment to Mission Accomplishment

Evaluating the success of the second part of our mission—the true value of having a cooperative lender in the marketplace—is difficult to do, at best. It doesn't take much imagination, however, to understand that rural and agricultural interest rates would be pressured higher without the corresponding competition from Farm Credit. Competition is the best mechanism to ensure all market participants continually strive for efficiency and do not exploit any monopolistic control they can acquire. Though virtually impossible to measure, the implications for the competitive presence component of the mission are significant. To be a reliable and consistent source of competitive financing, the association must be committed to serving the marketplace in good times and in bad times. In other words, the commitment to agriculture and rural

communities must be solidly reinforced by a sound financial footing that enables the association to make loans despite any prevailing economic turmoil.

At present, we are fortunate to have ample capital and reserves to maintain just such a footing. The health of our balance sheet is as good as it's been in nearly a decade. And, our commitment to running a lean, flexible organization affords us the ability to price loans to ensure profitability, and therefore, pay patronage.

Maintaining Efficiency through Growth

After several years of soft loan demand and record revenues in production agriculture, our portfolio contracted to a point where it would eventually take a toll on our profitability. If we were to address our contracting earning assets, it became abundantly clear that our strategies must shift. We would describe 2013 as a pivotal year, where nearly all of our direction and focus were placed on marketing and business development. Our goal was to grow the loan portfolio and we were successful in doing so. We began the year with \$313 million of accruing loans and ended the year at \$393 million, representing growth of \$80 million, or about a 25 percent increase. Year-over-year growth exceeded an all-time single year record in the history of the association. I'm proud of this accomplishment, because while adding loan volume, we did not—and would not—sacrifice loan quality or assume undue risk.

In conjunction with our steadily improving growth and asset quality, our net earnings were favorable, as well. At \$8.5 million, this earnings performance compares favorably with the past five years and afforded us the ability to retain capital, fortify loan loss reserves, and make a distribution to our stockholders. The patronage distribution accomplishes one aspect of our corporate mission—the financial value proposition. And in contemplating our 2013 results, I feel confident that we could evaluate our success in the marketplace with the understanding that the strength and quality of our balance sheet assures a competitive source of credit for farmers, farm businesses, and rural land owners. The stronger the association's balance sheet, the better position we are in to achieve our mission of being a formidable competitor in Southwest Georgia.

And while we are not a large financial institution—about the size of a large community bank—we believe that smaller and more nimble translates into better service and response times, with the added advantage of being able to strategically reposition ourselves quickly when the need is apparent. Admittedly, smaller must translate to smarter, as there are unique aspects to managing an organization of our size. I can assure you we are constantly focused on being ever more productive in the face of ever rising costs. Our success in this area is a tribute to the staff we have assembled—who truly treat this business as if they own it, and who never back down from a challenge.

The Challenges Confronting Us

While we don't know exactly what the future holds, we remain optimistic and committed to doing whatever it takes to provide tangible value to our owners. The board is committed to a business model that maintains local control and ownership, client accessibility to board and management, mission focus, community outreach—all without sacrificing value to the stockholder. Yes, the board has evaluated opportunities to merge or acquire—and while there are some merits, in the end, if there is no real improved value to the stockholder, it simply doesn't make sense to dilute the value proposition being provided now to our member-owners.

As we visualize and plan for the future, we will continue to seek attractive opportunities that contribute to the improved efficiency and overall profitability of the association. We will continue to believe there is value in a locally owned and operated financial cooperative; where loans are underwritten and approved locally; where members have a say in the governance of the organization; and, where the folks working on your behalf understand the markets and industries that are native to the region.

Competition within our market territory has been increasingly keen. Many an investor, commercial bank, insurance company and hedge fund have recently become enamored with agriculture as an asset class. We have seen this before—when investment opportunities are good, it's a prime time to enter the market and flock to attractive investment opportunities. And then, when the attractiveness fades, or other yield opportunities offer more promise than agriculture—they make a quick exit. When the dust settles, your Farm Credit association—Southwest Georgia Farm Credit—will be here, building relationships and bringing competition to the marketplace and value to our stockholders. That's our definition of mission accomplished.



Richard S. Monson
Chief Executive Officer

March 12, 2014

Report of Management

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

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

The Consolidated Financial Statements have been examined by independent certified public accountants, whose report appears elsewhere in this Annual Report. The Association is also subject to examination by the Farm Credit Administration.

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



Bobby J. Brooks
Chairman of the Board



Richard S. Monson
Chief Executive Officer



Ryan G. Burt
Chief Financial Officer

March 12, 2014

Report on Internal Control Over Financial Reporting

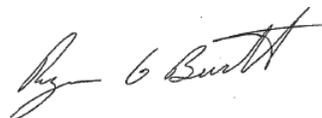
The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

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

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



Richard S. Monson
Chief Executive Officer



Ryan Burt
Chief Financial Officer

March 12, 2014

Consolidated Five - Year Summary of Selected Financial Data

<i>(dollars in thousands)</i>	2013	2012	December 31, 2011	2010	2009
Balance Sheet Data					
Cash	\$ 1,810	\$ 3,133	\$ 571	\$ 910	\$ 2,575
Investment securities	7,789	8,075	8,234	8,383	34,992
Loans	394,282	318,176	285,999	294,917	335,972
Less: allowance for loan losses	2,445	2,962	4,322	5,758	4,858
Net loans	391,837	315,214	281,677	289,159	331,114
Investments in other Farm Credit institutions	7,557	7,414	9,102	11,047	13,730
Other property owned	2,927	3,852	5,963	8,614	1,285
Other assets	33,921	41,351	53,912	66,138	78,578
Total assets	\$ 445,841	\$ 379,039	\$ 359,459	\$ 384,251	\$ 462,274
Notes payable to AgFirst Farm Credit Bank*	\$ 366,426	\$ 301,931	\$ 282,203	\$ 310,662	\$ 388,508
Accrued interest payable and other liabilities with maturities of less than one year	8,754	9,600	10,004	7,778	10,330
Total liabilities	375,180	311,531	292,207	318,440	398,838
Protected borrower stock	15	89	131	152	255
Capital stock and participation certificates	1,030	975	971	998	1,245
Retained earnings					
Allocated	26,134	26,076	25,976	25,426	23,894
Unallocated	43,482	40,368	40,174	39,235	38,162
Accumulated other comprehensive income (loss)	—	—	—	—	(120)
Total members' equity	70,661	67,508	67,252	65,811	63,436
Total liabilities and members' equity	\$ 445,841	\$ 379,039	\$ 359,459	\$ 384,251	\$ 462,274
Statement of Income Data					
Net interest income	\$ 10,382	\$ 9,417	\$ 8,553	\$ 8,584	\$ 7,156
Provision for (reversal of allowance for) loan losses	767	(1,363)	817	(586)	4,631
Noninterest income (expense), net	(1,034)	(5,288)	(5,489)	(4,739)	(2,282)
Net income	\$ 8,581	\$ 5,492	\$ 2,247	\$ 4,431	\$ 243
Key Financial Ratios					
Rate of return on average:					
Total assets	2.06%	1.54%	0.61%	1.07%	0.05%
Total members' equity	12.52%	8.15%	3.35%	6.74%	0.38%
Net interest income as a percentage of					
average earning assets	2.63%	2.84%	2.49%	2.23%	1.56%
Net (chargeoffs) recoveries to average loans	(0.345)%	0.001%	(0.756)%	0.470%	(0.857)%
Total members' equity to total assets	15.85%	17.81%	18.71%	17.13%	13.72%
Debt to members' equity (:1)	5.31	4.61	4.34	4.84	6.29
Allowance for loan losses to loans	0.62%	0.93%	1.51%	1.95%	1.45%
Permanent capital ratio	17.23%	21.35%	20.64%	18.49%	13.93%
Total surplus ratio	16.95%	21.00%	20.28%	18.13%	13.53%
Core surplus ratio	14.57%	17.39%	17.03%	15.00%	10.74%
Net Income Distribution					
Estimated patronage refunds:					
Cash	\$ 2,750	\$ 2,500	\$ 951	\$ 1,620	\$ —
Nonqualified allocated retained earnings	2,750	2,500	951	1,827	—

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

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

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

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

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

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, www.agfirst.com, or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, www.swgafarmcredit.com, or by calling 1-866-304-3276, extension 1150, or writing Belinda Robertson, Southwest Georgia Farm Credit, ACA, 305 Colquitt Highway, Bainbridge, Georgia 39817. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an

electronic version of the Quarterly Report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the Farm Credit System, as a government-sponsored enterprise, as well as investor and rating-agency reactions to events involving other government-sponsored enterprises and other financial institutions; and
- actions taken by the Federal Reserve System in implementing monetary policy.

AGRICULTURAL OUTLOOK

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

The February 2014 USDA forecast estimates 2013 farmers' net cash income, which is a measure of the cash income after

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

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

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

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

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

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

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

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

rise from \$2.62 trillion in 2013 to \$2.68 trillion in 2014 (a 2.4 percent increase).

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

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

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

CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management must make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements. The following is a summary of certain critical policies.

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

Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by nature, contains elements of uncertainty and imprecision. Changes in the agricultural economy and their borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

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

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, other property owned, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Association's results of operations.
- *Pensions* — The Bank and its related Associations participate in defined benefit retirement plans. These plans are noncontributory and benefits are based on salary and years of service. In addition, the Bank and its related Associations also participate in defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries

and employee benefits. Pension expense for the defined benefit retirement plans is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of our future benefit obligations. The discount rate for 2013 was selected by reference to analysis and yield curves of the plans' actuary and industry norm.

ECONOMIC CONDITIONS

The economy in Southwest Georgia is made up of a multitude of varying industries – ranging from large industrial companies to farms and farm businesses, to small, family owned operations. The Association's portfolio is impacted by two key economic factors: the local unemployment rate and the strength of the agricultural industry.

Unemployment rates have the greatest impact on the small and part-time farming sectors of the Association's portfolio. Essentially, these sectors of the portfolio have a larger dependence on non-farm income and are influenced to a greater extent by the general economy. Unfortunately, Georgia's economic recovery continues to lag the overall national recovery. The unemployment rate for Georgia is estimated to be 8.5%, while, the U.S. unemployment rate is expected to be 7.6%. Unemployment rates for both Georgia and the U.S. are expected to improve in 2014 but Georgia will continue to lag. The improvements in the employment rates for our Local Service Area (LSA) could lead to improvement in the demand for recreational real estate and hobby farms.

Agriculture and Agri-business are the single largest industries in Georgia, which is indicative to our LSA. Agriculture/Agribusinesses have flourished over the last few years due to increased crop prices, higher crop yields, and increased land values. These improvements in the AG economy have allowed producers to experience record cash returns and improved balance sheet strength.

Forecast for the 2014 Agricultural industry is expected to be constricted relative to the last few years. Commodity prices have declined significantly while input cost remain unchanged, which will reduce overall operating margins. Georgia farmers will also be operating under a new Farm Bill in 2014, which will eliminate guaranteed direct payment, further reducing operating margins.

Planted acreage for Georgia will remain primarily in peanuts and cotton with the biggest change coming from a shift in acreage from corn into either soybeans, peanuts, or cotton. The overall strength of the 2014 agricultural industry will depend greatly on production yield and production cost management as market prices will be much lower than previous years.

Land Values

Properties with minimal cash flow potential have had the greatest amount of reduction in value over the last several years. Data

collected by the Association through the Crumpton Report, is showing stabilization and some upward movement in the value of these properties; however, it is unlikely the values will see any large appreciation for several years.

Agricultural real estate continues to have strong valuations. Nonetheless, current commodity prices could have a negative impact on agricultural real estate value. In fact, many pundits have begun to report agricultural real estate could decline by as much as 20% from the average in 2014.

Corn

Market fundamentals for corn point to a much smaller Georgia crop with planted acreage estimated to be down by as much as 20%. With price estimates below \$5 per bushel the margin between soy beans and corn is relatively neutral, which could lead to a shift into soy beans. The biggest driver of continued corn production in Georgia at lower price is the yield improvements over the last several years.

Peanuts

In 2013, Georgia, the leading state for peanut production in the United States, planted 430,000 acres, a decrease of 41% over 2012. The lower level of planted acreage was offset by high yields leading to much higher ending stocks than originally forecasted. The large amount of supply carried over from 2013

will have a negative impact on prices. Price estimates for the 2014 peanut crop are between loan rate and \$450 per ton. Planted acreage for peanuts is expected to increase by 10-15 percent nationally, which could put some downward pressure on price.

Poultry

Broiler producers experiencing negative cost/price margins began shaving production in late 2011 and into early 2012. As a result, production was stagnant during the first of 2013. Restrained production combined with good export and white meat demand, provided the ground work for price strength. Broiler prices responded by gaining more than 22 percent from 2012's first half average price. Producers responded by ramping up production and by pushing prices close to 2012's levels by year's end. With falling feed prices and stronger market prices, broiler producers will certainly grow supplies, resulting in lower 2014 broiler prices.

