AgStar
Financial Services, ACA

invested in you.

2013 ANNUAL REPORT

AGSTAR FINANCIAL SERVICES MISSION STATEMENT

Enhancing Life in Agriculture and Rural America

AgStar clients Mike and Cyndy Baustian, Jasper, MN with their AgStar Financial Services Officer, Pat Barnett, Worthington Flagship

invested in you.

In agriculture, we tend to agree on the things that matter most like family, farming and the future. Collectively, we strive to preserve the values and traditions that serve as guideposts on our journey.

At AgStar, we care deeply about your success. We know that stability, security and growth fuel the kind of future that offers success – and the next generation opportunity, prosperity and a familiar place to always call home.

To achieve this future, we understand your growth and success are essential. And the more profitable you are, the more secure and resilient our communities will be.

AgStar has stayed true to our roots for nearly 100 years. We're passionate about the people who live and work in rural America, and we see a bright, exciting future ahead.

That's why AgStar is invested in you.

With decades of regional ag finance leadership, over $7 billion in total assets and nearly 21,000 clients, we're literally invested in you.

At AgStar, we invest in projects and initiatives we believe will enhance agriculture. We diversify our portfolio by purchasing loan participations and provide a wide array of financial options to operations of all sizes.

We invest in you – our clients – by providing education, development, growth and expertise on issues that affect your livelihood and profitability.

Additionally, AgStar invests in communities throughout our region by offering vision, financial support and leadership on economic development, infrastructure development and revitalization projects.

Our team also provides leadership in legislative and regulatory affairs. We work to help educate our national, state and local leaders as well as clients on issues that impact agriculture.

CROP INSURANCE EDUCATION

With blizzards in May turning to floods in June, 2013 was challenging for many farmers. AgStar responded by offering educational materials and expert advice on crop insurance. Nearly 800 people attended “Prevent Plant” meetings, which helped producers understand the ins and outs of crop insurance better.

investing in education

AGSTAR EDGE

In agriculture, as in all spheres of life, knowledge is power. AgStar is committed to empowering you through a tremendous array of educational opportunities through AgStar Edge.

During 2013, thousands of our clients participated in workshops, webinars and events featuring AgStar team members as well as ag experts from across the country.

As an AgStar client, you have the opportunity to receive a continuous stream of news and information through specialized newsletters and articles. AgStar's comprehensive line-up of blogs includes the renowned Hog Blog, as well as blogs on Risk Management, Grain, Women in Agriculture and more.

On the AgStar Edge website, you'll also find valuable resources, such as Margin Manager, a variety of calculators, outlook information, reports and a full video library.

You've told us how much you appreciate AgStar Edge, and that it's making a difference in your business. We're committed to continue bringing you high-quality information from trusted sources. We're excited we can give you "an edge" that makes all the difference when it comes to your success.

investing in communities

THROUGH ECONOMIC DEVELOPMENT

At AgStar, we care about the communities where we live, work and serve. That's why we're helping keep quality healthcare, multi-family dwellings, housing for seniors and thriving businesses in rural communities. As an approved lender for the USDA Guaranteed Rural Rental Housing Program, AgStar helps create multi-family housing opportunities for low to moderate income individuals and families in rural areas.

For example, AgStar worked with USDA Rural Development on new construction of a skilled nursing facility in Baldwin, Wisconsin. The project included converting the existing facility into a new assisted living and memory care unit. Not only does this investment help keep assisted living and nursing home residents close to home and family, but also creates jobs and strengthens the local economy.

THROUGH GIVING BACK

- You count on emergency medical services to respond when you need help. That's why the AgStar Fund for Rural America invested $141,000 in grants to 62 emergency medical services teams in 2013. Since the program started in 2006, AgStar has awarded more than $700,000 to fire departments, ambulance teams and rescue squads in Minnesota and Wisconsin.
- Our children represent the future of agriculture and the future of our world's food supply. The AgStar Agriculture Classroom Equipment Grant Program supports agricultural education by funding educational experiences for students completing coursework in agriculture and related fields. Fourteen Minnesota and Wisconsin schools received nearly $30,000 in grants in 2013. We've also doubled our budget for county fair grants, allowing growing numbers of youth to show their livestock and share their passion for agriculture. In 2013, we awarded $69,000 to 4-H clubs and county fair associations working to upgrade their facilities.
- At AgStar, part of enhancing life in rural America includes helping those in need. Together with the AgStar Fund for Rural America, our team members solicited donations of cash and food as part of the Minnesota Food Share Campaign in March 2013. In addition to generous food donations, our team contributed nearly $18,000, which was distributed to 64 food shelves in our region. During 2013, our team volunteered more than 16,000 hours to various charities and organizations right in our own back yard.

investing in tomorrow

At AgStar, we know you're concerned about tomorrow. An important part of our mission is supporting the future of our region. That's why AgStar helps build leadership capacity and helps stimulate economic development in the communities we serve.

POLICY

AgStar board members traveled to Washington, D.C., to increase their legislative education efforts. Board members met with legislators and congressional staff during 2013 to discuss policies important to farmers and to support the continuation of programs designed to help and re-energize rural America.

LEADERSHIP

In 2013, AgStar held a two-day GroundBreakers Conference. This educational event for young, beginning and small farmers offered participants an opportunity to gather information, network and learn about news, trends and leadership strategies.

HELPING HANDS

The Minnesota Rural Finance Authority (RFA) selected AgStar as one of just two authorized, intermediary lenders for a new microloan pilot program. The program is designed to assist underserved borrowers with farm capital needs. Eligible farmers can borrow up to $10,000 toward annual supplies such as seed and fertilizer, equipment and similar farm assets.

ENCOURAGING YOUTH

The second annual AgStar Purple Ribbon Video Contest winners were announced at the Minnesota State Fair in August. The two-minute videos were voted on through Facebook "likes." First place winners in three age categories received $500 scholarships. The goal of the contest is to encourage youth to continue their dedication to a life in agriculture and to become leaders in their communities.

DIVERSITY AND INCLUSION

We believe a diverse population enriches rural communities. Through our Minority Lending Program, AgStar offers flexible financing options for minority agricultural producers. We can also help these clients access credit, other financial services and guide them through business plan development and the loan application process.

FIELDS TO GROW IN

At AgStar, we understand that outstanding people are the key to the best future for agriculture. That's why we're committed to offering opportunities and experiences through our Intern and Associate Programs. The young people involved in these programs gain experience, expertise and a solid start on becoming tomorrow's leaders in agriculture.

business units

AGSTAR'S CLIENT SOLUTIONS TEAM delivers guidance, insight, and counseling to support our array of services including loans and leases, crop insurance and consulting to over 14,500 clients and producers. Depending on the client's specific goals and unique needs, our team collaborates within the organization to bring specialized knowledge and expertise. From soybeans and corn to livestock, our industry specialists possess extensive knowledge in their areas of expertise, providing financing to commercial producers, agribusinesses and processors. Our consulting team provides business advice and professional services such as family business consulting, succession planning and estate planning. Services are provided across all commodities with particular expertise in the dairy, swine and cash grain industry segments.

Our home mortgage services team focuses on offering home financing options for clients in rural areas or communities. The focal point of this segment is mortgages to buy, build or refinance residences or acreages. We also serve eligible clients wishing to purchase rural real estate for recreational use, such as hunting and sporting. To support the home mortgage client, we additionally offer title insurance and home equity loans.

The **RURAL CAPITAL NETWORK** team is devoted to supporting community and economic development, infrastructure needs, revitalization projects and minority lending in rural America. Completed projects include: critical access hospitals, assisted-living facilities, rural rental multi-family housing and business expansions. By partnering with local lenders and other Farm Credit Institutions, AgStar Rural Capital Network is able to invest in projects through the purchase of bonds issued by local communities, organizations or businesses.

The **CAPITAL MARKETS** team focuses on relationships with commercial banks, Farm Credit Institutions and other lending partners to buy loan participations and to partner in syndicated loan transactions. This specialized team provides a national vehicle to gain improved access to the agribusiness and commercial producer loan market, and provides portfolio diversity, earnings and market intelligence to the organization.

AGRI-ACCESS® (www.Agri-Access.com) operates as a unit of AgStar Financial Services, ACA and is a correspondent lender primarily focused on purchasing participations in agricultural real estate loans, rural home loans and leases across the U.S. Agri-Access brings diversification to AgStar's portfolio. Agri-Access also services agricultural loans for other institutional investors. The main Agri-Access contact office is located in Des Moines, Iowa. We also have contact offices in Woodland, California, and Meridian, Idaho.

products & services

LOANS

Operating Loans

Equipment Loans

Real Estate Loans

Starter Loans for Young/Beginning and Minority Farmers

LEASING

Equipment and Machinery Leases

Truck and Trailer Leases

Vehicle Leases

Building and Facility Leases

RISK PROTECTION

Crop Hail Insurance

Multi-Peril Crop Insurance

Specialty Crop Insurance

Life Insurance

Debt Protection

HOME MORTGAGES

Home Loans

One-Close Construction Loans

Hobby Farm Loans

Manufactured Housing Loans

Home Site Loans

Recreational Land Loans

Home Equity Loans

BUSINESS SERVICES

Fleet Services

Appraisal Services

Cash Management Services

AgStar Edge

Margin Manager

Internet Banking

Remote Deposit Capture

CONSULTING SERVICES

Succession Planning

Business Planning

Retirement and Estate Planning

Financial Management

leadership

At AgStar, the leadership team is always by your side. That's because most of our board members are producers and are elected by client-stockholders. Their interests and goals are the same as yours. They're focused on AgStar's mission of enhancing life in agriculture and rural America.