Cotton

The 2014 planted acres are expected to be at or near the 2013 level. As the price of cotton falls below 80 cent acreage could begin to shift from cotton. Improved yield potential in cotton as well as a decrease in corn acreage, could factor into 2014 planting. Prices for the 2014 crop are likely to range from 75 cents to 85 cents.

LOAN PORTFOLIO

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

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

Loan Type	2013		December 31, 2012		2011	
	<i>(dollars in thousands)</i>					
Real estate mortgage	\$ 265,419	67.32 %	\$ 216,809	68.14 %	\$ 180,765	63.20 %
Production and intermediate-term	78,391	19.88	65,857	20.70	68,299	23.88
Processing and marketing	28,365	7.20	14,001	4.40	18,444	6.45
Farm-related business	14,424	3.66	15,276	4.80	14,798	5.17
Rural residential real estate	2,453	.62	2,925	.92	3,693	1.30
Communication	2,419	.61	2,529	.80	—	—
Lease Receivables	1,820	.46	—	—	—	—
Energy	991	.25	779	.24	—	—
Total	\$ 394,282	100.00 %	\$ 318,176	100.00 %	\$ 285,999	100.00 %

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified. The geographic distribution of the loan volume by county/branch for the past three years is as follows:

County/Branch	December 31,		
	2013	2012	2011
Baker	3.08%	1.82%	2.95%
Calhoun	.51	2.43	.60
Chattahoochee	.19	.15	.29
Clay	.60	.53	.63
Decatur*	13.49	12.55	15.41
Dougherty	4.85	1.24	5.26
Early	2.61	2.14	1.69
Grady	2.59	3.10	3.52
Lee	3.99	1.42	2.41
Marion	2.69	3.38	3.61
Miller	1.45	2.69	2.31
Mitchell*	12.49	12.83	10.61
Randolph	1.67	5.30	1.57
Schley	.37	.80	.38
Seminole	6.19	7.74	5.07
Stewart	.74	4.04	1.64
Sumter*	7.07	8.87	5.05
Terrell*	3.64	4.52	2.69
Thomas	2.71	5.60	1.16
Webster	1.18	2.91	1.51
Other**	27.89	15.94	31.64
	100.00%	100.00%	100.00%

*Branch Locations

** The Other category above consists of loans originated and participated outside our territory.

The Association's efforts to strengthen its capital position over the last couple of years caused a shift of the geographic composition within the portfolio.

Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer. The major commodities in the Association's loan portfolio are shown below. The predominant commodities are timber, cotton, landlords, poultry, peanuts, livestock and fruit and nuts, which constitute over 77 percent of the entire portfolio. The commodity group landlords is primarily on real estate purchased and leased for agriculture production.

Commodity Group	December 31,					
	2013		2012		2011	
	<i>(dollars in thousands)</i>					
Timber	\$ 76,571	19%	\$ 72,173	23%	\$ 62,753	22%
Cotton	63,864	16	51,578	16	32,740	11
Landlords	54,177	14	37,630	12	34,941	12
Peanuts	31,814	8	22,031	7	19,411	7
Fruit & Nut	29,947	8	18,157	6	11,740	4
Poultry	29,296	7	28,651	9	36,724	13
Livestock	20,843	5	21,863	7	14,656	5
Dairy	14,017	4	6,907	2	5,581	2
Vegetables	9,746	2	6,487	2	7,863	3
Row Crops	7,566	2	12,733	4	7,219	3
Rural Home	2,287	1	2,705	1	3,121	1
Horticulture	748	-	874	-	347	-
Other	53,406	14	36,387	11	48,903	17
Total	\$ 394,282	100%	\$ 318,176	100%	\$ 285,999	100%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of

borrowers. The Association's loan portfolio contains a concentration of timber, cotton, landlords, poultry, peanut, and livestock producers. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are diversified within their enterprise and/or with crop production that reduces overall risk exposure. Within the timber commodity group there are significant numbers of less than full time timber producers. As such, the risk in this group is more diversified than appears from the nominal percentage. Even though the concentration of large loans has increased over the past several years, the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

The increase in gross loan volume for the twelve months ended December 31, 2013, is primarily attributed to the Associations efforts to grow earning assets as impaired assets have been liquidated. In 2013 the Association focused on leveraging capital and strengthening the earning position.

For the past few years, the Association has experienced a shift in loan assets. The long-term volume trend has been downward while the short and intermediate-term loan volume trend is upward. The short-term portfolio, which is heavily influenced by operating loans, normally reaches a peak balance in August and rapidly declines in the fall months as our primary agriculture commodities are converted to cash which is used to repay the debt.

During 2013, the Association continued activity in the buying and selling of loan participations within and outside of the System in order to leverage the balance sheet and improve the income producing potential.

Loan Participations:	December 31,		
	2013	2012	2011
	<i>(dollars in thousands)</i>		
Participations Purchased			
- FCS Institutions	\$ 46,596	\$ 45,193	\$ 44,154
Participations Purchased			
- Non-FCS Institutions	2,818	2,508	1,064
Participations Sold	(93,740)	(109,280)	(106,338)
Total	\$ (44,326)	\$ (61,579)	\$ (61,120)

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

The Association sells qualified long-term mortgage loans into the secondary market. For the period ended December 31, 2013, the Association originated loans for resale totaling \$10.8 million, which were subsequently sold into the secondary market. The Association also utilizes the Farmer Mac Long Term Stand-By repurchase agreements. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2013, the Association had loans amounting to \$31 million which were 100 percent guaranteed by Farmer Mac. The Association additionally has purchased portions of loans that are guaranteed by the United States Department of Agriculture. These loans are held for the purposes of reducing interest rate risk and managing surplus short-term funds as allowable under FCA regulations. At December 31, 2013, the balance of these loans, including the

unamortized premium, was \$921, compared to \$887 at December 31, 2012 and \$921 at December 31, 2011.

MISSION-RELATED INVESTMENTS

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

In October 2005, the FCA authorized AgFirst and the Association to make investments in Rural America Bonds. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. These bonds may be classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. As of December 31, 2013, December 31, 2012, and December 31, 2011, the Association had \$15,180, \$16,031, and \$17,860, respectively, in Rural America Bonds.

Effective December 31, 2014, the FCA will conclude each pilot program approved as part of the Investment in Rural America program. Each institution participating in such programs may continue to hold its investment through the maturity dates for the investments, provided the institution continues to meet all approval conditions. Although the pilot programs are concluding, the FCA can consider future requests on a case-by-case basis. On October 22, 2004, Congress enacted the "Fair and Equitable Tobacco Reform Act of 2004" (Tobacco Act) as part of the "American Jobs Creation Act of 2004." The Tobacco Act repealed the Federal tobacco price support and quota programs, provided for payments to tobacco "quota owners" and producers for the elimination of the quota and included an assessment mechanism for tobacco manufacturers and importers to pay for the buyout. Tobacco quota holders and producers will receive equal annual payments under a contract with the Secretary of Agriculture. The Tobacco Act also includes a provision that allows the quota holders and producers to assign to a "financial institution" the right to receive the contract payments (Successor-in-Interest Contracts (SIIC)) so that they may obtain a lump sum or other payment. On April 4, 2005, the United States Department of Agriculture (USDA) issued a Final Rule implementing the "Tobacco Transition Payment Program" (Tobacco Buyout). At December 31, 2013, December 31, 2012, and December 31, 2011, the Association had \$13,092, \$25,568, and \$37,426, respectively, in SIIC outstanding and these are classified as Other Investments

on the Consolidated Balance Sheets. The contract with the Secretary of Agriculture matures January 2014. Subsequent to these Financial Statements the Association received the final payment on the SIIC investments in January 2014.

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

Over the years, the Association purchased total equity investments in the RBIC of \$572. There are no outstanding commitments to make additional equity purchases beyond this amount.

During 2013, a careful analysis indicated that a decrease in value of the investment had occurred that was other than temporary, due to a series of losses and other factors. As a result, the Association recognized other-than-temporary impairment of \$412, which is included in Impairment Losses on Investments in the Statements of Income.

INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for the purposes of reducing interest rate risk and managing surplus short-term funds. The Bank is responsible for approving the investment policies of the Association. The Bank annually reviews the investment portfolio of every Association that it funds. Currently the Association holds no asset backed securities on its balance sheet.

CREDIT RISK MANAGEMENT

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

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

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to

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

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

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

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

Credit Quality	2013	2012	2011
Acceptable & OAEM	99.36%	96.19%	93.45%
Substandard	.64%	3.81%	6.55%
Doubtful	–%	–%	–%
Loss	–%	–%	–%
Total	100%	100.00%	100.00%

Nonperforming Assets

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

High-risk Assets	December 31,		
	2013	2012	2011
	<i>(dollars in thousands)</i>		
Nonaccrual loans	\$ 331	\$ 5,092	\$ 12,353
Restructured loans	3,596	2,420	2,992
Accruing loans 90 days past due	–	–	–
Total Non-Performing Loans	3,927	7,512	15,345
Total high-risk loans	3,927	7,512	15,345
Other property owned	2,927	3,852	5,963
Total high-risk assets	\$ 6,854	\$ 11,364	\$ 21,308
Ratios			
Nonaccrual loans to total loans	.08%	1.60%	4.32%
High-risk assets to total assets	1.54%	3.00%	5.93%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. During 2013 the Association made concentrated efforts to reduce the high risk assets by setting attainable goals and timelines. Nonaccrual loans decreased \$4,761 or 93.5 percent in 2013. Of the \$331 in nonaccrual volume at December 31, 2013, \$8 or 2.42 percent, compared to 2.83 percent and 15.87 percent at December 31, 2012 and 2011, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

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

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb expected losses inherent to its loan portfolio for the next twelve month period.

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

Allowance for Loan Losses Activity:	Year Ended December 31,		
	2013	2012	2011
	(dollars in thousands)		
Balance at beginning of year	\$ 2,962	\$ 4,322	\$ 5,758
Charge-offs:			
Agribusiness		(42)	(2,999)
Production and intermediate term	(1,430)	(111)	(2,924)
Real estate mortgage	(102)	(788)	(553)
Total charge-offs	(1,532)	(941)	(6,476)
Recoveries:			
Agribusiness		2	
Real estate mortgage	22	145	2,180
Production and intermediate term	226	798	2,043
Total recoveries	248	945	4,223
Net (charge-offs) recoveries	(1,284)	4	(2,253)
Provision for (reversal of allowance for) loan losses	767	(1,363)	817
Balance at end of year	\$ 2,445	\$ 2,962	\$ 4,322
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.35)%	0.00%	(0.76)%

The net loan charge-offs were primarily associated with several large relationships that were placed into non-accrual during the year. Once these loans were determined to be under collateralized and uncollectible the Association processed the charge-offs. Provisions to the allowance for loan losses were made when necessary.

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

Allowance for Loan Losses by Type	December 31,		
	2013	2012	2011
	(dollars in thousands)		
Real estate mortgage	\$ 1,613	\$ 1,001	\$ 1,819
Production and intermediate-term	525	1,797	2,195
Agribusiness	260	135	278
Energy	6	4	-
Rural residential real estate	15	14	30
Communication	15	12	-
Lease Receivables	11	-	-
Total allowance	\$ 2,445	\$ 2,962	\$ 4,322

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

Allowance for Loan Losses as a Percentage of:	December 31,		
	2013	2012	2011
Total loans	.62%	.93%	1.51%
Nonperforming loans	62.26%	39.43%	28.51%
Nonaccrual loans	738.67%	58.17%	34.99%

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

RESULTS OF OPERATIONS

Net Interest Income

Net interest income was \$10.4 million, \$9.4 million and \$8.6 million in 2013, 2012 and 2011, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past two years are presented in the following table:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual Income	Total
12/31/13 - 12/31/12				
Interest income	\$ 3,442	\$ (1,626)	\$ (156)	\$ 1,660
Interest expense	1,571	(876)	-	695
Change in net interest income	\$ 1,871	\$ (750)	\$ (156)	\$ 965
12/31/12 - 12/31/11				
Interest income	\$ (57)	\$ (751)	\$ (18)	\$ (826)
Interest expense	(494)	(1,195)	-	(1,690)
Change in net interest income	\$ 437	\$ 444	\$ (18)	\$ 864

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

Noninterest Income

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

Noninterest Income	For the Year Ended December 31,			Percentage Increase/(Decrease)	
	2013	2012	2011	2013/2012	2012/2011
	(dollars in thousands)				
Loan fees	\$ 409	\$ 730	\$ 715	(43.97)%	2.10%
Fees for financially related services	1	5	5	(80)	-
Patronage refund from other Farm Credit Institutions	9,102	4,553	4,795	99.91	(5.05)
Gains (losses) on other property owned, net	(594)	(2,162)	(2,380)	72.53	9.16
Gains (losses) on sales of rural home loans, net	-	-	-	-	-
Gains (losses) on sales of premises and equipment, net	33	93	69	(64.52)	34.78
Gains (losses) on sales of investment securities	-	-	-	-	-
Other than temporary impairment	(412)	-	-	(100)	-
Insurance Fund refund	-	284	-	(100)	100
Other noninterest income	122	48	49	154.17	(2.04)
Total noninterest income	\$ 8,661	\$ 3,551	\$ 3,253	143.90%	9.16%

The increase this year over the past two years in noninterest income is primarily related to:

1. Patronage refund from other Farm Credit Institutions experienced a significant increase in 2013 due to a special Patronage distribution from AgFirst Farm Credit Bank.
2. Reduction in the amount of losses on Other Property Owned sales.