Our executive team carries out the Board's directives. The vision, expertise and strategic direction of AgStar's leadership team are vital to our growth and success.

BOARD OF DIRECTORS (on left)

First Row, L to R: Lowell Schafer, Kaye Compart, Spencer Enninga, Terry Ebeling, Theresa (Ann) Broome. *Second Row, L to R:* David Bollman, Rick Sommers, Dale Holmgren, Lawrence Romuald, David Kretzschmar, Greg Nelson. *Last Row, L to R:* William McCue, Steven Johnson, Larry Fischer, Kevin Koppendrayer, William Kiehne, Wesley Beck.

EXECUTIVE TEAM (below)

Front Row, L to R: Paul Kohls, Rod Hebrink, Jodie Hermer. *Second Row, L to R:* James (Wick) Manley, Mark Greenwood, Joe Deufel. *Last Row, L to R:* John Monson, John Hemstock, Paul DeBriyn, Tim Tracy.

PAUL A. DEBRIYN
President and CEO

Paul A. DeBriyn
President and CEO
AgStar Financial Services, ACA

Spencer Enninga
Chairperson of the Board
AgStar Financial Services, ACA

to our stockholders

Life as a farmer means putting your heart, soul and livelihood into the hands of fate. Many factors influencing the growing season – from weather and disease to markets and politics – are beyond your control.

At AgStar, we demonstrate our commitment to enhancing life in agriculture and rural America by helping you focus on and leverage the aspects of agriculture you *can* control. Through education, smart planning, margin management and risk management, our clients are succeeding despite the unpredictable nature of agriculture.

INVESTED IN YOUR SUCCESS

2013 was a year like no other, bringing May blizzards and June flooding. AgStar responded with resources and guidance to help growers understand their options, mitigate risk and implement solid risk management plans. We shared our expertise with clients around the region through events, blogs, articles and more.

Through AgStar Edge (our center for Education, Development, Growth and Expertise) we offered valuable, in-depth information to clients from experts on a wide range of topics – from grain marketing and managing margins to improving ratios and understanding futures. We're dedicated to providing the insights that give our clients a competitive edge.

The year was also filled with stress and uncertainty regarding agricultural policy and legislative affairs. When our clients were frustrated by the lack of progress on the nation's Farm Bill, AgStar took action to shape policy through a unique initiative bringing leaders and board members together to educate lawmakers in Washington, D.C.

INVESTED IN OUR REGION

At AgStar we believe healthy rural communities are vital to our clients' quality of life and business success. That's why we're driven to enhance economic viability, develop community infrastructures and support organizations working to enrich the lives of those who live and work in the 69-county region we serve. Our Rural Capital Network team collaborated with partners to secure financing for rural healthcare, businesses and multi-family housing across our region. In Baldwin, Wisconsin, for example, AgStar collaborated with USDA Rural Development for new construction of a skilled nursing facility and converting the existing facility into a new assisted living and memory care unit. This project created jobs, strengthened the local economy and helped keep assisted living and nursing home residents closer to family and the place they call home.

In 2013, the AgStar Fund for Rural America donated nearly $812,000 to deserving organizations in the focus areas of Education, Environment, Technology and Quality of Life. From sponsoring programs designed to help young and beginning farmers, to awarding scholarships for promising young people passionate about the agriculture industry, to providing funding to improve county fair facilities, AgStar supports a wide range of projects, programs and individuals who make a positive impact on rural America.

INVESTED IN THE FUTURE

AgStar's Board and leadership team understand that consistent, solid performance is what makes us a trusted source of capital and financial services for farmers and others involved in the business of agriculture. AgStar is positioned for both short-term and long-term success in the marketplace. 2013 was again a very strong year for us financially with a net income of $116.1 million, including a 7.6 percent increase in loan volume. We reduced the level of risk in our portfolio with credit quality showing significant improvements from last year.

Additionally, 2013 was another record year for client satisfaction and loyalty ratings, and we were selected as a "Top Workplace" in Minnesota by the Minneapolis Star Tribune for the third year in a row. What does all this mean for our client-stockholders? AgStar's team members are engaged and invested in client relationships for shared success.

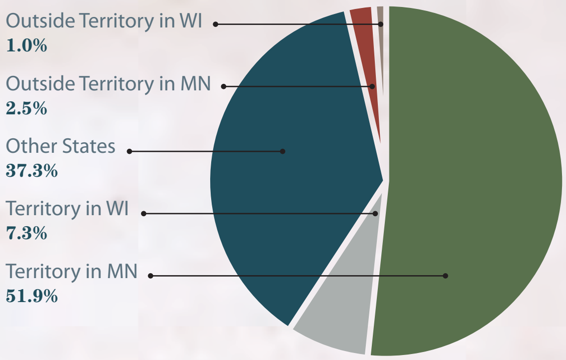
Nowhere is the "AgStar way" demonstrated more profoundly than through our patronage program. In the fall of 2013 we distributed the remaining 2004 patronage allocations of $24.7 million in earnings to over 10,400 stockholders. Since the program's inception, AgStar has allocated over $453 million in patronage dividends and retired nearly $106 million to qualified stockholders.

INVESTED IN YOU

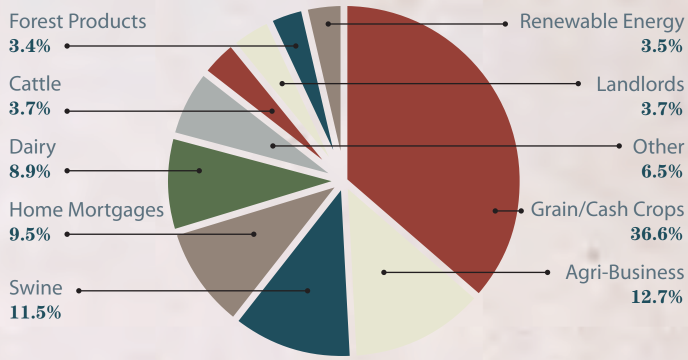
The agricultural community is comprised of bright, hardworking, resourceful individuals. They work hard every day to feed the world, care for animals, nurture the land and preserve the traditions, expertise and values that have been passed down from one generation to the next. All of us at AgStar are proud to be a part of this industry and honored to be associated with the people we serve. Our business is financial services, but in the final analysis, it's really all about people. Because of you, AgStar becomes stronger and better positioned to help you, your neighbors and the region succeed. Thank you for doing business with us.

financial highlights

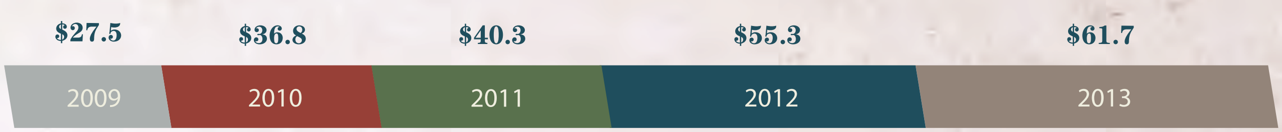
LOAN VOLUME BY AREA



LOAN VOLUME BY ENTERPRISE



ANNUAL PATRONAGE ALLOCATIONS (In Millions)



NET INCOME AFTER TAX

(In Millions)

EARNING ASSETS

(In Billions)

CUMULATIVE PATRONAGE ALLOCATIONS (In Millions)

$1,056 Million
Equity (Total Capital)

6.03%
Compound Annual Growth Rate for the Last Five Years

603
Full-Time Equivalent Team Members

15,300
Number of Voting Stockholders

21,000
AgStar Clients

financial results

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

AgStar Financial Services, ACA

(Dollars in thousands)

	2013	2012	2011	2010	2009
Statement of Condition Data					
Loans held to maturity	**$ 6,363,512**	$ 5,913,336	$ 5,187,874	$ 4,915,210	$ 4,809,853
Allowance for loan/lease losses	**24,725**	26,814	26,833	39,312	60,501
Net loans held to maturity	**6,338,787**	5,886,522	5,161,041	4,875,898	4,749,352
Loans held for sale	**4,470**	--	--	--	--
Net loans	**6,343,257**	5,886,522	5,161,041	4,875,898	4,749,352
Investment in AgriBank, FCB	**150,016**	141,137	130,150	126,160	132,962
Investment securities	**462,424**	484,092	505,486	467,143	510,027
Other property owned	**3,315**	10,137	6,954	5,851	4,406
Other assets	**147,344**	142,484	142,784	138,539	140,012
Total assets	**$ 7,106,356**	$ 6,664,372	$ 5,946,415	$ 5,613,591	$ 5,536,759
Obligations with maturities of one year or less	**$ 5,950,196**	$ 5,692,651	$ 5,040,179	$ 4,768,993	$ 4,859,639
Obligations with maturities greater than one year	**100,000**	100,000	100,000	100,000	--
Total liabilities	**6,050,196**	5,792,651	5,140,179	4,868,993	4,859,639
Capital stock and participation certificates	**15,912**	15,655	14,859	14,125	13,400
Preferred stock	**100,000**	--	--	--	--
Allocated surplus	**339,360**	302,789	290,517	265,010	229,862
Unallocated surplus	**600,888**	553,277	500,860	465,463	433,858
Total equity	**1,056,160**	871,721	806,236	744,598	677,120
Total liabilities and equity	**$ 7,106,356**	$ 6,664,372	$ 5,946,415	$ 5,613,591	$ 5,536,759
Statement of Income Data					
Net interest income	**$ 175,272**	$ 158,151	$ 147,565	$ 128,747	$ 127,426
Provision for (reversal of) loan/lease losses	**(3,078)**	7,182	7,400	23,550	47,638
Patronage income	**21,540**	18,338	17,133	19,478	17,003
Other expense, net	**79,280**	65,297	71,112	46,200	46,193
Provision for (benefit from) income taxes	**4,480**	(3,371)	10,774	11,772	342
Net income	**$ 116,130**	$ 107,381	$ 75,412	$ 66,703	$ 50,256
Key Financial Ratios					
Return on average assets	**1.7%**	1.8%	1.3%	1.2%	0.9%
Return on average equity	**11.9%**	12.9%	9.7%	9.4%	7.7%
Net interest income as a percentage of average earning assets	**2.7%**	2.7%	2.7%	2.5%	2.4%
Equity as a percentage of total assets	**14.9%**	13.1%	13.6%	13.3%	12.2%
Net charge-offs as a percentage of average earning assets	**0.0%**	0.1%	0.4%	0.8%	0.4%
Net charge-offs as a percentage of average loans	**0.0%**	0.1%	0.4%	0.9%	0.4%
Allowance for loan/lease losses as a percentage of loans	**0.4%**	0.5%	0.5%	0.8%	1.3%
Permanent capital ratio	**15.4%**	13.9%	14.6%	15.8%	12.1%
Total surplus ratio	**15.2%**	13.7%	14.4%	15.5%	11.8%
Core surplus ratio	**12.5%**	10.9%	11.2%	11.1%	9.5%
Other					
Net surplus allocated under nonqualified patronage program	**$ 61,598**	$ 54,966	$ 40,015	$ 36,409	$ 27,206
Redemption in cash of nonqualified written notices of allocation under nonqualified patronage program	**$ 25,027**	$ 42,694	$ 14,508	$ 1,261	$ 1,644
Preferred stock dividends	**$ 3,132**	$ --	$ --	$ --	$ --

MANAGEMENT'S DISCUSSION AND ANALYSIS

AgStar Financial Services, ACA

The following commentary reviews the consolidated financial condition and consolidated results of operations of AgStar Financial Services, ACA (the Association) and its subsidiaries, AgStar Financial Services, FLCA and AgStar Financial Services, PCA (the subsidiaries) and provides additional specific information. The accompanying consolidated financial statements and notes to the consolidated financial statements also contain important information about our financial condition and results of operations.

FORWARD-LOOKING INFORMATION

This Annual Report includes 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 "anticipate", "believe", "estimate", "may", "expect", "intend", and similar expressions are used to identify such forward-looking statements. These statements reflect our current views with respect to future events. However, actual results may differ materially from our expectations due to a number of risks and uncertainties which may be beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, financial, and economic conditions and developments in the United States (U.S.) and abroad,
- economic fluctuations in the agricultural and farm-related business sectors,
- unfavorable weather, disease, and other adverse climatic or biological conditions that periodically occur and impact agricultural productivity and income,
- changes in U.S. government support of the agricultural industry and the Farm Credit System (System) as a government-sponsored enterprise, as well as investor and rating agency actions relating to events involving the U.S. government, other government-sponsored enterprises, and other financial institutions,
- actions taken by the Federal Reserve System in implementing monetary policy,
- credit, interest rate, and liquidity risks inherent in our lending activities, and
- changes in our assumptions for determining the allowance for loan/lease losses, other-than-temporary impairment, and fair value measurements.

AGRICULTURAL AND ECONOMIC CONDITIONS

We are chartered to serve territories in Minnesota and Wisconsin and serve many sectors in agriculture including our primary industries of grain, swine, and dairy. We also serve the housing, energy, and food processing and distribution segments. Credit quality, delinquencies, and nonaccrual measures showed significant improvement during 2013 and this positive trend is expected to continue in 2014. The United States Department of Agriculture (USDA) World Agriculture Supply and Demand Estimates (WASDE) report released on January 10, 2014 estimates the 2013 corn crop yield at 158.8 bushels per acre and total production of 13.9 billion bushels. The same report estimated a U.S. soybean yield of 43.3 bushels per acre and total production of 3.289 billion bushels. For Minnesota, the report estimated an average corn yield of 160 bushels per acre and an average soybean yield of 41 bushels per acre.

The outlook for corn prices in 2014 is currently significantly lower than in 2013. In the January 10, 2014 WASDE report, the USDA projects 2013/2014 average corn prices of $4.10 to $4.70 per bushel. This range represents a 30 to 40 percent decrease in the price of corn from 2012/13 levels of $6.89. Globally, increased demand for U.S. corn should help soften corn price declines in 2013/2014.

Improved global demand, particularly in China, is supporting soybean prices in 2013/2014, but so far the outlook of increased global production is restraining potential price increases. Going forward, the market will closely monitor conditions and crop progress in South America. The 2013/14 U.S. season-average farm price forecast for soybeans is $11.75 to $13.25 per bushel compared to the 2012/13 level of $14.40 based on the January 10, 2014 WASDE report.

Profits realized for the primary segments of our portfolio were mostly favorable during 2013. Suitable growing conditions propelled corn prices lower while fewer planted acres allowed soybean prices to remain stable. Margins for grain producers will likely narrow further in 2014 based on current expectations and futures prices. The reduction in corn prices had a positive impact on input costs for livestock producers and ethanol facilities. Profit margins for swine and dairy producers were generally at break-even or above for 2013 with a favorable outlook for 2014.

According to the USDA Economic Research Service (ERS), net farm income is forecast at $131 billion for 2013, up $17.2 billion (15.1%) from 2012. Net cash income is expected to decline by almost $4.7 billion, to $129.7 billion when compared to the record

$134.4 billion in 2012. The report stated that “substantial year-end crop inventories are expected as a result of the record corn harvest.” The report also stated that “2013 production expenses are projected to be the highest on record…farm sector assets, debt, and equity are all expected to increase in 2013.”

Conditions over the past several years have been favorable overall for agricultural producers resulting in generally positive performance for agribusinesses. Profit margins and credit quality for this segment improved in 2013. Our current expectations for 2014 are favorable, with credit quality remaining stable. Agricultural related businesses have generally been profitable and fared better during the past several years than companies not closely tied to agriculture. Overall, this portfolio, mainly consisting of power, telecom, and renewable energy, has been performing satisfactorily.

Our home mortgage portfolio credit quality and payment performance continues to improve. Our portfolio performed better than the overall housing industry, but there were challenges coming out of the housing crisis. In 2013 we made significant progress in reducing the percentage of delinquent loans and loans in the foreclosure process. Continued improvement is expected the next two to three years. There are positive signs that the economy is more than half way through the recovery process. The unemployment rate is an example. According to the U.S. Bureau of Labor Statistics, the national unemployment rate dropped to 6.7% in December 2013 vs. 7.9% at the end of 2012. The Minnesota (4.6%) and Wisconsin (6.3%) unemployment rates also showed improvement the past year and are better than the national average. Interest rates increased in mid-2013 but they continue to be at historical low levels.

Farm real estate values in our territory continued to show strong increases during 2013 with demand for farm real estate continuing to be solid. Values for transitional and recreational property remain low compared to the peak values previously reached.

Declining land values following sustained periods of land value increases have historically created conditions of considerable risk for collateral-based lenders. Nominal and real (inflation-adjusted) agricultural land values have increased in proportions similar to other asset classes such as stocks and urban residential and commercial land during the last decade, but agricultural land values escaped the valuation declines that other assets suffered during the recession. This is largely because grain farming remained profitable throughout the economic crisis period.

We do extensive monitoring of land values in our territory, conducted by licensed real estate appraisers, of a sample of benchmark farms selected to represent our lending footprint. Our most recent internal benchmarking real estate market survey, as of June 30, 2013, indicated that regional agricultural land values in our territory had increased on average by 30% in the previous 12 months. In addition, qualitative surveys of lending officers, compiled by the Federal Reserve Banks of Chicago, Kansas City, and Minneapolis as of September 30, 2013 indicated sharply increasing farmland values. The Banks cited survey findings of a year-over-year increase in the value of non-irrigated farmland of 9 to 19%.