Noninterest Expense

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

Noninterest Expense	For the Year Ended			Percentage Increase/(Decrease)	
	December 31,			2013/	2012/
	2013	2012	2011	2012	2011
	<i>(dollars in thousands)</i>				
Salaries and employee benefits	\$ 6,325	\$ 5,759	\$ 5,768	9.83%	(.16)%
Occupancy and equipment	661	641	675	3.12	(5.04)
Insurance Fund premiums	291	114	147	155.26	(22.45)
Other operating expenses	2,411	2,325	2,152	3.70	8.04
Total noninterest expense	\$ 9,688	\$ 8,839	\$ 8,742	9.61%	1.11%

Salaries and employee benefits increased in 2013 as compared to 2012 primarily as a result of staff bonuses and incentives from the growth in loan volume and net income. Salaries and employee benefits remained fairly stable in 2012, as compared with 2011.

Insurance Fund premiums increased significantly in 2013 due to a combination of growth in Association loan volume and the increase in premium rates. During 2011 the Farm Credit System Insurance Corporation (FCSIC) had reduced the insurance premiums as a result of the economic downturn and the expected decrease in Systemwide insured obligations. However, as loan volumes across the system began to increase in late 2012, the FCSIC increased premiums to 10 basis points on adjusted insured debt outstanding for 2013. In addition there is a continued 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments.

Income Taxes

The Association recorded a provision for income taxes of \$7 for the year ended December 31, 2013, as compared to a provision of \$0 for 2012 and \$0 for 2011. Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	For the 12 Months Ended		
	12/31/13	12/31/12	12/31/11
Return on average assets	2.06%	1.54%	.61%
Return on average members' equity	12.52%	8.15%	3.35%
Net interest income as a percentage of average earning assets	2.63%	2.84%	2.70%
Net (charge-offs) recoveries to average loans	(.345)%	.001%	(0.76)%

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. To meet this goal, the agricultural economy must continue the improvement shown in recent years and the Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume

priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

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

Total notes payable to the Bank at December 31, 2013, was \$366,426 as compared to \$301,931 at December 31, 2012 and \$282,203 at December 31, 2011. The increase of 21.36 percent compared to December 31, 2012 was attributable to the increase in loan volume during the year. The increase of 6.99 percent compared to December 31, 2011, was also attributable to growth in Association loan volume. The average volume of outstanding notes payable to the Bank was \$342,961, \$283,766, and \$299,839 for the years ended December 31, 2013, 2012, and 2011 respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association's participation in the Farmer Mac, stand by purchase program, investments, and other secondary market programs provides additional liquidity.

The Association's indebtedness to the Bank represents borrowings by the Association primarily to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving line of credit are governed by the General Financing Agreement (GFA). The GFA defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings, and capital covenants.

The Association failed to meet its earnings covenant under the GFA at December 31, 2011. The default allowed the Bank, in conjunction with the FCA, to accelerate repayment of all indebtedness. The Bank approved a waiver of the default and allowed the Association to continue to operate under a special credit agreement (SCA). At June 30, 2012, the Association was in compliance with the earnings covenant under the GFA and therefore the SCA was terminated effective June 30, 2012. The Association has subsequently operated under the GFA.

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

Funds Management

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

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 30-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

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

Relationship with the Bank

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

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

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

CAPITAL RESOURCES

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

The Association's Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably.

Total members' equity at December 31, 2013, increased 4.67 percent to \$70,661 from the December 31, 2012, total of \$67,508. At December 31, 2012, total members' equity increased .38 percent from the December 31, 2011 total of \$67,252. During 2013 the Association experienced significant growth in loan volume and net income which had a direct impact on the increase in member's equity.

Total capital stock and participation certificates were \$1,045 on December 31, 2013, compared to \$1,064 on December 31, 2012 and \$1,102 on December 31, 2011. The decrease is attributed to the retirement of protected stock and participation certificates on loans liquidated in the normal course of business.

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

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

	2013	2012	2011	Regulatory Minimum
Permanent capital ratio	17.23%	21.35%	20.64%	7.00%
Total surplus ratio	16.95%	21.00%	20.28%	7.00%
Core surplus ratio	14.57%	17.39%	17.03%	3.50%

The decrease in the Association's permanent capital, total surplus, and core surplus for December 31, 2013 was primarily attributed to the growth in loan volume and risk adjusted asset base. The Association's analysis and business plan forecast does not indicate any trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements. The Association has the ability to use several tools if necessary to manage capital levels such as guarantees for loans, participating with other institutions, and selling to the AgFirst Capital Participation Pool. See Note 7, *Members' Equity*, of the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to

increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association distributed \$2,247 of patronage in 2012 based on 2011 earnings, \$5,000 of patronage in 2013 based on 2012 earnings and an estimated \$5,500 of patronage based on 2013 earnings is expected to be distributed in 2014.

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

As the average age of the nation's farmers continues to climb, the importance of farm transitioning, education, and awareness become more evident. The future of agriculture will rely on the success of young, beginning, and small agricultural producers. Southwest Georgia Farm Credit strongly believes in its mission to serve YBS farmers in our marketplace. Never has it been so important to be a safe, sound and reliable source of credit to these important farmers; while also providing hands-on education, financial training and expertise that only Farm Credit can offer. In 2013, the Association established annual goals for number of loans made, as well as volume, to this target market segment.

The following table outlines the Association's 2013 goals, loan volume and number of YBS loans in the loan portfolio for the Association.

	As of December 31, 2013*			
	Number of Loans		\$ Amount of Loans	
	2013 Goal	2013 Actual	2013 Goal	2013 Actual
Young	185	219	39,500	48,203
Beginning	440	506	79,506	90,244
Small	725	724	85,000	90,287

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

Each year, the Association establishes goals for the portfolio and for new loans to YBS borrowers. 2013 goals and accomplishments follow:

	As of December 31, 2013*			
	Number of New Loans		\$ Amount of New Loans	
	2013 Goal	2013 Actual	2013 Goal	2013 Actual
Young	60	107	12,000	27,229
Beginning	90	161	21,811	37,021
Small	155	181	17,516	27,784

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

The 2007 USDA Ag Census data has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered

territory (counties), there were 4,691 reported number of farms, of which by definition 255 operators or 5.44 percent were Young; 1,372 or 29.25 percent were Beginning; 4,066 or 86.68 percent were Small. Comparatively, as of December 31, 2013, the demographics of the Association's agricultural portfolio contained 1,449 YBS notes, of which by definition 219 or 15.11 percent were Young; 506 or 34.92 percent were Beginning; 724 or 49.97 percent were Small.

In 2013, the Association planned, executed, and evaluated the following tactics put in place to accomplish YBS goals.

- Promote local food systems and access to locally grown fruits and vegetables, as well as support local, small producers, through the Fresh from the Farm program.
- Effectively utilize sales management techniques and incentive compensation to expand competitive presence with YBS farmer mission segment.
- Work within the State of Georgia, and with other Farm Credit associations, to promote YBS education and other activities for YBS farmers.
- Utilize advertising and other marketing communications strategies to enhance awareness of credit opportunities for YBS farmers.

2013 Activities

- TEPAP – The Executive Program for Agricultural Producers – Opportunity for YBS farmers to participate in a two-year course taught by professors at Texas A&M University, with emphasis on managing personnel, evaluating new market opportunities, negotiating mergers and acquisitions and adapting to regulatory and technology changes.
- FFA – The Association supports this organization through active participation and sponsorships, in an effort to promote leadership among middle school and high school students who express an interest in an ag-related field.
- 4-H – The Association sponsors events and activities, in an effort to promote farming skills and leadership beginning at an early age. We assist our county extension offices with 4-H programs through sponsorship of events, sending attendees to conferences, and volunteering, when needed.
- Young Farmers Association Chapters – On a local and statewide level, the Association supports young farmer education, management contests, and the annual statewide convention. Several employees are members of local chapters and are active in meetings.
- Sunbelt Ag Expo – Southwest Georgia Farm Credit, along with other associations in the State of Georgia, sponsor and attend this event, as well as the annual young farmer dinner held in conjunction with the tradeshow. The three-day event allows staff to

interact with young, beginning, and small scale producers from the tri-state area.

- Young Couples Cooperative Conference – As a member of the Georgia Cooperatives Association, the association offers a YBS couple from the chartered territory the opportunity to network, participate and learn about cooperative principles.
- Youth Leadership Conference, offered by the Georgia Cooperative Council, provides the opportunity to send a student to the event.
- Industry Trade Shows – Association staff participate in a variety of industry and tradeshow; an opportunity to educate and enhance awareness of financial products and services available to YBS producers.

The Association’s Sales Incentive Program helps to ensure the extension of credit to YBS farmers. This program specifically allocated incentive compensation for new loans identified and originated as YBS. In addition, the Association continued to work closely with the Farm Service Agency to utilize the loan guarantee program as an approved Farm Service Agency Preferred Lender.

In fulfilling the Corporate Mission as well as the Public Mission and Obligation Statement, the Association ensured that credit and services were offered to all eligible borrowers, including YBS farmers and ranchers, in a safe and sound manner and within the Association risk-bearing capacity. The Association is committed to the future success of young, beginning and small farmers.

- *Young farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.
- ** Beginning farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.
- ***Small farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than \$250 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

Note: Slight differences between the Census and our YBS information are as follows:

- The Census shows young farmers in a group up to age 34, whereas the Association’s YBS information shows young farmers up to age 35.
- The Census shows years on present farm up to nine years, whereas the Association’s YBS information shows 10 years or less for a beginning farmer.
- The Census data is based on number of farms, whereas the Association’s YBS information is based on number of loans.

REGULATORY MATTERS

During the first quarter of 2010, the FCA entered into a written supervisory agreement with the Association. The written supervisory agreement required the Association to take corrective actions with respect to certain areas of its operations, including capital, portfolio management, and asset quality. The FCA terminated the written supervisory agreement with the Association on August 22, 2012. The termination was recognition by the FCA that the conditions that prompted the need for the agreement had been sufficiently addressed by the Association.

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

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

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

The Dodd-Frank Act also created a new federal agency called the Consumer Financial Protection Bureau (CFPB). The CFPB has the responsibility to regulate the offering of consumer financial products or services under federal consumer financial laws. The

Farm Credit Administration retains the responsibility to oversee and enforce compliance by System institutions with relevant rules adopted by the CFPB.

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

Farm Bill

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

**RECENTLY ISSUED ACCOUNTING
PRONOUNCEMENTS**

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

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

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

Unincorporated Business Entities

The Association holds an equity investment in the following Unincorporated Business Entities (UBEs) as an equity interest holder of the limited liability company (LLC). The LLC’s were organized for the stated purpose of holding and managing unusual or complex collateral associated with former loans, until such time as the assets may be sold or otherwise disposed of pursuant to the terms of the Operating Agreements of the respective LLCs.

Entity Name	Entity Type	Equity Purpose
CBF Holdings	LLC	Manage Acquired Property
A-1 Ledges Wilder	LLC	Manage Acquired Property
A-1 Sequatchie Point	LLC	Manage Acquired Property
MB/BP Properties Joint Venture	LLC	Manage Acquired Property

The Association also holds an equity investment in Sequoyah Marina and Resort, LLC, a Tennessee Limited Liability Company. The company was organized for the stated purpose of holding and managing unusual or complex collateral associated with a Rural America Bond which was converted to Other Property Owned. The asset was subsequently sold pursuant to the terms of the operating agreement of the LLC.

Description of Property

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

Location	Description	Form of Ownership
305 Colquitt Highway Bainbridge	Administrative Office	Owned
40 E. Broad Street Camilla	Office	Owned
1230 38 th Blvd., NW Cairo	Office	Owned*
1037 E. Forsyth Street Americus	Office	Owned
937 Forrester Drive, SE Dawson	Office	Owned
401 E. Jackson Street Thomasville	Office	Leased**
137 E. Jackson Street Thomasville	Office	Leased***

* The Cairo building is for sale/or lease.

** The Thomasville outpost is leased by the Association on a year-by-year lease basis. Lease payments are \$600 per month. Lease was cancelled as of June 30, 2013.

*** New Thomasville outpost facility was leased as of July 1, 2013. Lease payments are \$1,200 per month until July 01, 2014. Lease payments will increase to \$1,320 per month on August 1, 2014.