Our credit risk policies emphasize loan repayment capacity in addition to conservative assessments of collateral values that secure loans. Although Farm Credit Administration (FCA) Regulations allow real estate mortgage loans of up to 85% of appraised value, our underwriting standards generally limit lending to no more than 65% of sustainable value (based on crop production history) at origination for agricultural production land. While underwriting exceptions on loan-to-appraised-value are sometimes granted, in such cases offsetting strengths are generally present in other areas.

Some of our core credit objectives include working with clients to promote risk management, ensuring high quality financial statements and production reports, encouraging disciplined marketing plans, and providing individualized servicing plans and strategies. We continue to be involved and support positive legislative changes for agriculture and rural America.

LOANS HELD TO MATURITY

Portfolio Distribution

We are chartered to serve certain counties in Minnesota and Wisconsin. At December 31, 2013, approximately 51.9% of our loan portfolio was within our territory in Minnesota, 7.3% was within our territory in Wisconsin, 2.5% was in Minnesota outside our territory, and 1.0% was in Wisconsin outside our territory.

Our loan portfolio is concentrated in grain, dairy, and swine production, with 57.0% of the total in these categories. Due to the high concentration in grain production, the commercial loan portfolio exhibits some seasonality. These loans are normally at their lowest levels during the winter months because of operating repayments following harvest and then increase throughout the year as clients borrow for operating and capital needs. More information on commodities is included in Note 3.

Loan Volume

Total loans held to maturity and finance and conditional sales leases (hereinafter collectively referred to as loans) were $6.4 billion at December 31, 2013, an increase of $450.2 million from December 31, 2012. The components of loans are presented in the following table (in thousands):

As of December 31	**2013**	2012	2011
Accrual loans:			
Real estate mortgage	**$ 3,160,937**	$ 2,782,812	$ 2,340,792
Production and intermediate term	**1,738,395**	1,732,881	1,565,041
Agribusiness	**638,625**	608,641	543,531
Other	**686,158**	637,411	573,820
Nonaccrual loans	**139,397**	151,591	164,690
Total loans	**$ 6,363,512**	$ 5,913,336	$ 5,187,874

The other category is comprised of communication, energy, water and waste water, and rural residential real estate related loans as well as finance and conditional sales leases and loans originated under our mission related investment authority.

The increase in total loans from December 31, 2012 is due to our continued focus on capitalizing on growth opportunities in our correspondent lending programs in our real estate mortgage portfolio. This increase was partially offset by repayments made by a certain segment of our clients in the grain, swine, and dairy industries resulting from tax planning that occurred in the fourth quarter of 2012. The decrease in nonaccrual loans was the result of settling adverse asset volume through upgrading, payoffs, paydowns, or charge-offs on certain accounts in the dairy, general farms, and bond segments of our portfolio.

We offer variable, fixed, capped, indexed, and adjustable interest rate loan and lease programs to our borrowers. We determine interest margins charged on each lending program based on cost of funds, market conditions, and the need to generate sufficient earnings.

Analysis of Risk

The following table summarizes risk information (accruing loans include accrued interest receivable) (dollars in thousands):

As of December 31	**2013**	2012	2011
Loans:			
Nonaccrual	**$ 139,397**	$ 151,591	$ 164,690
Accruing restructured	**2,101**	102	--
Accruing loans 90 days or more past due	**--**	126	40
Total risk loans	**141,498**	151,819	164,730
Other property owned	**3,315**	10,137	6,954
Total risk assets	**$ 144,813**	$ 161,956	$ 171,684
Risk loans as a percentage of total loans	**2.2%**	2.6%	3.2%
Total delinquencies as a percentage of total loans	**0.8%**	1.5%	1.7%

Our risk assets have decreased from December 31, 2012. The decrease in nonaccrual loans was due to settling volume mainly through upgrading, payoffs, paydowns, or charge-offs on certain accounts in the dairy, general farms, and bond segments of our portfolio. While still above our credit standards, at December 31, 2013, our nonaccrual loan volume as a percentage of our total portfolio improved 0.3% from December 31, 2012, to 2.2%. We continue to be actively engaged in working with clients to provide individualized servicing plans and strategies. At December 31, 2013, 73.2% of our nonaccrual loans were current.

The increase in accruing restructured loans was primarily the result of loans restructured to improve the borrowers' cash flow. These loans are performing according to the restructure plans.

The reduction in other property owned was primarily the result of selling properties located within our local service area.

The decrease in total delinquencies as a percentage of total loans was primarily due to the continued reduction in adversely classified assets.

The credit quality of our portfolio improved during 2013. Adversely classified loans decreased to 2.9% of the portfolio at December 31, 2013, from 4.3% of the portfolio at December 31, 2012. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan/lease losses.

Most dairy producers experienced improved margins during 2013 compared to 2012 due to declining feed costs and higher milk prices. For the year, most operations will likely experience a profit, although feed costs will be variable across farms. Dairy exports are expected to keep milk prices at profitable levels in 2014. Dairy portfolio quality is expected to improve in 2014 as clients' 2013 profitability and balance sheet improvement are recognized in credit quality adjustments. Collection of some adverse assets should also have a positive impact on the quality of our dairy portfolio.

Pork production has been profitable from 2010 to 2013 despite higher feed costs during that period. Strong export markets along with the use of contracting and hedging for risk management are helping most producers to remain profitable. Volatility will continue to be the norm and margin management is key to on-going viability. There have been opportunities for our clients to lock in positive margins for 2014 and many clients have taken advantage of these opportunities. The Porcine Epidemic Diarrhea virus (PEDv) continues to present challenges for swine producers, including several within our portfolio, by adversely impacting production and profitability.

The volatility of corn and soybean prices creates an added risk for producers to manage, particularly for the protein sectors of our portfolio.

Crop producers enjoyed several years of strong income driven by export demand and the expanded use of grains for bio-fuel production. Credit quality in this segment is strong. With generally favorable conditions for U.S. corn and soybean production in 2013, prices decreased and, as such, we expect grain producer incomes to be around break-even to some modest profitability. Strong liquidity and equity positions should be maintained, but we expect to see tightening margins pose some potential challenges for producers during the next 12 months. Domestic stocks of corn and soybeans are at relatively solid levels. Grain producers in Minnesota and Wisconsin generally experienced a fair year in 2013.

Conditions the past two to three years have been favorable overall for agricultural producers resulting in positive performance generally for agribusinesses. Ethanol assets are part of the agribusiness segment and credit quality in this segment remained relatively stable as margins improved due to lower corn prices. Profitability was attainable for most producers in 2013.

In addition, significant steps to manage risk in the portfolio have been taken through enhancement of enterprise risk management and continuing efforts to promote financial counseling. We also actively consider portfolio credit quality in assessing the reasonableness of our allowance for loan/lease losses.

In certain circumstances, we use various government guarantee programs to reduce the risk of loss in our portfolio. At December 31, 2013, $83.1 million of our loans were, to some level, guaranteed under these government programs. In addition, at December 31, 2013, $426.8 million of our loans were guaranteed through the Federal Agricultural Mortgage Corporation (Farmer Mac) Standby Commitment Program.

Excluded in the ratios and volumes as discussed in this section are our investment securities. At December 31, 2013, our investment securities totaled $462.4 million, consisting of $272.4 million in mortgage-backed securities issued and guaranteed by Farmer Mac and $190.0 million in investment securities, issued and guaranteed by the Small Business Administration (SBA) or USDA. Had this volume been included, the adversely classified asset ratio would be 2.7% at December 31, 2013, compared to 4.0% at December 31, 2012. Additional investment securities information is included in Notes 5 and 17.

Analysis of the Allowance for Loan/Lease Losses

The allowance for loan/lease losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan/lease losses based on the periodic evaluation of factors such as loan loss history, probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

The following table presents allowance coverage, charge-off, and adverse asset information:

As of December 31	**2013**	2012	2011
Allowance as a percentage of:			
Loans	**0.4%**	0.5%	0.5%
Nonaccrual loans	**17.7%**	17.7%	16.3%
Total risk loans	**17.5%**	17.7%	16.3%
Net charge-offs as a percentage of average earning assets	**0.0%**	0.1%	0.4%
Net charge-offs as a percentage of average loans	**0.0%**	0.1%	0.4%
Adverse assets to risk funds	**18.6%**	31.1%	38.2%

Our allowance levels reflect the continued improvements made in our portfolio. Larger provision expense was taken in prior years reflecting the impact of the volatility in the commodity and financial markets during those years. In the years presented, adverse accounts have paid down or off, been upgraded, or have taken charge-offs. In our opinion the allowance was reasonable in relation to the risk in the portfolio as of December 31, 2013.

Additional loan information is included in Notes 3, 13, 14, 16, and 17.

LOANS HELD FOR SALE

Beginning in 2013, we have loans held for sale under a rural residential mortgage program designed to provide qualified borrowers with additional options for competitive rate financing of rural homes in small towns or that are part of a hobby farm, pastureland, or tillable acreage. Loans closed under this program will be sold to and securitized by a third party investor. At December 31, 2013, the volume in this program was $4.5 million.

INVESTMENT SECURITIES

In addition to loans and leases, we hold investment securities. Our investments primarily include mortgage-backed securities issued and guaranteed by Farmer Mac and investment securities issued and guaranteed by SBA or USDA.

Investment securities totaled $462.4 million, $484.1 million, and $505.5 million at December 31, 2013, 2012, and 2011, respectively.

The investment portfolio is evaluated for other-than-temporary impairment. To date, we have not recognized any impairment on our investment portfolio.

Additional investment securities information is included in Notes 5 and 17.

RESULTS OF OPERATIONS

The following table illustrates profitability information (dollars in thousands):

For the year ended December 31	**2013**	2012	2011
Net income	**$ 116,130**	$ 107,381	$ 75,412
Return on average assets	**1.7%**	1.8%	1.3%
Return on average equity	**11.9%**	12.9%	9.7%

Changes in these ratios relate directly to:

- changes in income as discussed below,
- changes in assets as discussed in the Loan Portfolio and Investment Securities sections, and
- changes in equity as discussed in the Capital Adequacy section.

The following table summarizes the changes in components of net income (in thousands):

	For the year ended December 31			Increase (decrease) in net income	
	2013	2012	2011	**2013 vs 2012**	2012 vs 2011
Net interest income	**$ 175,272**	$ 158,151	$ 147,565	**$ 17,121**	$ 10,586
Provision for (reversal of) loan/lease losses	**(3,078)**	7,182	7,400	**10,260**	218
Patronage income	**21,540**	18,338	17,133	**3,202**	1,205
Other income, net	**38,467**	45,962	39,479	**(7,495)**	6,483
Operating expenses	**117,747**	111,259	110,591	**(6,488)**	(668)
Provision for (benefit from) income taxes	**4,480**	(3,371)	10,774	**(7,851)**	14,145
Net income	**$ 116,130**	$ 107,381	$ 75,412	**$ 8,749**	$ 31,969

Net Interest Income

Net interest income was $175.3 million for the year ended December 31, 2013. The following table quantifies changes in net interest income (in thousands):

	2013 vs 2012	2012 vs 2011
Changes in AgriBank, FCB note payable and earning assets	**$ 20,317**	$ 12,321
Changes in rates on AgriBank, FCB note payable and earning assets	**(4,988)**	(1,083)
Changes due to asset securitization	**438**	404
Changes in nonaccrual income and other	**1,354**	(1,056)
Net change	**$ 17,121**	$ 10,586

Net interest income included income on nonaccrual loans that totaled $5.3 million, $4.5 million, and $5.9 million in 2013, 2012, and 2011, respectively. Nonaccrual income is recognized when received in cash, collection of the recorded investment is fully expected, and prior charge-offs have been recovered.

Net interest margin (net interest income divided by average earning assets) was 2.7% in 2013, 2012, and 2011. We expect margins to compress in the future as interest rates rise, competition increases, and growth in our correspondent lending programs continues. However, we expect our loan and lease products to remain competitive in the market place in 2014.

Provision for (Reversal of) Loan/Lease Losses

The fluctuation in the provision for (reversal of) loan/lease losses is related to our estimate of losses in our portfolio for the applicable years. Continued improvement in credit quality resulted in a reversal of provision expense in 2013. Refer to Note 3 for additional discussion.

Patronage Income

We received patronage income based on the average balance of our note payable to AgriBank. AgriBank's Board of Directors sets the patronage rate. The patronage rate was 34.5 basis points, 32 basis points, and 31 basis points in 2013, 2012, and 2011, respectively. We recorded patronage income of $19.2 million, $16.2 million, and $14.7 million in 2013, 2012, and 2011, respectively.

We also participate in a program with AgriBank in which we sell participation interests in certain real estate loans to AgriBank. As part of this Asset Pool program, we received patronage income in an amount that approximated the net earnings of the loans. Net earnings represents the net interest income associated with these loans adjusted for certain fees and costs specific to the related loans as well as adjustments deemed appropriate by AgriBank related to the credit performance of the loans, as applicable. In addition, we received patronage income in an amount that approximated the wholesale patronage had we retained the volume. Patronage declared on these pools is solely at the discretion of the AgriBank Board of Directors. We recorded asset pool patronage income of $2.3 million, $2.1 million, and $2.5 million in 2013, 2012, and 2011, respectively. As part of this income in 2012, we received a $190 thousand share of the distribution from the Allocated Insurance Reserve Accounts (AIRA) related to the Asset Pool program. These reserve accounts were established in previous years by the Farm Credit System Insurance Corporation when premiums collected increased the level of the Farm Credit Insurance Fund above the required 2.0% of insured debt. No such distributions were received in 2013 or 2011.

Other Income, Net

The change in other income is primarily due to the following:

The decrease in other income is primarily due to our share of distributions from AIRA. We received $6.1 million in 2012 and there were no similar distributions in 2013 or 2011. Effective July 1, 2012, we sold our tax and accounting portfolio to CliftonLarsonAllen LLP, causing a $2.2 million decline in tax and accounting income. Crop insurance income also decreased $2.2 million resulting from a lower cap income level and reduced profit share, partially offset by an increase in acres covered by insurance. These negative variances were partially offset by increased loan/lease fees and outside fee appraisal income totaling $2.6 million.

We originate rural home loans for resale in the secondary market. We sold loans in the secondary market totaling $56.2 million, $77.1 million, and $52.4 million in 2013, 2012, and 2011, respectively. The fee income from this activity totaled $1.2 million, $1.5 million, and $865 thousand in 2013, 2012, and 2011, respectively.

Operating Expenses

The following presents a comparison of operating expenses by major category and the net pre-tax operating rate (total on-going expenses less financially related services income and fees earned, divided by average earning assets) for the past three years (dollars in thousands):

For the year ended December 31	**2013**	2012	2011
Salaries and employee benefits	**$ 81,657**	$ 78,161	$ 75,352
Purchased and vendor services	**6,364**	6,286	6,905
Communications	**1,367**	1,604	1,538
Occupancy and equipment	**10,639**	9,569	9,094
Advertising and promotion	**5,504**	5,481	5,658
Examination	**1,430**	1,569	1,609
Farm Credit System insurance	**5,615**	2,660	2,996
Other	**5,171**	5,929	7,439
Total operating expenses	**$ 117,747**	$ 111,259	$ 110,591
Net pre-tax operating rate	**1.1%**	1.1%	1.2%

Salary and benefits expense increased $3.5 million primarily related to normal salary and benefit increases, an increase in the number of team members in our ProPartners Financial (ProPartners) alliance, and increased variable compensation expense resulting from favorable business results. These increases were partially offset by no longer having tax and accounting team members as of July 1, 2012, affecting all employee-related expense categories.

Occupancy and equipment increased $1.1 million due to higher technology related depreciation and maintenance expenses and higher building depreciation expenses.

Farm Credit System insurance expense increased $3.0 million due to an increase in the premium rate from 5 basis points in 2012 to 10 basis points in 2013 on accrual loans and from 15 basis points in 2012 to 20 basis points in 2013 on nonaccrual loans. In 2014, the premium on accrual loans is currently projected to increase to 12 basis points and 22 basis points for nonaccrual loans.

Other expense was $758 thousand lower in 2013 resulting mainly from lower intangible expense amortization and higher expense offsets from our facilitating association role in providing services to the ProPartners alliance. These positive variances were partially offset by increased expenses from loan standby commitment fees and lower gains on asset dispositions.

Provision for (Benefit from) Income Taxes

The change in provision for (benefit from) income taxes is primarily due to tax reductions caused by patronage redemptions and the timing of those redemptions. See Note 11 for additional discussion of the tax effect of our patronage program. Additionally, the pre-tax income of the taxable entities increased from 2012.

FUNDING AND LIQUIDITY

Funding

We borrow from AgriBank under a note payable, in the form of a line of credit, as described in Note 8. The following table summarizes note payable information (dollars in thousands):

For the year ended December 31	**2013**	2012	2011
Average balance	**$ 5,556,712**	$ 5,068,481	$ 4,732,694
Average interest rate	**1.6%**	1.8%	2.1%

Our other source of lendable funds is from unallocated surplus. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk.

We have $100 million of subordinated notes due in 2025 with a fixed interest rate of 9.0% per annum. These notes are unsecured and subordinate to all other categories of creditors, including general creditors, and senior to all classes of shareholders. At our option, we may redeem all or some of the notes at any time on or after a date 10 years from the closing date (March 2010). The transaction increased our regulatory permanent capital and total surplus ratios under the FCA Regulations and positions us for the future.