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

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

Senior Officers

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

<u>Senior Officer</u>	<u>Position</u>
Richard S. Monson	President/Chief Executive Officer
Richard H. Horn	Chief Credit Officer
Ryan G. Burt	Chief Financial Officer
Tarrell Bennett	Chief Lending Officer
Paxton W. Poitevint	Chief Relationship Manager
Liz Nogowski	Marketing and Administrative Officer

Richard S. Monson, President/Chief Executive Officer:

Mr. Monson began his career in the Farm Credit System in 1986, serving as the Chief Lending Officer at Farm Credit of Southwest Florida. For the past 14 years, Mr. Monson has served Southwest Georgia Farm Credit as its President/Chief Executive Officer.

Richard H. Horn, Chief Credit Officer:

Mr. Horn joined the Farm Credit System in 1981, most recently serving Southwest Georgia Farm Credit as its Chief Credit Officer. He joined the association in 2008. Prior to that, Mr. Horn was employed as the Chief Lending Officer at ArborOne.

Ryan G. Burt, Chief Financial Officer:

Mr. Burt joined the Association in 2004, and has served as both the Director of Credit Administration and Director of Risk Management. Mr. Burt became Chief Financial Officer in January, 2010.

Tarrell Bennett, Chief Lending Officer:

Mr. Bennett has served Southwest Georgia Farm Credit for 41 years, most recently overseeing the Relationship Managers who serve the Association's 21-county territory. He has served as the Association's Credit Manager and worked in the Special Assets Management Department.

Paxton W. Poitevint, Chief Relationship Manager:

Paxton W. Poitevint serves the Association as Chief Relationship Manager. Mr. Poitevint is a nine-year veteran of the Farm Credit System. Mr. Poitevint most recently served the Association as the Director of Capital Markets & Business Development.

Liz Nogowski, Marketing and Administrative Officer:

Ms. Nogowski joined the Association in 2007, and currently manages the Association's marketing, advertising, public relations, internal communications and legislative efforts. Additionally, Ms. Nogowski is the Corporate Secretary, and manages Board Relations.

On October 3, 2012, FCA adopted a regulation that requires all System institutions to hold advisory votes on the compensation for all senior officers and/or the CEO when the compensation of either the CEO or the senior officer group increases by 15 percent or more from the previous reporting period. In addition, the regulation requires associations to hold an advisory vote on CEO and/or senior officer compensation when 5 percent of the voting stockholders petition for the vote and to disclose the petition authority in the annual report to shareholders. The regulation became effective December 17, 2012, and the base year for determining whether there is a 15 percent or greater increase was 2013. No District Association 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 "to implement or enforce" the regulation. In addition, on February 7, 2014, the President signed into law the Agricultural Act of 2014. Section 5404 of the law directs FCA to within 60 days of enactment of the law "review its rules to reflect the Congressional intent that a primary responsibility of boards of directors of Farm Credit System institutions, as elected representatives of their stockholders, is to oversee compensation practices." FCA has not yet taken any action with respect to their regulation in response to these actions.

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

Name of Individual or Number in Group	Year	Salary	Bonus	Deferred Comp.	Change in Pension Value	Per/Other*	Total**
Richard S. Monson	2013	\$ 256,140	\$ 23,268	\$ -	\$ 83,878	\$ 7,086	\$ 370,372
Richard S. Monson	2012	\$ 256,140	\$ -	\$ -	\$ -	\$ 7,520	\$ 263,660
Richard S. Monson	2011	\$ 255,303	\$ -	\$ -	\$ -	\$ 6,201	\$ 261,504
7	2013	\$ 925,492	\$ 273,412	\$ -	\$ 177,901	\$ 15,968	\$ 1,392,773
5	2012	\$ 726,530	\$ 136,195	\$ -	\$ -	\$ 13,051	\$ 875,776
5	2011	\$ 707,278	\$ 179,293	\$ -	\$ -	\$ 13,018	\$ 899,589

*Amounts in the above table classified as Perquisites/Other include items, i.e., group life insurance, and automobile compensation.

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

The table below provides information on Pension Benefits provided to the CEO, senior officers, and other highly compensated employees as a group.

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2013
CEO:					
Richard Monson	2013	AgFirst Retirement Plan	28.83	\$ 2,177,122.54	\$ -
				<u>\$ 2,177,122.54</u>	<u>\$ -</u>
Senior Officers and Highly Compensated Employees:					
7 Officers, excluding the CEO	2013	AgFirst Retirement Plan	18.238	\$ 4,318,389.47	\$ -
				<u>\$ 4,318,389.47</u>	<u>\$ -</u>

In addition to a base salary, certain employees may earn additional compensation under employee performance and profit sharing plans. Credit quality goals, the payment of patronage distributions to the Association's membership, and Association profit goals established in the incentive plan must be met before any incentive is paid. Employee profit sharing and incentives are shown in the year earned, which may be different than the year paid. Profits distributed under the employee performance and the Employee Profit Sharing Plans are paid in the first quarter of the year following the fiscal year in which they are earned. The Association's compensation plans are designed to motivate employees and to help the Association meet and exceed the organizational objectives and financial goals, without taking undue risk.

Distributions under the Employee Profit Sharing Plan are awarded when the profits generated meet or exceed the targets, set by management and have been approved by the Board.

Incentives earned under the Discretionary Incentive Plan will be paid the first pay period following approval. Discretionary incentives may be recommended at any time by any member of the management team, including supervisors of one or more employees, on the behalf of any employee who has demonstrated meritorious performance. Payment under the Discretionary Incentive Plan cannot exceed \$500 for any single instance and no more than two within a twelve month period. The plan operates on a calendar year and includes all supervised employees below a specific grade.

The Association's Relationship Manager Performance Plan is designed to focus on sales and marketing and recognizes each relationship manager on his or her individual sales goals as set by management. The goals set by management are designed to appropriately emphasize and recognize both quality and servicing of the Association's portfolio. The primary goal is based on the Risk Adjusted Return on Capital (RAROC) of the Relationship Managers serviced portfolio. The RAROC goal is set by management at a level to maximize returns, while limiting risk to stockholder equity. The four additional goals are: (1) Young, Beginning, and Small Farmer, (2) Rural Home Loans closed, (3) Auto Draft/Online Payments, and (4) Loans to New Members. Each goal is assigned a separate rate of compensation and is aggregated for a total payment. The Relationship Manager Performance Plan is paid quarterly following the quarter in which they are earned.

Annually, the Compensation Committee (board representation) reviews the compensation plans for approval and funding. All Board Compensation Committee minutes are reviewed by the board of directors.

The Board Compensation Committee approved the Employee Performance and Profit Sharing Plans, Relationship Manager Performance Plan and Discretionary Incentive Plan January 23, 2013 retroactive to January 1, 2013.

Additionally, senior officers as well as all employees, are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

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

Directors

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was \$76,686 for 2013, \$81,639 for 2012 and \$63,231 for 2011.

Subject to approval by the board, directors are compensated for meeting attendance and special assignments. As of December 31, 2013, an honoraria of \$400 for attendance or \$100 for participation telephonically is paid for meetings, committee meetings excluding Audit Committee, and special assignments. The Chairman of the Board receives an additional honoraria of \$100 per board meeting. Directors on the Audit Committee are paid an honoraria of \$800 for attendance at Audit Committee meetings. In addition, directors on the Executive Committee (Chairman and Vice Chairman) receive a quarterly fee up to \$150 for incidental services and the Chairman of the Audit Committee receives an additional honoraria of \$200 per Audit Committee meeting. Expenses incurred in connection with the attendance of the spouse of a director at a compensable function may be

reimbursable upon a determination by the board chairman that the attendance of the spouse was or will be beneficial to the purpose of the meeting, and such reimbursement will not be reported as compensation. Total compensation paid to directors, as a group was \$131,500. No Directors received any noncash compensation during 2013.

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

Name of Director	Days served		Committee Meetings Attended	Committee Assignments	Comp. Paid
	Regular Board Meetings	*Other Official Activities			
Bobby J. Brooks, Chairman	13	20	11	Executive	\$18,500
Robert B. Moss, Vice Chairman	14	24	15	Compensation, Executive, RIMCO (Risk Management)	20,400
T. E. Allen, III	14	18	7	Audit, Governance	15,900
Jeffrey A. Clark	14	14	15	Audit, Governance, RIMCO (Risk Management)	18,400
James H. Dixon, Jr.	14	11	18	Compensation, RIMCO (Risk Management)	16,300
Clifford Dollar, Jr.	14	7	15	Audit, Governance	15,100
Robert L. Holden, Sr.	13	14	17	Compensation, Ethics, Governance, RIMCO (Risk Management)	16,700
Kimbley D. Rentz	12	5	9	RIMCO (Risk Management)	10,200
				Total	\$131,500

* Other Official Activities include Miscellaneous Committee Meetings, Director Training, AgFirst Annual Meeting, FCC Annual Meeting, ACA Annual Meeting

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

Bobby J. Brooks, Chairman, is a peanut and cotton farmer who joined the Board in 1981. His current term will expire in 2015. Mr. Brooks resides near Edison in Clay County. He attended Abraham Baldwin Agricultural College and graduated from the University of Georgia with a degree in Animal Science. He has farmed for 54 years and is involved in a family operation with his son. Mr. Brooks also serves on the boards of Clay County, Inc., a peanut buying point; Edison Gin Company, a cotton gin; and Clay County Farm Bureau, an insurance and farm related services provider.

Robert B. Moss, Vice Chairman, was appointed as an Association outside director in 1993. He currently serves as Vice Chairman of the Board. His current term will expire in 2016. Mr. Moss is a retired Superintendent of the University of Georgia College of Agricultural and Environmental Sciences, Southwest Georgia Branch Experiment Station. Currently, Mr. Moss is a part-time farm management consultant and resides near Plains in Sumter County.

T. E. Allen, III, Ph.D., is a peanut and cotton farmer who lives near Shellman in Randolph County. His current term expires in 2015. Mr. Allen earned a bachelor's degree in Political Science from Georgetown College in Kentucky, as well as a master's

degree in Political Science from the University of South Carolina. He obtained a doctorate in Political Science from Emory University and taught at the college level for more than six years. Mr. Allen farmed for approximately 20 years, and is currently involved in a family partnership that produces cotton, peanuts, wheat and corn. He also manages timberland. Mr. Allen has served on the Association Board since 1989. Mr. Allen also serves on the Boards of Quality Gin, a cotton gin; and People's Warehouse, a warehouse facility.

Jeffrey A. Clark, Ph.D., is a Professor of Finance at The Florida State University. He was appointed as an Association Outside Director in 2005. His current term expires in 2014. Mr. Clark serves as the Chairman of the Audit Committee, and Governance Committee. He resides in Tallahassee, Florida.

James H. Dixon, Jr., is a resident of Camilla in Mitchell County. He is a graduate of the University of Georgia with a bachelor's degree in Agricultural Economics. Mr. Dixon, who joined the Board in 2011, is a poultry producer and his term expires in 2014.

Clifford Dollar, Jr. is a native of Bainbridge and attended Abraham Baldwin Agricultural College. A cotton, peanut and cattle farmer for the past 49 years, he has served the Association as a Board member since 1987. He is presently serving a three-year term, which will expire in 2015. Mr. Dollar also serves as president of the Board of SOWEGA Cotton, Inc., a cotton gin.

Robert L. Holden, Sr. is a beef, poultry and row crop producer who lives near Whigham in Grady County. His current term will expire in 2016. Mr. Holden, who joined the Board in 1987, also serves on the boards of the Grady County Farm Bureau, an insurance and farm related services provider.

Kimbley D. Rentz has farmed for more than 37 years. His farming operation includes approximately 3,000 acres, and he primarily produces cotton, peanuts, and sweet corn. A native of Miller County who currently resides in Colquitt, Mr. Rentz attended the University of Georgia for three years, where he majored in accounting. He currently serves on the board of the Decatur County Farm Bureau, an insurance and farm-related services provider; Three Notch EMC, an electric cooperative; Sweet corn Coop, a sweet corn cooler; Decatur Gin, a cotton gin; and Staplcotton, a large, nationwide cotton marketing cooperative.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 10, *Related Party Transactions*, of the Consolidated Financial Statements included in this Annual Report. There have been no transactions between the Association and senior officers or directors which require reporting per FCA regulations.

Involvement in Certain Legal Proceedings

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

Relationship with Independent Certified Public Accountants

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

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

	2013
<i>Independent Certified Public Accountant</i>	
PricewaterhouseCoopers LLP	64,913
Audit services	<u>\$ 64,913</u>

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

Relationship with Third Party Service Provider

	2013
<i>3rd Party Service Provider</i>	
Harper, Rains, Knight & Company	
Nonaudit services	\$ 93,186
Tax services	16,928
Total	\$ 110,114

Nonaudit services included internal credit reviews, internal operation review, Sarbanes Oxley compliance review and other miscellaneous reviews as needed.