Liquidity

Our approach to sustaining sufficient liquidity to fund operations and meet current obligations is to maintain an adequate line of credit with AgriBank. At December 31, 2013, we had $619.1 million available under our line of credit. We generally apply excess cash to this line of credit.

On May 30, 2013, we issued $100 million of Series A-1 non-cumulative perpetual preferred stock. We used the net proceeds from the Series A-1 preferred stock issuance to increase our regulatory capital pursuant to current FCA Regulations, for the continued development of our business, and for general corporate purposes. For regulatory capital purposes, our Series A-1 preferred stock is included in permanent capital, total surplus, and core surplus, subject to certain limitations. Dividends on Series A-1 preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly. This issuance of Series A-1 preferred stock is discussed further in Note 10.

We have entered into a Standby Commitment to Purchase Agreement with Farmer Mac to help manage credit risk. If a loan covered by the agreement goes into default, subject to certain conditions, we have the right to sell the loan to Farmer Mac. This agreement remains in place until the loan is paid in full. The net investment of loans subject to the purchase agreement was $426.8 million, $244.1 million, and $223.7 million at December 31, 2013, 2012, and 2011, respectively. We also purchase mortgage-backed security investments from Farmer Mac. These investments are held-to-maturity, are included in “Investment securities” on the Consolidated Statements of Condition, and totaled $272.4 million, $302.7 million, and $340.2 million as of December 31, 2013, 2012, and 2011, respectively.

RuraLiving® is a rural residential mortgage program designed to provide qualified borrowers with additional options for competitive rate financing of rural homes in small towns or that are part of a hobby farm, pastureland, or tillable acreage. Loans closed under this program will be sold to and securitized by a third party investor.

CAPITAL ADEQUACY

Total equity increased $184.4 million during 2013 primarily due to net income for the period, the issuance of Series A-1 preferred stock, and an increase in capital stock and participation certificates, partially offset by patronage and dividend distributions.

Equity position information is as follows (dollars in thousands):

As of December 31	**2013**	2012	2011
Equity	**$ 1,056,160**	$ 871,721	$ 806,236
Surplus as a percentage of equity	**89.0%**	98.2%	98.2%
Permanent capital ratio	**15.4%**	13.9%	14.6%
Total surplus ratio	**15.2%**	13.7%	14.4%
Core surplus ratio	**12.5%**	10.9%	11.2%

Our capital plan is designed to maintain an adequate amount of surplus and allowance for loan/lease losses which represents our reserve for adversity prior to impairment of stock. We manage our capital to allow us to meet stockholder needs and protect stockholder interests, both now and in the future.

We have $100 million of aggregate principal amount of Series A Subordinated Notes (Notes), due in 2025. The Notes bear a fixed interest rate of 9.0% per annum, payable semi-annually. Our Board of Directors has authorized up to a maximum of $200 million for subordinated debt issuance. At our option, we may redeem all or some of the Notes, at any time on or after a date 10 years from the closing date (March 2010). This debt is subordinate to all other creditor debt, including general creditors, but senior to all classes of stock. Additional information is included in Note 9. The issuance proceeds increased our regulatory permanent capital and total surplus ratios.

On May 30, 2013, we issued $100 million of Series A-1 non-cumulative perpetual preferred stock. We used the net proceeds from the Series A-1 preferred stock issuance to increase our regulatory capital pursuant to current FCA Regulations, for the continued development of our business, and for general corporate purposes. For regulatory capital purposes, our Series A-1 preferred stock is included in permanent capital, total surplus, and core surplus, subject to certain limitations. Dividends on Series A-1 preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly. This issuance of Series A-1 preferred stock is discussed further in Note 10.

At December 31, 2013, our permanent capital, total surplus, and core surplus ratios exceeded the regulatory minimum requirements. Additional discussion of these regulatory ratios is included in Note 10.

In addition to these regulatory requirements, we establish an optimum permanent capital target. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. As of December 31, 2013, our optimum permanent capital target was 12.25%.

On January 20, 2011, the Board of Directors authorized the retirement of the remainder of the $13.9 million of 2001 nonqualified patronage allocations. This retirement was substantially completed by February 1, 2011. On January 18, 2012, the Board of Directors authorized the retirement of the remainder of the $17.8 million of 2002 nonqualified patronage allocations. This retirement was substantially completed by February 1, 2012. On September 19, 2012, the Board of Directors authorized the retirement of the remainder of the $22.8 million of 2003 nonqualified patronage allocations. This retirement was substantially completed by December 1, 2012. On September 18, 2013, the Board of Directors authorized the retirement of the remainder of the $24.7 million of 2004 nonqualified patronage allocations. This retirement was substantially completed by December 1, 2013. The timing of these payouts occurred within the Board of Directors' targeted 7-10 year retirement timeframe. On December 18, 2013, the Board of Directors authorized the payment of $88 thousand of dividends on approved transactions, to be paid by March 15, 2014. The timing and amounts of all future patronage redemptions and dividend payments remains at the discretion of the Board of Directors based on a combination of factors including the risk in our portfolio, earnings, and our current capital position. Further information regarding our patronage distributions is included in Notes 10 and 11.

The changes in our capital ratios reflect changes in capital and assets. Refer to the Loan Portfolio and the Investment Securities sections for further discussion of the changes in assets. Additional equity information is included in Note 10.

PROGRAMS

We are involved in a number of initiatives designed to improve our credit delivery, related services, and marketplace presence.

AgStar Fund for Rural America

Created in 2001, the AgStar Fund for Rural America (Fund) helps create stability and strength by investing in quality of life programs that create future opportunities for rural residents and their communities. In 2013, the Fund awarded $812 thousand through scholarships, grants, and sponsorships to support ag-related programs. The Fund is managed by an internal committee.

Highlights of the 2013 Fund activities include:

- Awarded over $124 thousand in grants to support local organizations that benefit agriculture and rural residents, supporting education, the environment, technology, and quality of life.
- Awarded $141 thousand to the Emergency Response Program providing rural communities with response equipment, technology, and turnout gear.
- Donated $30 thousand to high school agriculture classrooms, funding the technology and equipment needs in agricultural education.

Mission Related Investments

The public mission of the System has always been to provide financing to agriculture and rural areas. Our primary focus has always been and will remain financing production agriculture. Because of the changing needs of rural America, we have placed additional emphasis on investing in rural communities and businesses by creating the Rural Capital Network. This unit makes investments in rural America through the purchase of bonds, focusing on rural businesses, health care, and housing facilities. Additionally, we continue to have minority investments in a few small-scale local economic development corporations.

At the end of 2013, we had invested $161.5 million in bonds, compared to $139.9 million and $146.1 million at the end of 2012 and 2011, respectively. We had also invested $78 thousand in local economic development corporations at the end of 2013, compared to $91 thousand and $96 thousand at the end of 2012 and 2011, respectively.

RuraLiving®

RuraLiving® is a rural residential mortgage program designed to provide qualified borrowers with additional options for competitive rate financing of rural homes in small towns or that are part of a hobby farm, pastureland, or tillable acreage. Loans closed under this program will be sold to and securitized by a third party investor.

Patronage

Since 1998, our Board of Directors has allocated $453.2 million of nonqualified patronage dividends to our member stockholders. Our nonqualified patronage allocation is based on a Board of Directors resolution requiring an allocation of annual net patronage-eligible earnings. For 2013, this amounted to $61.7 million, spread between our member stockholders. Allocated patronage equities have no voting rights and are redeemed at the sole discretion of the Board of Directors.

OPERATING BUSINESS UNITS

Agri-Access®

We have entered into agreements with certain financial institutions to provide correspondent lending programs under the trade name Agri-Access®, which operates as a unit of AgStar Financial Services, ACA. Agri-Access focuses primarily on purchasing participations in agricultural real estate loans, rural home loans, and leases. Agri-Access also services loan portfolios for other institutional investors. These financial services firms are disbursed throughout the United States. The main Agri-Access contact office is located in Des Moines, Iowa. We also have contact offices in both Woodland, California and Meridian, Idaho. Further information can be obtained at www.agri-access.com.

Client Solutions Team

We provide operating, term, and real estate loans, leases, crop insurance, life insurance, and consulting services to over 14,500 core market clients and producers who are typically in the grain, dairy, and swine industries. This structure enables our team to collaborate with other professionals with specialized knowledge, depending on the client's specific goals and unique needs.

Our industry specialists possess broad, extensive knowledge and experience in their areas of expertise, providing financing to commercial producers, agribusinesses, and processors, primarily focused in swine, dairy, and bio-energy.

Our home mortgage services team provides home financing options for rural residents living in the country or in communities with populations of 2,500 or less. The focal points of this segment are mortgages to buy, build, or refinance residences or acreages. Title insurance, appraisal services, and home equity loans are also offered. Further information can be obtained at www.AgStarHome.com.

Our consulting team provides business advice and professional services such as family business consulting, succession planning, and estate planning. Services are provided across all commodities with particular expertise in the dairy, swine, and cash grain industry segments.

Capital Markets

The Capital Markets team focuses on relationships with commercial banks, Farm Credit institutions, and other lending partners to buy loan participations and partner in syndicated loan transactions. This specialized team provides a national marketing vehicle to gain improved access to the agribusiness and commercial producer loan market, and provides portfolio diversity, earnings, and market intelligence to the organization.

Rural Capital Network

The Rural Capital Network team is devoted to supporting community and economic development, infrastructure needs, revitalization projects, and minority lending in rural America. Rural Capital Network invests in projects through the purchase of bonds issued by local communities, organizations, or businesses. In addition, this team partners with other Farm Credit institutions and local community banks focusing on investing in critical access hospitals, assisted-living facilities, rural rental multi-family housing, business expansions, and other similar enterprises.

OTHER RELATIONSHIPS

Farmer Mac

We have a financial relationship with Farmer Mac to provide a standby commitment program for the repayment of principal and interest on certain loans. As of December 31, 2013, $426.8 million of our loans were in this program. Additionally, we are an approved mortgage loan central servicer for Farmer Mac. As of December 31, 2013, the total loan volume being serviced was $158 million. Income from this servicing for the year ended December 31, 2013 totaled $385 thousand. We also purchase mortgage-backed security investments from Farmer Mac. These investments are held-to-maturity, are included in "Investment securities" in the Consolidated Statements of Condition, and totaled $272.4 million, $302.7 million, and $340.2 million as of December 31, 2013, 2012, and 2011, respectively.

Fleet Management

We offer fleet management services to small and mid-sized agribusinesses. Depending on the program selected, services range from customized vehicle ordering, combined with lease financing, to full service program options of providing fuel cards, maintenance management, 24/7 emergency roadside assistance, license renewal services, fleet reporting, and vehicle disposal service. Additionally, we make available customized vehicle ordering and leasing options to Farm Credit institutions. At the end of 2013, we have ordered vehicles for 28 System entities. We have manufacturer's fleet codes for the following brands: Ford, General Motors, Chrysler, Toyota, Nissan, Mazda, Volvo, and Subaru.

ProPartners Financial

We have an alliance with nine other Farm Credit association partners to provide producer financing for agribusiness companies under the trade name ProPartners Financial (ProPartners). ProPartners is directed by representatives from the participating associations and has employees in California, Illinois, Indiana, Kansas, Minnesota, Missouri, North Dakota, Tennessee, and Washington. The income, expense, and loss sharing arrangements are based on each association's participation interest in ProPartners volume. Each association's allocation was established according to a prescribed formula which includes risk funds of the associations. We had $131.0 million, $112.7 million, and $119.2 million of ProPartners volume at December 31, 2013, 2012, and 2011, respectively.

As the facilitating association for ProPartners, we provide, and are compensated for, various support functions. This includes human resources, accounting, payroll, reporting, and other finance functions.

Synthetic Securitization

On March 8, 2012, we terminated the Credit Default Swap Agreement (Agreement) entered into on October 9, 2009 with AgFunding 2009-A LLC. The loan pool balance was $40.3 million at the time of termination. Early redemption was allowed by the Agreement once the aggregate outstanding principal balance of the pool was less than 20% of the original $202 million note balance. The balance of the pool was $50.4 million as of December 31, 2011. There were five tranches in the synthetic securitization. The Junior Risk tranche, held by us, had the first risk of loss and totaled $1.7 million on March 8, 2012. The next risk of loss fell into Tranches A, B, and C and these totaled $1.4 million on March 8, 2012. Tranches A, B, and C were owned by a third party. In 2011, one $58 thousand loss was taken against the Junior Risk tranche. No other losses were incurred under the Agreement.

Trade Credit

We have entered into agreements with certain dealer networks to provide alternative service delivery channels to clients. These trade credit opportunities create more flexible and accessible financing options to clients through programs such as dealer point-of-purchase financing.

FCC Services

We have a business relationship with FCC Services to provide various risk and insurance management, vehicle purchases, and training services. Additionally we have a strategic support agreement with FCC Services to enable FCC Services to provide reinsurance to crop insurance companies that includes a loss/gain sharing agreement. Included in Other assets in the Consolidated Statements of Condition is $6.2 million, net, to help support our total relationship. In 2013, we paid $3.9 million, net, to FCC Services for insurances, memberships, training, and losses under the loss/gain sharing agreement.

RELATIONSHIP WITH AGRIBANK

Borrowing

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement (GFA), as discussed in Note 8, governs this lending relationship.

Cost of funds under the GFA includes a marginal cost of debt component, a spread component, which includes cost of servicing, cost of liquidity, and bank profit, and if applicable, a risk premium component. The marginal cost of debt approach simulates matching the cost of underlying debt with substantially the same terms as the anticipated terms of our loans to borrowers. This methodology substantially protects us from market interest rate risk.

During 2011, we were subject to a six basis point risk premium. Based on improvements in certain risk ratios throughout 2011, we were not subject to a risk premium in 2012 or 2013 and are not subject to a risk premium in 2014.

Investment

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing previously distributed AgriBank surplus. As of December 31, 2013, we were required to maintain a stock investment equal to 2.5% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on compound growth in excess of a defined annual rate. AgriBank's current bylaws allow AgriBank to increase the required investment to 4.0%. However, AgriBank currently has not communicated a plan to increase the required investment. In addition, we are required to hold AgriBank stock equal to 8.0% of the quarter end Asset Pool program participation loan balance.

At December 31, 2013, $107.0 million of our investment in AgriBank consisted of stock representing distributed AgriBank surplus and $43.0 million consisted of purchased investment. For the periods presented in this report, we have received no dividend income on this stock investment and we do not anticipate any in future years.

Patronage

We receive different types of discretionary patronage from AgriBank. AgriBank's Board of Directors sets the level of patronage for each of the following:

- patronage on our note payable with AgriBank, and
- patronage based on the balance and net earnings of loans in the Asset Pool program.

Patronage income on our note payable with AgriBank was received in the form of cash and AgriBank stock.

Purchased Services

We purchase various services from AgriBank including:

- certain information system services,
- certain financial services,
- certain accounting and reporting services, and
- certain retail product processing and support services.

The total cost of services we purchased from AgriBank was $1.8 million, $1.8 million, and $2.1 million in 2013, 2012, and 2011, respectively.

RELATIONSHIP WITH OTHER ENTITIES

Investment in Other Farm Credit Institutions

We have a relationship with CoBank, ACB (CoBank) which involves purchasing or selling participation interests in loans. CoBank also provides certain cash management services to some of our clients. To support these cash management services, we have a cash management agreement with CoBank that includes an $8 million back-up cash management settlement facility. As part of this relationship, our equity investment in CoBank was $814 thousand, $871 thousand, and $1.0 million at December 31, 2013, 2012, and 2011, respectively. CoBank provides direct loan funds to associations in its chartered territory and also makes loans to cooperatives and other eligible clients.

We have a relationship with Farm Credit Foundations (Foundations) which involves purchasing human resource information systems, benefit, payroll, and workforce management services. Foundations was operated as part of AgriBank prior to January 1, 2012 when it formed a separate System service corporation. As of December 31, 2013 and 2012, our investment in Foundations was $83 thousand. The total cost of services we purchased from Foundations was $393 thousand and $334 thousand in 2013 and 2012, respectively.

Other Entities

We have three limited liability corporations (LLC's) established for the purpose of acquiring and selling the collateral acquired through the loan collection process. The names of these LLC's are: RBF VIII, LLC, Northwest Sand and Gravel Acquisition, LLC, and Dairy Acquisition I, LLC.

We have a limited liability partnership called 4 Rivers, LLP established for the purpose of negotiating and entering into contracts on behalf of the partners under which each partner will sell authorized insurance products and services as authorized under Section 4.29 of the Farm Credit Act of 1971 as amended, and perform such other activities as may be necessary, advisable, or incidental to the carrying out of this purpose. This is a partnership that was formed with United FCS, FLCA, 1st Farm Credit Services, FLCA and

Badgerland Financial, FLCA. All four partners have equal ownership in the partnership and share costs equally. We do not receive any management fees from the partnership. The legal address of the partnership is 1921 Premier Drive, Mankato, MN 56001.

We have a limited liability corporation established for the purpose of facilitating bond transactions with other financial institutions called Rural Funding, LLC. We do not receive any management fees from the partnership. The legal address of the partnership is 1921 Premier Drive, Mankato, MN 56001.

These entities have no material impact on our consolidated financial statements.

AgriBank's financial condition and results of operations materially impact stockholders' investment in AgStar Financial Services, ACA. To request free copies of the AgriBank and combined AgriBank and Affiliated Associations' financial reports, contact us at P.O. Box 4249, Mankato, MN 56002-4249, by phone (866-577-1831), by e-mail to AgStarEteam@agstar.com, or at our website, www.agstar.com. You may also contact AgriBank at 30 East 7th Street, Suite 1600, St. Paul, MN 55101, (651) 282-8800, or by e-mail at financialreporting@agribank.com. The AgriBank and combined AgriBank and Affiliated Associations' financial reports are also available through AgriBank's website at www.agribank.com.