Consolidated Financial Statements

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

Copies of the Association's Annual and Quarterly Reports are available upon request free of charge by calling 1-229-246-0384 or toll free 1-866-304-3276, or writing Southwest Georgia Farm Credit, ACA, 305 Colquitt Highway, Bainbridge, Georgia 39817, Attention: Chief Financial Officer, or accessing the web site, www.swgafarmcredit.com. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly Report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Should you have questions concerning the financial reports or any other information contained within this Annual Report please contact the Stockholder Relations Department by calling 1-866-304-3276, extension 1149.

Borrower Information Regulations

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

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

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

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

Shareholder Investment

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

Report of the Audit Committee

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

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

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

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

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



Jeffrey A. Clark
Chairman of the Audit Committee

Members of Audit Committee

T.E. Allen, III
Clifford Dollar, Jr.

March 12, 2014

Report of Independent Certified Public Accountants



Report of Independent Certified Public Accountants

To the Board of Directors and Members
of Southwest Georgia Farm Credit, ACA

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

Management's Responsibility for the Consolidated Financial Statements

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

Certified Public Accountants' Responsibility

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

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

Opinion

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

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP".

March 12, 2014

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

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	2013	December 31, 2012	2011
Assets			
Cash	\$ 1,810	\$ 3,133	\$ 571
Investment securities:			
Held to maturity (fair value of \$7,955, \$9,304, and \$9,313, respectively)	7,789	8,075	8,234
Loans	394,282	318,176	285,999
Less: allowance for loan losses	2,445	2,962	4,322
Net loans	391,837	315,214	281,677
Other investments	13,252	26,140	37,998
Accrued interest receivable	5,343	4,175	4,262
Investments in other Farm Credit institutions	7,557	7,414	9,102
Premises and equipment, net	3,678	3,838	4,144
Other property owned	2,927	3,852	5,963
Due from AgFirst Farm Credit Bank	8,812	4,301	4,452
Other assets	2,836	2,897	3,056
Total assets	\$ 445,841	\$ 379,039	\$ 359,459
Liabilities			
Notes payable to AgFirst Farm Credit Bank	\$ 366,426	\$ 301,931	\$ 282,203
Accrued interest payable	739	643	730
Patronage refunds payable	2,834	2,556	960
Other liabilities	5,181	6,401	8,314
Total liabilities	375,180	311,531	292,207
Commitments and contingencies			
Members' Equity			
Protected borrower stock	15	89	131
Capital stock and participation certificates	1,030	975	971
Retained earnings			
Allocated	26,134	26,076	25,976
Unallocated	43,482	40,368	40,174
Total members' equity	70,661	67,508	67,252
Total liabilities and members' equity	\$ 445,841	\$ 379,039	\$ 359,459

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

Consolidated Statements of Comprehensive Income

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2013	2012	2011
Interest Income			
Investment securities	\$ 491	\$ 523	\$ 533
Loans	17,479	15,168	15,372
Other investments	640	1,258	1,870
Total interest income	18,610	16,949	17,775
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	8,228	7,532	9,222
Net interest income	10,382	9,417	8,553
Provision for (reversal of allowance for) loan losses	767	(1,363)	817
Net interest income after provision for (reversal of allowance for) loan losses	9,615	10,780	7,736
Noninterest Income			
Loan fees	409	730	715
Fees for financially related services	1	5	5
Patronage refunds from other Farm Credit institutions	9,102	4,553	4,795
Gains (losses) on other property owned, net	(594)	(2,162)	(2,380)
Gains (losses) on sales of premises and equipment, net	33	93	69
Total other-than-temporary impairment losses on investments	(412)	—	—
Insurance Fund refunds	—	284	—
Other noninterest income	122	48	49
Total noninterest income	8,661	3,551	3,253
Noninterest Expense			
Salaries and employee benefits	6,325	5,759	5,768
Occupancy and equipment	661	641	675
Insurance Fund premiums	291	114	147
Other operating expenses	2,411	2,325	2,152
Total noninterest expense	9,688	8,839	8,742
Income before income taxes	8,588	5,492	2,247
Provision for income taxes	7	—	—
Net income	8,581	5,492	2,247
Other comprehensive income	—	—	—
Comprehensive income	\$ 8,581	\$ 5,492	\$ 2,247

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

Consolidated Statements of Changes in Members' Equity

<i>(dollars in thousands)</i>	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
			Allocated	Unallocated	
Balance at December 31, 2010	\$ 152	\$ 998	\$ 25,426	\$ 39,235	\$ 65,811
Comprehensive income				2,247	2,247
Protected borrower stock retired	(21)				(21)
Capital stock/participation certificates issued/(retired), net		(27)			(27)
Patronage distribution					
Cash				(951)	(951)
Nonqualified allocated retained earnings			951	(951)	—
Patronage distribution adjustment			(401)	594	193
<hr/>					
Balance at December 31, 2011	131	971	25,976	40,174	67,252
Comprehensive income				5,492	5,492
Protected borrower stock retired	(42)				(42)
Capital stock/participation certificates issued/(retired), net		4			4
Patronage distribution					
Cash				(2,500)	(2,500)
Nonqualified allocated retained earnings			2,500	(2,500)	—
Retained earnings retired			(2,572)		(2,572)
Patronage distribution adjustment			172	(298)	(126)
<hr/>					
Balance at December 31, 2012	89	975	26,076	40,368	67,508
Comprehensive income				8,581	8,581
Protected borrower stock retired	(74)				(74)
Capital stock/participation certificates issued/(retired), net		55			55
Patronage distribution					
Cash				(2,750)	(2,750)
Nonqualified allocated retained earnings			2,750	(2,750)	—
Retained earnings retired			(2,680)	11	(2,669)
Patronage distribution adjustment			(12)	22	10
<hr/>					
Balance at December 31, 2013	\$ 15	\$ 1,030	\$ 26,134	\$ 43,482	\$ 70,661

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

Consolidated Statements of Cash Flows

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2013	2012	2011
Cash flows from operating activities:			
Net income	\$ 8,581	\$ 5,492	\$ 2,247
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	285	282	263
Premium amortization (discount accretion) on other investments	(640)	(1,258)	(1,870)
Provision for (reversal of allowance for) loan losses	767	(1,363)	817
(Gains) losses on other property owned	387	2,014	2,134
(Gains) losses on sales of premises and equipment, net	(33)	(93)	(69)
Net impairment losses on investments	412	—	—
(Increase) decrease in accrued interest receivable	(1,168)	87	(119)
(Increase) decrease in due from AgFirst Farm Credit Bank	(4,511)	151	658
(Increase) decrease in other assets	61	159	230
Increase (decrease) in accrued interest payable	96	(87)	(110)
Increase (decrease) in other liabilities	(1,220)	(1,913)	3,001
Total adjustments	(5,564)	(2,021)	4,935
Net cash provided by (used in) operating activities	3,017	3,471	7,182
Cash flows from investing activities:			
Purchases of investment securities, held to maturity	(1,250)	—	—
Proceeds from maturities of or principal payments received on investment securities, held to maturity	1,536	159	149
Net (increase) decrease in loans	(81,213)	(34,756)	1,031
(Increase) decrease in investment in other Farm Credit institutions	(143)	1,688	1,945
Purchases of other investments	—	—	(92)
Proceeds from payments received on other investments	13,116	13,116	13,115
Purchases of premises and equipment	(92)	(157)	(303)
Proceeds from sales of premises and equipment	—	274	413
Proceeds from sales of other property owned	4,361	2,679	6,151
Net cash provided by (used in) investing activities	(63,685)	(16,997)	22,409
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	64,495	19,728	(28,459)
Protected borrower stock retired	(74)	(42)	(21)
Capital stock and participation certificates issued/(retired), net	55	4	(27)
Patronage refunds and dividends paid	(2,462)	(1,030)	(1,423)
Retained earnings retired	(2,669)	(2,572)	—
Net cash provided by (used in) financing activities	59,345	16,088	(29,930)
Net increase (decrease) in cash	(1,323)	2,562	(339)
Cash, beginning of period	3,133	571	910
Cash, end of period	\$ 1,810	\$ 3,133	\$ 571
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	\$ 3,823	\$ 2,582	\$ 5,634
Estimated cash dividends or patronage distributions declared or payable	2,750	2,500	951
Supplemental information:			
Interest paid	\$ 8,132	\$ 7,619	\$ 9,332

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Southwest Georgia Farm Credit, ACA (the Association or ACA) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Baker, Calhoun, Chattahoochee, Clay, Decatur, Dougherty, Early, Grady, Lee, Marion, Miller, Mitchell, Quitman, Randolph, Schley, Seminole, Stewart, Sumter, Terrell, Thomas, and Webster in the state of Georgia.

The Association is a lending institution in the Farm Credit System (System), a nationwide network of cooperatively owned banks and associations. It was established by Acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The System specializes in providing financing and related services to qualified borrowers for agricultural and rural purposes.

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

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

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

The Farm Credit Act also established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured Debt), (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance

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

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

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

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

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

The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments, and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or

harvesters of aquatic products, rural residents, and farm-related businesses.

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

Note 2 — Summary of Significant Accounting Policies

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

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

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

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

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

interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

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

When loans are in nonaccrual status, the interest portion of payments received in cash is recognized as interest income if collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it. Otherwise, loan payments are applied against the recorded investment in the loan. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is no longer in question and the loan is not classified "doubtful" or "loss."

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

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

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

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

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

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

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

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

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

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

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

As of December 31, 2013 there were no loans held for sale.

- D. **Other Property Owned:** Other property owned, consisting of real estate, personal property and other assets acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income, expenses, and carrying value adjustments related to other property owned are included in Gains (Losses) from Other Property Owned, Net in the Consolidated Statements of Income.
- E. **Premises and Equipment:** Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized.
- F. **Investments:** The Association holds investments as described below.

Other Investments

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

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

Investment in Other Farm Credit Institutions

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

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

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

Multi-Employer Defined Benefit Plans

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

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

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

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

Defined Contribution Plans

Substantially all employees are eligible to participate in the defined contribution Farm Credit Benefit Alliance (FCBA) 401(k) Plan, subsequently referred to as the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal

Revenue Code. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. Company contributions to the 401(k) Plan are expensed as funded.

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

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

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

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

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

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

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

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

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

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

Please see further discussion in Note 8.

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

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

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

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

- N. **Accounting Standards Updates (ASUs):** In February 2013 the Financial Accounting Standards Board (FASB) issued ASU 2013-04, "Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for which the Total Amount of the Obligation Is Fixed at the Reporting Date," which addresses the recognition, measurement and disclosure of certain obligations including debt arrangements, other contractual obligations, and settled litigation and judicial rulings. The amendments are to be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the ASU's scope that exist at the beginning of an entity's fiscal year of adoption. An entity may elect to use hindsight for the comparative periods (if it changed its accounting as a result of adopting the amendments in the ASU) and should disclose that fact. The

amendments are effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2014, and interim periods and annual periods thereafter. Early application is permitted. It is not anticipated the adoption of this guidance will have a material impact on the Association's financial condition or results of operations but could result in additional disclosures.

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

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

In December 2011, the FASB issued ASU 2011-11, "Balance Sheet (Topic 220) - Disclosures about Offsetting Assets and Liabilities." The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in accordance with accounting guidance and for those

recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance, in conjunction with ASU 2013-01 above, did not impact the Association's financial condition or its results of operations, but did result in additional disclosures.

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

In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." This amendment is intended to increase the prominence of other comprehensive income in financial statements. The current option that permits the presentation of other comprehensive income in the statement of changes in equity has been eliminated. The main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements: (1) A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income; (2) In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. With either approach, an entity is required to present reclassification adjustments for items reclassified from other comprehensive income to net income in the statement(s). This guidance is to be applied retrospectively. For public entities, it is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance did not impact the Association's financial condition or results of operations, but resulted in changes to the presentation of comprehensive income. In December 2011, the FASB issued guidance (ASU 2011-12;

Topic 220) to defer the new requirement to present components of accumulated other comprehensive income reclassified as components of net income on the face of the financial statements. All other requirements in the guidance for comprehensive income are required to be adopted as set forth in the June 2011 guidance. The deferral is effective at the same time the new standard on comprehensive income is adopted. The FASB finalized this guidance in January 2013 with the issuance of ASU 2013-02, which took effect for public companies in interim and annual reporting periods beginning after December 15, 2012.

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

Note 3 — Loans and Allowance for Loan Losses

A summary of loans outstanding at period end follows:

	December 31,		
	2013	2012	2011
Real estate mortgage	\$ 265,419	\$ 216,809	\$ 180,765
Production and intermediate-term	78,391	65,857	68,299
Processing and marketing	28,365	14,001	18,444
Farm-related business	14,424	15,276	14,798
Communication	2,419	2,529	-
Energy and water/waste disposal	991	779	-
Rural residential real estate	2,453	2,925	3,693
Lease receivables	1,820	-	-
Total Loans	<u>\$ 394,282</u>	<u>\$ 318,176</u>	<u>\$ 285,999</u>

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

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

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

December 31, 2013

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 14,109	\$ 33,740	\$ -	\$ -	\$ 2,167	\$ -	\$ 16,276	\$ 33,740
Production and intermediate-term	9,697	14,744	-	-	651	-	10,348	14,744
Processing and marketing	13,775	33,827	957	1,135	-	-	14,732	34,962
Farm-related business	2,825	9,804	-	490	-	-	2,825	10,294
Communication	2,422	-	-	-	-	-	2,422	-
Energy and water/waste disposal	991	-	-	-	-	-	991	-
Lease receivables	-	-	1,820	-	-	-	1,820	-
Total	<u>\$ 43,819</u>	<u>\$ 92,115</u>	<u>\$ 2,777</u>	<u>\$ 1,625</u>	<u>\$ 2,818</u>	<u>\$ -</u>	<u>\$ 49,414</u>	<u>\$ 93,740</u>

December 31, 2012

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 17,531	\$ 28,109	\$ -	\$ -	\$ 2,233	\$ -	\$ 19,764	\$ 28,109
Production and intermediate-term	14,112	14,379	-	-	275	-	14,387	14,379
Processing and marketing	5,431	52,475	1,795	1,448	-	-	7,226	53,923
Farm-related business	3,016	12,239	-	630	-	-	3,016	12,869
Communication	2,529	-	-	-	-	-	2,529	-
Energy and water/waste disposal	779	-	-	-	-	-	779	-
Total	<u>\$ 43,398</u>	<u>\$ 107,202</u>	<u>\$ 1,795</u>	<u>\$ 2,078</u>	<u>\$ 2,508</u>	<u>\$ -</u>	<u>\$ 47,701</u>	<u>\$ 109,280</u>

December 31, 2011

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 19,466	\$ 44,257	\$ -	\$ -	\$ -	\$ -	\$ 19,466	\$ 44,257
Production and intermediate-term	13,737	18,113	-	2	1,064	-	14,801	18,115
Processing and marketing	4,840	38,016	1,988	-	-	-	6,828	38,016
Farm-related business	4,123	5,090	-	860	-	-	4,123	5,950
Total	<u>\$ 42,166</u>	<u>\$ 105,476</u>	<u>\$ 1,988</u>	<u>\$ 862</u>	<u>\$ 1,064</u>	<u>\$ -</u>	<u>\$ 45,218</u>	<u>\$ 106,338</u>

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

	December 31,			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 2,044	\$ 32,737	\$ 230,638	\$ 265,419
Production and intermediate-term	25,923	40,368	12,100	78,391
Processing and marketing	4,442	13,562	10,361	28,365
Farm-related business	285	581	13,558	14,424
Communication	–	547	1,872	2,419
Energy and water/waste disposal	–	–	991	991
Rural residential real estate	123	309	2,021	2,453
Lease receivables	–	1,820	–	1,820
Total Loans	\$ 32,817	\$ 89,924	\$ 271,541	\$ 394,282
Percentage	8.32%	22.81%	68.87%	100.00%

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

	December 31,				December 31,		
	2013	2012	2011		2013	2012	2011
Real estate mortgage:				Communication:			
Acceptable	97.78%	95.04%	91.97%	Acceptable	100.00%	100.00%	–%
OAEM	1.34	1.57	1.11	OAEM	–	–	–
Substandard/doubtful/loss	0.88	3.39	6.92	Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%		100.00%	100.00%	–%
Production and intermediate-term:				Energy and water/waste disposal:			
Acceptable	99.76%	92.29%	89.36%	Acceptable	100.00%	100.00%	–%
OAEM	0.01	0.53	1.78	OAEM	–	–	–
Substandard/doubtful/loss	0.23	7.18	8.86	Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%		100.00%	100.00%	–%
Processing and marketing:				Rural residential real estate:			
Acceptable	100.00%	98.46%	89.95%	Acceptable	83.88%	82.28%	88.25%
OAEM	–	1.54	9.78	OAEM	15.71	17.26	8.95
Substandard/doubtful/loss	–	–	0.27	Substandard/doubtful/loss	0.41	0.46	2.80
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
Farm-related business:				Lease receivables:			
Acceptable	100.00%	93.80%	100.00%	Acceptable	100.00%	–%	–%
OAEM	–	6.20	–	OAEM	–	–	–
Substandard/doubtful/loss	–	–	–	Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%		100.00%	–%	–%
				Total Loans:			
				Acceptable	98.36%	94.50%	91.59%
				OAEM	1.00	1.70	1.87
				Substandard/doubtful/loss	0.64	3.80	6.54
					100.00%	100.00%	100.00%

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

	December 31, 2013					Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans		
Real estate mortgage	\$ 674	\$ –	\$ 674	\$ 268,751	\$ 269,425	\$ –	
Production and intermediate-term	144	–	144	79,214	79,358	–	
Processing and marketing	–	–	–	28,517	28,517	–	
Farm-related business	–	–	–	14,555	14,555	–	
Communication	–	–	–	2,419	2,419	–	
Energy and water/waste disposal	–	–	–	991	991	–	
Rural residential real estate	–	–	–	2,466	2,466	–	
Lease receivables	–	–	–	1,823	1,823	–	
Total	\$ 818	\$ –	\$ 818	\$ 398,736	\$ 399,554	\$ –	

December 31, 2012

	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 696	\$ —	\$ 696	\$ 219,237	\$ 219,933	\$ —
Production and intermediate-term	76	4,404	4,480	62,123	66,603	—
Processing and marketing	—	—	—	14,102	14,102	—
Farm-related business	—	—	—	15,380	15,380	—
Communication	—	—	—	2,530	2,530	—
Energy and water/waste disposal	—	—	—	779	779	—
Rural residential real estate	13	—	13	2,927	2,940	—
Total	\$ 785	\$ 4,404	\$ 5,189	\$ 317,078	\$ 322,267	\$ —

December 31, 2011

	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 4,500	\$ 4,664	\$ 9,164	\$ 174,602	\$ 183,766	\$ —
Production and intermediate-term	—	5,643	5,643	63,446	69,089	—
Processing and marketing	—	—	—	18,690	18,690	—
Farm-related business	—	—	—	14,911	14,911	—
Rural residential real estate	16	85	101	3,618	3,719	—
Total	\$ 4,516	\$ 10,392	\$ 14,908	\$ 275,267	\$ 290,175	\$ —

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

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

	December 31,		
	2013	2012	2011
Nonaccrual loans:			
Real estate mortgage	\$ 323	\$ 680	\$ 5,438
Production and intermediate-term	8	4,412	5,886
Processing and marketing	—	—	944
Rural residential real estate	—	—	85
Total nonaccrual loans	\$ 331	\$ 5,092	\$ 12,353
Accruing restructured loans:			
Real estate mortgage	\$ 3,290	\$ 2,127	\$ 2,748
Production and intermediate-term	306	293	244
Total accruing restructured loans	\$ 3,596	\$ 2,420	\$ 2,992
Accruing loans 90 days or more past due:			
Total accruing loans 90 days or more past due	\$ —	\$ —	\$ —
Total nonperforming loans	\$ 3,927	\$ 7,512	\$ 15,345
Other property owned	2,927	3,852	5,963
Total nonperforming assets	\$ 6,854	\$ 11,364	\$ 21,308
Nonaccrual loans as a percentage of total loans	0.08%	1.60%	4.32%
Nonperforming assets as a percentage of total loans and other property owned	1.73%	3.53%	7.30%
Nonperforming assets as a percentage of capital	9.70%	16.83%	31.68%

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

	December 31,		
	2013	2012	2011
Impaired nonaccrual loans:			
Current as to principal and interest	\$ 8	\$ 144	\$ 1,961
Past due	323	4,948	10,392
Total impaired nonaccrual loans	<u>331</u>	<u>5,092</u>	<u>12,353</u>
Impaired accrual loans:			
Restructured	3,596	2,420	2,992
90 days or more past due	-	-	-
Total impaired accrual loans	<u>3,596</u>	<u>2,420</u>	<u>2,992</u>
Total impaired loans	<u>\$ 3,927</u>	<u>\$ 7,512</u>	<u>\$ 15,345</u>

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

	December 31, 2013			Year Ended December 31, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ -	\$ -	\$ -	\$ -	\$ -
Production and intermediate-term	10	52	47	13	-
Processing and marketing	-	-	-	-	-
Total	<u>\$ 10</u>	<u>\$ 52</u>	<u>\$ 47</u>	<u>\$ 13</u>	<u>\$ -</u>
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 3,613	\$ 3,637	\$ -	\$ 4,632	\$ 76
Production and intermediate-term	304	1,559	-	389	6
Processing and marketing	-	-	-	-	-
Rural residential real estate	-	-	-	-	-
Total	<u>\$ 3,917</u>	<u>\$ 5,196</u>	<u>\$ -</u>	<u>\$ 5,021</u>	<u>\$ 82</u>
Total impaired loans:					
Real estate mortgage	\$ 3,613	\$ 3,637	\$ -	\$ 4,632	\$ 76
Production and intermediate-term	314	1,611	47	402	6
Processing and marketing	-	-	-	-	-
Rural residential real estate	-	-	-	-	-
Total	<u>\$ 3,927</u>	<u>\$ 5,248</u>	<u>\$ 47</u>	<u>\$ 5,034</u>	<u>\$ 82</u>
December 31, 2012					
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ 544	\$ 614	\$ 4	\$ 666	\$ 17
Production and intermediate-term	4,404	4,362	1,512	5,399	138
Processing and marketing	-	-	-	-	-
Total	<u>\$ 4,948</u>	<u>\$ 4,976</u>	<u>\$ 1,516</u>	<u>\$ 6,065</u>	<u>\$ 155</u>
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 2,263	\$ 2,730	\$ -	\$ 2,774	\$ 71
Production and intermediate-term	301	2,275	-	368	10
Processing and marketing	-	-	-	-	-
Rural residential real estate	-	-	-	-	-
Total	<u>\$ 2,564</u>	<u>\$ 5,005</u>	<u>\$ -</u>	<u>\$ 3,142</u>	<u>\$ 81</u>
Total impaired loans:					
Real estate mortgage	\$ 2,807	\$ 3,344	\$ 4	\$ 3,440	\$ 88
Production and intermediate-term	4,705	6,637	1,512	5,767	148
Processing and marketing	-	-	-	-	-
Rural residential real estate	-	-	-	-	-
Total	<u>\$ 7,512</u>	<u>\$ 9,981</u>	<u>\$ 1,516</u>	<u>\$ 9,207</u>	<u>\$ 236</u>

	December 31, 2011			Year Ended December 31, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ 2,782	\$ 2,763	\$ 326	\$ 3,490	\$ 46
Production and intermediate-term	5,014	5,705	1,659	6,291	83
Processing and marketing	—	—	—	—	—
Total	<u>\$ 7,796</u>	<u>\$ 8,468</u>	<u>\$ 1,985</u>	<u>\$ 9,781</u>	<u>\$ 129</u>
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 5,404	\$ 6,044	\$ —	\$ 6,781	\$ 89
Production and intermediate-term	1,116	5,678	—	1,400	18
Processing and marketing	944	944	—	1,185	16
Rural residential real estate	85	84	—	106	1
Total	<u>\$ 7,549</u>	<u>\$ 12,750</u>	<u>\$ —</u>	<u>\$ 9,472</u>	<u>\$ 124</u>
Total impaired loans:					
Real estate mortgage	\$ 8,186	\$ 8,807	\$ 326	\$ 10,271	\$ 135
Production and intermediate-term	6,130	11,383	1,659	7,691	101
Processing and marketing	944	944	—	1,185	16
Rural residential real estate	85	84	—	106	1
Total	<u>\$ 15,345</u>	<u>\$ 21,218</u>	<u>\$ 1,985</u>	<u>\$ 19,253</u>	<u>\$ 253</u>

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

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

	Year Ended December 31,		
	2013	2012	2011
Interest income which would have been recognized under the original loan terms	\$ 94	\$ 485	\$ 1,030
Less: interest income recognized	<u>82</u>	<u>236</u>	<u>253</u>
Foregone interest income	<u>\$ 12</u>	<u>\$ 249</u>	<u>\$ 777</u>

Southwest Georgia Farm Credit, ACA

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

	Real Estate Mortgage	Production and Intermediate- term	Agribusiness*	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Lease Receivables	Total
Allowance for credit losses:								
Balance at December 31, 2012	\$ 1,001	\$ 1,796	\$ 135	\$ 12	\$ 4	\$ 14	\$ -	\$ 2,962
Charge-offs	(102)	(1,430)	-	-	-	-	-	(1,532)
Recoveries	22	226	-	-	-	-	-	248
Provision for loan losses	692	(67)	125	3	2	1	11	767
Balance at December 31, 2013	\$ 1,613	\$ 525	\$ 260	\$ 15	\$ 6	\$ 15	\$ 11	\$ 2,445
Balance at December 31, 2011	\$ 1,819	\$ 2,194	\$ 278	\$ -	\$ -	\$ 31	\$ -	\$ 4,322
Charge-offs	(789)	(111)	(42)	-	-	-	-	(942)
Recoveries	145	798	2	-	-	-	-	945
Provision for loan losses	(174)	(1,085)	(103)	12	4	(17)	-	(1,363)
Balance at December 31, 2012	\$ 1,001	\$ 1,796	\$ 135	\$ 12	\$ 4	\$ 14	\$ -	\$ 2,962
Balance at December 31, 2010	\$ 2,856	\$ 1,348	\$ 1,472	\$ -	\$ -	\$ 82	\$ -	\$ 5,758
Charge-offs	(553)	(2,924)	(2,999)	-	-	-	-	(6,476)
Recoveries	2,180	2,043	-	-	-	-	-	4,223
Provision for loan losses	(2,664)	1,727	1,805	-	-	(51)	-	817
Balance at December 31, 2011	\$ 1,819	\$ 2,194	\$ 278	\$ -	\$ -	\$ 31	\$ -	\$ 4,322
Loans individually evaluated for impairment	\$ -	\$ 47	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 47
Loans collectively evaluated for impairment	1,613	478	260	15	6	15	11	2,398
Balance at December 31, 2013	\$ 1,613	\$ 525	\$ 260	\$ 15	\$ 6	\$ 15	\$ 11	\$ 2,445
Loans individually evaluated for impairment	\$ 4	\$ 1,512	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,516
Loans collectively evaluated for impairment	997	284	135	12	4	14	-	1,446
Balance at December 31, 2012	\$ 1,001	\$ 1,796	\$ 135	\$ 12	\$ 4	\$ 14	\$ -	\$ 2,962
Loans individually evaluated for impairment	\$ 326	\$ 1,659	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,985
Loans collectively evaluated for impairment	1,493	535	278	-	-	31	-	2,337
Balance at December 31, 2011	\$ 1,819	\$ 2,194	\$ 278	\$ -	\$ -	\$ 31	\$ -	\$ 4,322
Recorded investment in loans outstanding:								
Loans individually evaluated for impairment	\$ 3,613	\$ 314	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,927
Loans collectively evaluated for impairment	265,812	79,044	43,072	2,419	991	2,466	1,823	395,627
Ending balance at December 31, 2013	\$ 269,425	\$ 79,358	\$ 43,072	\$ 2,419	\$ 991	\$ 2,466	\$ 1,823	\$ 399,554
Loans individually evaluated for impairment	\$ 2,807	\$ 4,705	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,512
Loans collectively evaluated for impairment	217,126	61,898	29,482	2,530	779	2,940	-	314,755
Ending balance at December 31, 2012	\$ 219,933	\$ 66,603	\$ 29,482	\$ 2,530	\$ 779	\$ 2,940	\$ -	\$ 322,267
Loans individually evaluated for impairment	\$ 8,186	\$ 6,130	\$ 944	\$ -	\$ -	\$ 85	\$ -	\$ 15,345
Loans collectively evaluated for impairment	175,580	62,959	32,657	-	-	3,634	-	274,830
Ending balance at December 31, 2011	\$ 183,766	\$ 69,089	\$ 33,601	\$ -	\$ -	\$ 3,719	\$ -	\$ 290,175

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

To mitigate risk of loan losses, the Association may enter into guarantee arrangements with certain GSEs, including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was \$72,158, \$72,161, and \$61,382 at December 31, 2013, 2012, and 2011, respectively. Fees paid for such guarantee commitments totaled \$153, \$119, and \$58 for 2013, 2012, and 2011, respectively. These amounts are classified as noninterest expense.

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

Year Ended December 31, 2013				
Pre-modification Outstanding Recorded Investment				
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	\$ -	\$ 1,390	\$ -	\$ 1,390
Production and intermediate-term	-	52	300	352
Total	\$ -	\$ 1,442	\$ 300	\$ 1,742

Year Ended December 31, 2013					
Post-modification Outstanding Recorded Investment					Effects of Modification
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Troubled debt restructurings:					
Real estate mortgage	\$ -	\$ 1,390	\$ -	\$ 1,390	\$ -
Production and intermediate-term	-	52	91	143	(91)
Total	\$ -	\$ 1,442	\$ 91	\$ 1,533	\$ (91)

Year Ended December 31, 2012				
Pre-modification Outstanding Recorded Investment				
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	\$ -	\$ 2	\$ 455	\$ 457
Production and intermediate-term	-	97	-	97
Total	\$ -	\$ 99	\$ 455	\$ 554

Year Ended December 31, 2012					
Post-modification Outstanding Recorded Investment					Effects of Modification
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Troubled debt restructurings:					
Real estate mortgage	\$ -	\$ 2	\$ -	\$ 2	\$ (33)
Production and intermediate-term	-	96	-	96	-
Total	\$ -	\$ 98	\$ -	\$ 98	\$ (33)

Year Ended December 31, 2011				
Pre-modification Outstanding Recorded Investment				
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	\$ -	\$ 547	\$ 594	\$ 1,141
Production and intermediate-term	-	79	3,123	3,202
Total	\$ -	\$ 626	\$ 3,717	\$ 4,343

Year Ended December 31, 2011					
Post-modification Outstanding Recorded Investment					Effects of Modification
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Troubled debt restructurings:					
Real estate mortgage	\$ -	\$ 545	\$ 590	\$ 1,135	\$ -
Production and intermediate-term	-	78	2,145	2,223	-
Total	\$ -	\$ 623	\$ 2,735	\$ 3,358	\$ -

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

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

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

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2013	2012	2011	2013	2012	2011
Real estate mortgage	\$ 3,290	\$ 2,127	\$ 4,504	\$ —	\$ —	\$ 1,756
Production and intermediate-term	314	301	886	8	8	642
Total Loans	\$ 3,604	\$ 2,428	\$ 5,390	\$ 8	\$ 8	\$ 2,398
Additional commitments to lend	\$ —	\$ —	\$ —			

Note 4 — Investments

Investment in Other Farm Credit Institutions

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

The Association’s investment in the Bank totaled \$6,255 for 2013, \$6,123 for 2012 and \$7,805 for 2011.

Other Investments

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

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

For the years ended December 31, 2013, 2012 and 2011, the Association held Tobacco Buyout SIIC of \$13,092, \$25,568 and \$37,426, respectively, net of discount. The contract with the Secretary of Agriculture matures January 2014. Subsequent to these Financial Statements the Association received the final payment on the SIIC investments in January 2014.

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

Over the years, the Association purchased total equity investments in the RBIC of \$572. There are no outstanding commitments to make additional equity purchases beyond this amount.

During 2013 the Association engaged a third party reviewer to perform an impairment analysis on the equity investments. The analysis indicated that a decrease in value of the investment had occurred that was other than temporary, due to a series of losses and other factors. As a result, the Association recognized other-than-temporary impairment of \$412, which is included in Impairment Losses on Investments in the Statements of Income.

Investment Securities

The Association’s held-to-maturity investments consist primarily of Rural America Bonds, which are private placement securities purchased under the Mission Related Investment program approved by the FCA. In its Conditions of Approval for the program, the FCA considers a Rural America Bond ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible.

A summary of the amortized cost and fair value of investment securities held-to-maturity follows:

	December 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	\$ 7,789	\$ 289	\$ (123)	\$ 7,955	6.00%

	December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	\$ 8,075	\$1,229	\$ —	\$ 9,304	6.41%

	December 31, 2011				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	\$ 8,234	\$1,091	\$ (12)	\$ 9,313	6.40%

A summary of the contractual maturity, amortized cost and estimated fair value of investment securities held-to-maturity follows:

	December 31, 2013		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ -	\$ -	-%
After one year through five years	-	-	-
After five years through ten years	2,174	2,254	5.52
After ten years	5,615	5,701	6.19
Total	\$ 7,789	\$ 7,955	6.00%

A portion of these investments has contractual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified. There were no investments in a continuous unrealized loss position at December 31, 2012.

	December 31, 2013			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission-related investments	3,357	\$ (123)	\$ -	\$ -

	December 31, 2011			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission-related investments	1,296	\$ (12)	\$ -	\$ -

FASB guidance contemplates numerous factors in determining whether an impairment is other-than-temporary. These factors include: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized

loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others: (1) the length of time and the extent to which the fair value is less than cost, (2) adverse conditions specifically related to the industry, (3) geographic area and the condition of the underlying collateral, (4) payment structure of the security, (5) ratings by rating agencies, (6) the credit worthiness of bond insurers, and (7) volatility of the fair value changes.

The Association uses the present value of cash flows expected to be collected from each debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, amount and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics, and collateral type.

Significant inputs used to estimate the amount of credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The Association may obtain assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party, or generate the assumptions internally.

The Association has not recognized any credit losses as any impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

Note 5 — Real Estate and Other Property

Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2013	2012	2011
Land	\$ 663	\$ 663	\$ 767
Buildings and improvements	3,606	3,606	3,885
Furniture and equipment	1,374	1,321	1,343
	5,643	5,590	5,995
Less: accumulated depreciation	1,965	1,752	1,851
Total	\$ 3,678	\$ 3,838	\$ 4,144

Other Property Owned

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

	December 31,		
	2013	2012	2011
Gains (losses) on sale, net	\$ 18	\$ (7)	\$ 597
Carrying value unrealized gains (losses)	(405)	(2,007)	(2,731)
Operating income (expense), net	(207)	(148)	(246)
Gains (losses) on other property owned, net	<u>\$ (594)</u>	<u>\$ (2,162)</u>	<u>\$ (2,380)</u>

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association primarily to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving line of credit are governed by the General Financing Agreement (GFA). The GFA defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants. The Association failed to meet its earnings covenant under the GFA at December 31, 2012. The default allowed the Bank, in conjunction with the FCA, to accelerate repayment of all indebtedness. The Bank approved a waiver of the default and allowed the Association to continue to operate under a special credit agreement (SCA). At June 30, 2012, the Association was in compliance with the earnings covenant under the GFA and therefore the SCA was terminated effective June 30, 2012. The Association has subsequently operated under the GFA.

Interest rates on both variable and fixed rate notes payable are generally established loan-by-loan based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. In the event of prepayment of any portion of a fixed rate advance, the Association may incur a prepayment penalty in accordance with the terms of the GFA and which will be included in interest expense. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and the Association. The weighted average interest rates on the variable rate notes were 1.44 percent for LIBOR-based loans and 1.56 percent for Prime-based loans, and the weighted average remaining maturities were 3.4 years and 8.1 years, respectively, at December 31, 2013. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 2.56 percent and the weighted average remaining maturity was 9.8 years at December 31, 2013. The weighted average interest rate on all interest-bearing notes payable was 2.32 percent and the weighted average remaining maturity was 8.5 years at December 31, 2013.

Variable rate and fixed rate notes payable represent approximately 20.38 percent and 79.62 percent, respectively, of total notes payable at December 31, 2013.

Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The Bank, consistent with FCA regulations, has established limitations on the

Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition.

Note 7 — Members' Equity

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

A. Protected Borrower Equity

Protection of certain borrower equity is provided under the Farm Credit Act which requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates and allocated equities which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an Association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

B. Capital Stock and Participation Certificates

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

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

C. Regulatory Capitalization Requirements and Restrictions

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

Failure to meet the capital requirements can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on

the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met.

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

	2013	2012	2011	Regulatory Minimum
Permanent capital ratio	17.23%	21.35%	20.64%	7.00%
Total surplus ratio	16.95%	21.00%	20.28%	7.00%
Core surplus ratio	14.57%	17.39%	17.03%	3.50%

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

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

D. Description of Equities

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

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

Class	Protected	Shares Outstanding	
		Number	Aggregate Par Value
A Common/Nonvoting	Yes	76	\$ -
B Common/Nonvoting	Yes	2,485	12
C Common/Voting	No	196,050	980
B Participation Certificates/Nonvoting	Yes	395	3
C Participation Certificates/Nonvoting	No	10,032	50
Total Capital Stock and Participation Certificates		209,038	\$ 1,045

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

Retained Earnings

The Association maintains an unallocated retained earnings account and an allocated retained earnings account. The

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

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

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

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

At December 31, 2013, allocated members' equity consisted of \$16,427 of nonqualified allocated surplus and \$9,707 of nonqualified retained surplus.

Patronage Distributions

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

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members' equity account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash. Amounts not distributed are retained as unallocated members' equity.

Dividends

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

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

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

Transfer

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

Impairment

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

1. Assistance preferred Stock
2. Allocated Retained Earnings in its entirety
3. Class C Common Stock and Class C Participation Certificates
4. Classes A and B Common Stock and Class B Participation Certificates
5. Classes A and D Preferred Stock

Liquidation

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

1. Classes A and D Preferred Stock
2. Classes A and B Common Stock and Class B Participation Certificates
3. Class C Common Stock and Class C Participation Certificates
4. Allocated surplus evidenced by qualified written notices of allocation on the basis of oldest allocations first
5. Allocated surplus evidenced by nonqualified notices of allocation on the basis of oldest allocations first

6. All Unallocated Retained Earnings issued after January 1, 1995 shall be distributed to the holders of Class C Stock and Class C Participation Certificates from January 1, 1995 through the date of liquidation on a patronage basis; and
7. Any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of stock and participation certificates in proportion to the number of shares or units of such class of stock or participation certificates held by such holders.

Note 8 — Fair Value Measurement

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

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

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 2.45 percent of the issued stock of the Bank as of December 31, 2013 net of any reciprocal investment. As of that date, the Bank's assets totaled \$28.8 billion and shareholders' equity totaled \$2.1 billion. The Bank's earnings were \$457 million at December 31, 2013. In addition, the Association has an investment of \$1,302 related to other Farm Credit institutions.

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

Level 1

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

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

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

Level 2

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

The Association had no Level 2 assets or liabilities measured at fair value.

Level 3

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

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

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

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

Other property owned is classified as a Level 3 asset. The fair value is generally determined using formal appraisals of each individual property. These assets are held for sale. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Other property owned consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure and is carried as an asset held for sale, which is generally not its highest and

best use. These properties are part of the Association's credit risk mitigation efforts, not its ongoing business. In addition, FCA regulations require that these types of property be disposed of within a reasonable period of time.

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

The fair value of investment securities is estimated by discounting expected future cash flows using prevailing rates for similar instruments at the measurement date.

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

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

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

	Standby Letters Of Credit
Balance at January 1, 2013	\$ 22
Issuances	-
Settlements	(4)
Balance at December 31, 2013	<u>\$ 18</u>

	Standby Letters Of Credit
Balance at January 1, 2012	\$ 14
Issuances	8
Settlements	-
Balance at December 31, 2012	<u>\$ 22</u>

	Standby Letters Of Credit
Balance at January 1, 2011	\$ 23
Issuances	-
Settlements	(9)
Balance at December 31, 2011	<u>\$ 14</u>

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

changes in these unobservable inputs may have a significant impact on fair value.

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

Investment Securities

The fair values of predominantly all Level 3 investment securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the

portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these Level 3 assets.

Other Property Owned/Impaired Loans

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

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Other investments-RBIC	\$ 160	Third party evaluation	Income, expense, capital	Not applicable
Impaired loans and other property owned	\$ 7,304	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

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

At or for the Year ended December 31, 2013						
Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings	
Recurring Measurements						
Assets:						
Recurring Assets	\$ -	\$ -	\$ -	\$ -	\$ -	
Liabilities:						
Standby letters of credit	\$ 18	\$ -	\$ -	\$ 18	\$ 18	
Recurring Liabilities	\$ 18	\$ -	\$ -	\$ 18	\$ 18	
Nonrecurring Measurements						
Assets:						
Impaired loans	\$ 3,880	\$ -	\$ -	\$ 3,880	\$ 3,880	\$ 184
Other property owned	2,927	-	-	3,424	3,424	(387)
Other investments	160	-	-	160	160	(412)
Nonrecurring Assets	\$ 6,967	\$ -	\$ -	\$ 7,464	\$ 7,464	\$ (615)
Other Financial Instruments						
Assets:						
Cash	\$ 1,810	\$ 1,810	\$ -	\$ -	\$ 1,810	
Investment securities, held-to-maturity	7,789	-	-	7,955	7,955	
Loans	387,957	-	-	379,908	379,908	
Other investments	13,092	-	-	13,108	13,108	
Other Financial Assets	\$ 410,648	\$ 1,810	\$ -	\$ 400,971	\$ 402,781	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$ 366,426	\$ -	\$ -	\$ 358,279	\$ 358,279	
Other Financial Liabilities	\$ 366,426	\$ -	\$ -	\$ 358,279	\$ 358,279	

At or for the Year ended December 31, 2012						
Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings	
Recurring Measurements						
Assets:						
Recurring Assets	\$ -	\$ -	\$ -	\$ -	\$ -	
Liabilities:						
Standby letters of credit	\$ 22	\$ -	\$ -	\$ 22	\$ 22	
Recurring Liabilities	\$ 22	\$ -	\$ -	\$ 22	\$ 22	
Nonrecurring Measurements						
Assets:						
Impaired loans	\$ 5,996	\$ -	\$ -	\$ 5,996	\$ 5,996	\$ 473
Other property owned	3,852	-	-	4,492	4,492	(2,014)
Nonrecurring Assets	\$ 9,848	\$ -	\$ -	\$ 10,488	\$ 10,488	\$ (1,541)
Other Financial Instruments						
Assets:						
Cash	\$ 3,133	\$ 3,133	\$ -	\$ -	\$ 3,133	
Investment securities, held-to-maturity	8,075	-	-	9,304	9,304	
Loans	309,218	-	-	308,752	308,752	
Other investments	25,568	-	-	26,019	26,019	
Other Financial Assets	\$ 345,994	\$ 3,133	\$ -	\$ 344,075	\$ 347,208	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$ 301,931	\$ -	\$ -	\$ 300,897	\$ 300,897	
Other Financial Liabilities	\$ 301,931	\$ -	\$ -	\$ 300,897	\$ 300,897	

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

December 31, 2011				
	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 14	\$ 14
Total Liabilities	\$ -	\$ -	\$ 14	\$ 14

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

	December 31, 2011					YTD Total Gains (Losses)
	Level 1	Level 2	Level 3	Total Fair Value		
Assets:						
Impaired Loans	\$ -	\$ -	\$ 5,811	\$ 5,811	\$ (3,050)	
Other property owned	\$ -	\$ -	\$ 5,963	\$ 5,963	\$ (2,134)	

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

	December 31, 2011	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash	\$ 571	\$ 571
Loans, net of allowance	\$ 281,677	\$ 284,552
Investment securities	\$ 8,234	\$ 9,313
Other investments	\$ 37,426	\$ 38,678
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	\$ 282,203	\$ 288,581

Note 9 — Employee Benefit Plans

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

- a) Assets contributed to multiemployer plans by one employer may be used to provide benefits to employees of other participating employers.
- b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c) If the Bank chooses to stop participating in some of its multiemployer plans, the Association may be required to contribute to eliminate the underfunded status of the plan.

The Association’s participation in the multiemployer defined benefit plans for the annual periods ended December 31, are outlined in the table below. The “Percentage Funded to Projected Benefit Obligation” or “Percentage Funded to Accumulated Postretirement Benefit Obligation” represents the funded amount for the entire plan and the “Contributions” and “Percentage of Total Contributions” columns represent the Association’s respective amounts.

Pension Plan	Percentage Funded to Projected Benefit Obligation			Contributions			Percentage of Total Contributions		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
AgFirst Farm Credit Retirement Plan	89.47%	77.35%	74.82%	\$952	\$871	\$869	1.89%	1.91%	2.19%
AgFirst Farm Credit Cash Balance Retirement Plan	95.06%	86.01%	81.77%	\$53	\$42	\$28	2.99%	3.06%	3.60%

Other Postretirement Benefit Plan	Percentage Funded to Accumulated Postretirement Benefit Obligation			Contributions			Percentage of Total Contribution		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plans	0.00%	0.00%	0.00%	\$99	\$88	\$81	1.42%	1.43%	1.36%

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

1. The Employee Identification Number (EIN) and three-digit Pension Plan Number
2. The most recent Pension Protection Act (PPA) zone status. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.
3. The "FIP/RP Status" indicating whether a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.
4. The expiration date(s) of collective-bargaining agreement(s).

Substantially all employees of the Association are eligible to participate in either the FAP Plan or the CB Plan. These two Plans are noncontributory and include eligible Association and other District employees. For participants hired prior to January 1, 2003, benefits are provided under the FAP Plan and are based on eligible compensation and years of service. For participants hired on or after January 1, 2003, benefits are provided under the CB Plan and are determined using a percent of eligible compensation formula. The employer contribution into the CB Plan is based on a formula of 3.00-5.00 percent of eligible compensation (depending on years of service) and interest credits as allocated to an employee's theoretical account balance. The actuarially-determined costs of these plans are allocated to each participating entity, including the Association, by multiplying the plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all plan participants. Plan expenses included in employee benefit costs were \$1,098 for 2013, \$1,079 for 2012, and \$1,078 for 2011. The cumulative excess of amounts funded by the Association over the cost allocated to the Association is reflected as prepaid retirement expense, a component of Other Assets in the Consolidated Balance Sheets.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. Certain Association charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability. This plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs were \$168 for 2013, \$140 for 2012, and \$170 for 2011. The cumulative excess of cost allocated to the Association over the amounts funded by the Association is reflected as postretirement benefits other than pensions, a component of other liabilities in the Association's Consolidated Balance Sheets.

The Association also participates in the defined contribution Farm Credit Benefit Alliance (FCBA) 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes \$0.50 for each \$1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes \$1.00 for each \$1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were \$147, \$130, and \$132 for the years ended December 31, 2013, 2012, and 2011, respectively.

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

Note 10 — Related Party Transactions

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

Total loans to such persons at December 31, 2013 amounted to \$5,802. During 2013, \$4,829 of new loans were made and repayments totaled \$4,285. In the opinion of management, none of these loans outstanding at December 31, 2013 involved more than a normal risk of collectibility.

Note 11 — Commitments and Contingencies

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

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

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

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

At December 31, 2013, \$84,356 of commitments to extend credit and no commercial letters of credit were outstanding.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2013, standby letters of credit outstanding totaled \$1,322 with expiration dates ranging from January 1, 2014 to July 31, 2015. The maximum potential amount of future payments that may be required under these guarantees was \$1,322.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2013	2012	2011
Current:			
Federal	\$ 7	\$ -	\$ -
State	-	-	-
	<u>7</u>	<u>-</u>	<u>-</u>
Deferred:			
Federal	-	-	-
State	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total provision (benefit) for income taxes	<u>\$ 7</u>	<u>\$ -</u>	<u>\$ -</u>

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

	December 31,		
	2013	2012	2011
Federal tax at statutory rate	\$ 3,006	\$ 1,867	\$ 764
State tax, net	-	-	-
Patronage distributions	(963)	(850)	(323)
Tax-exempt FLCA earnings	(1,850)	(1,191)	327
Change in valuation allowance	(47)	78	(582)
Other	(139)	96	(186)
Provision (benefit) for income taxes	<u>\$ 7</u>	<u>\$ -</u>	<u>\$ -</u>

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

	December 31,		
	2013	2012	2011
Deferred income tax assets:			
Allowance for loan losses	\$ 535	\$ 630	\$ 468
Pensions and other postretirement benefits	445	428	421
	<u>4,677</u>	<u>4,673</u>	<u>4,647</u>
Gross deferred tax assets	<u>5,657</u>	<u>5,731</u>	<u>5,536</u>
Less: valuation allowance	<u>(5,231)</u>	<u>(5,278)</u>	<u>(5,200)</u>
Gross deferred tax assets, net of valuation allowance	<u>426</u>	<u>453</u>	<u>336</u>
Deferred income tax liabilities:			
Loan fees	-	(1)	(1)
Depreciation	(27)	(38)	(33)
Pensions and other postretirement benefits	(399)	(414)	(302)
Gross deferred tax liability	<u>(426)</u>	<u>(453)</u>	<u>(336)</u>
Net deferred tax asset (liability)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2013, deferred income taxes have not been provided by the Association on approximately \$2 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of \$5,231, \$5,278, and \$5,200 as of December 31, 2013, 2012 and 2011, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2013 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense.

The tax years that remain open for federal and major state income tax jurisdictions are 2010 and forward.

Note 13 — Additional Financial Information**Quarterly Financial Information (Unaudited)**

Quarterly results of operations follow:

	2013				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,474	\$ 2,465	\$ 2,779	\$ 2,664	\$ 10,382
Provision for (reversal of allowance for) loan losses	—	—	—	767	767
Noninterest income (expense), net	(1,273)	(1,301)	(1,003)	2,543	(1,034)
Net income (loss)	\$ 1,201	\$ 1,164	\$ 1,776	\$ 4,440	\$ 8,581

	2012				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,279	\$ 2,305	\$ 2,467	\$ 2,366	\$ 9,417
Provision for (reversal of allowance for) loan losses	—	(1,250)	—	(113)	(1,363)
Noninterest income (expense), net	(1,074)	(1,918)	(1,658)	(638)	(5,288)
Net income (loss)	\$ 1,205	\$ 1,637	\$ 809	\$ 1,841	\$ 5,492

	2011				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,020	\$ 2,291	\$ 2,261	\$ 1,981	\$ 8,553
Provision for (reversal of allowance for) loan losses	134	528	155	—	817
Noninterest income (expense), net	(932)	(2,786)	(1,495)	(276)	(5,489)
Net income (loss)	\$ 954	\$ (1,023)	\$ 611	\$ 1,705	\$ 2,247

Note 14 — Regulatory Enforcement Matters

During the first quarter of 2010, the FCA entered into a written supervisory agreement with the Association. The written supervisory agreement required the Association to take corrective actions with respect to certain areas of its operations, including capital, portfolio management, and asset quality. The FCA terminated the written supervisory agreement with the Association on August 22, 2012. The termination was recognition by the FCA that the conditions that prompted the need for the agreement had been sufficiently addressed by the Association.



SOUTHWEST GEORGIA

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