To request free copies of our Annual or Quarterly Reports contact us as stated above. The Annual Report is available on our website no later than 75 days after the end of the calendar year and stockholders are provided a copy of such report no later than 90 days after the end of the calendar year. The Quarterly Reports are available on our website no later than 40 days after the end of each calendar quarter.

REPORT OF MANAGEMENT

AgStar Financial Services, ACA

We prepare the consolidated financial statements of AgStar Financial Services, ACA (the Association) and are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements, in our opinion, fairly present the financial condition of the Association. Other financial information included in the Annual Report is consistent with that on the consolidated financial statements.

To meet our responsibility for reliable financial information, we depend on accounting and internal control systems designed to provide reasonable, but not absolute assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the benefits derived when designing accounting and internal control systems. Financial operations audits are performed to monitor compliance. PricewaterhouseCoopers LLP, our independent auditors, audit the consolidated financial statements. They also conduct a review of internal controls to the extent necessary to comply with auditing standards generally accepted in the United States of America. The Farm Credit Administration also performs examinations for safety and soundness as well as compliance with applicable laws and regulations.

The Board of Directors has overall responsibility for our system of internal control and financial reporting. The Board of Directors and its Audit Committee consults regularly with us and meets periodically with the independent auditors and other auditors to review the scope and results of their work. The independent auditors have direct access to the Board of Directors, which is composed solely of directors who are not officers or employees of the Association.

The undersigned certify we have reviewed the Association's Annual Report and it has been prepared in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Spencer Enninga
Chairperson of the Board
AgStar Financial Services, ACA

Paul A. DeBriyn
President and Chief Executive Officer
AgStar Financial Services, ACA

Rodney W. Hebrink
Executive Vice President and Chief Financial Officer
AgStar Financial Services, ACA

February 28, 2014

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

AgStar Financial Services, ACA

The AgStar Financial Services, ACA (the Association) 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 1992 framework in Internal Control — Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

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

Paul A. DeBriyn
President and Chief Executive Officer
AgStar Financial Services, ACA

Rodney W. Hebrink
Executive Vice President and Chief Financial Officer
AgStar Financial Services, ACA

February 28, 2014

REPORT OF AUDIT COMMITTEE

The consolidated financial statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of six members of the Board of Directors of AgStar Financial Services, ACA (the Association). The Audit Committee oversees the scope of the Association's internal audit program, the approval, and independence of PricewaterhouseCoopers LLP (PwC) as independent auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

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

In this context, the Audit Committee reviewed and discussed the audited consolidated financial statements for the year ended December 31, 2013, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards No. 114, *The Auditor's Communication with Those Charged with Governance*, and both PwC and the internal auditors directly provided reports on significant matters to the Audit Committee.

The Audit Committee had discussions with and received written disclosures from PwC confirming its independence. The Audit Committee also reviewed the non-audit services provided by PwC, if any, and concluded these services were not incompatible with maintaining PwC's independence. The Audit Committee discussed with management and PwC any other matters and received any assurances from them as the Audit Committee deemed appropriate.

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the Annual Report for the year ended December 31, 2013.

Kevin Koppendrayer
Chairperson of the Audit Committee
AgStar Financial Services, ACA

Other Committee Members:
Lawrence Romuald, Vice Chairperson of the Audit Committee
Wesley Beck
Terry Ebeling
Spencer Enninga
Larry Fischer

February 28, 2014

Independent Auditor's Report

To the Board of Directors and Stockholders of AgStar Financial Services, ACA,

We have audited the accompanying consolidated financial statements of AgStar Financial Services, ACA (the Association) and its subsidiaries, which comprise the consolidated statements of condition as of December 31, 2013, 2012 and 2011, and the related consolidated statements of income, changes in equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP

February 28, 2014

PricewaterhouseCoopers LLP, 225 South Sixth Street, Suite 1400, Minneapolis, MN 55402
T: (612) 596 6000, www.pwc.com/us

CONSOLIDATED STATEMENTS OF CONDITION

AgStar Financial Services, ACA

(in thousands)

As of December 31	**2013**	2012	2011
ASSETS			
Loans held to maturity	**$ 6,363,512**	$ 5,913,336	$ 5,187,874
Allowance for loan/lease losses	**24,725**	26,814	26,833
Net loans held to maturity	**6,338,787**	5,886,522	5,161,041
Loans held for sale	**4,470**	--	--
Net loans	**6,343,257**	5,886,522	5,161,041
Investment securities	**462,424**	484,092	505,486
Assets held for lease, net	**36,452**	35,296	34,688
Accrued interest receivable	**49,456**	45,029	46,204
Investment in AgriBank, FCB	**150,016**	141,137	130,150
Premises and equipment, net	**16,793**	18,128	17,887
Other property owned	**3,315**	10,137	6,954
Other assets	**44,643**	44,031	44,005
Total assets	**$ 7,106,356**	$ 6,664,372	$ 5,946,415
LIABILITIES			
Note payable to AgriBank, FCB	**$ 5,862,433**	$ 5,610,487	$ 4,954,046
Subordinated debt	**100,000**	100,000	100,000
Accrued interest payable	**22,787**	22,628	27,468
Deferred tax liabilities, net	**7,061**	8,751	10,515
Other liabilities	**57,915**	50,785	48,150
Total liabilities	**6,050,196**	5,792,651	5,140,179
Contingencies and commitments	**--**	--	--
EQUITY			
Capital stock and participation certificates	**15,912**	15,655	14,859
Preferred stock	**100,000**	--	--
Allocated surplus	**339,360**	302,789	290,517
Unallocated surplus	**600,888**	553,277	500,860
Total equity	**1,056,160**	871,721	806,236
Total liabilities and equity	**$ 7,106,356**	$ 6,664,372	$ 5,946,415

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

CONSOLIDATED STATEMENTS OF INCOME

AgStar Financial Services, ACA

(in thousands)

For the year ended December 31	**2013**	2012	2011
Interest income	**$ 271,082**	$ 257,851	$ 258,149
Interest expense	**95,810**	99,700	110,584
Net interest income	**175,272**	158,151	147,565
Provision for (reversal of) loan/lease losses	**(3,078)**	7,182	7,400
Net interest income after provision for (reversal of) loan/lease losses	**178,350**	150,969	140,165
Other income			
Patronage income	**21,540**	18,338	17,133
Net operating lease income	**1,634**	1,839	2,005
Financially related services income	**16,911**	22,471	23,813
Fee and miscellaneous income, net	**19,922**	21,652	13,661
Total other income	**60,007**	64,300	56,612
Operating expenses			
Salaries and employee benefits	**81,657**	78,161	75,352
Farm Credit System insurance	**5,615**	2,660	2,996
Other operating expenses	**30,475**	30,438	32,243
Total operating expenses	**117,747**	111,259	110,591
Income before income taxes	**120,610**	104,010	86,186
Provision for (benefit from) income taxes	**4,480**	(3,371)	10,774
Net income	**$ 116,130**	$ 107,381	$ 75,412

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

AgStar Financial Services, ACA

(in thousands)

	Capital Stock and Participation Certificates	Preferred Stock	Allocated Surplus	Unallocated Surplus	Total Members' Equity
Balance as of December 31, 2010	$ 14,125	$ --	$ 265,010	$ 465,463	$ 744,598
Net income	--	--	--	75,412	75,412
Net surplus allocated under nonqualified patronage program	--	--	40,015	(40,015)	--
Redemption of prior year allocated patronage	--	--	(14,508)	--	(14,508)
Capital stock and participation certificates issued	1,763	--	--	--	1,763
Capital stock and participation certificates retired	(1,029)	--	--	--	(1,029)
Balance as of December 31, 2011	14,859	--	290,517	500,860	806,236
Net income	--	--	--	107,381	107,381
Net surplus allocated under nonqualified patronage program	--	--	54,966	(54,964)	2
Redemption of prior year allocated patronage	--	--	(42,694)	--	(42,694)
Capital stock and participation certificates issued	2,084	--	--	--	2,084
Capital stock and participation certificates retired	(1,288)	--	--	--	(1,288)
Balance as of December 31, 2012	15,655	--	302,789	553,277	871,721
Net income	**--**	**--**	**--**	**116,130**	**116,130**
Net surplus allocated under nonqualified patronage program	**--**	**--**	**61,598**	**(61,598)**	**--**
Redemption of prior year allocated patronage	**--**	**--**	**(25,027)**	**--**	**(25,027)**
Preferred stock issued	**--**	**100,000**	**--**	**(3,701)**	**96,299**
Preferred stock dividend	**--**	**--**	**--**	**(3,132)**	**(3,132)**
Other distribution	**--**	**--**	**--**	**(88)**	**(88)**
Capital stock and participation certificates issued	**1,878**	**--**	**--**	**--**	**1,878**
Capital stock and participation certificates retired	**(1,621)**	**--**	**--**	**--**	**(1,621)**
Balance as of December 31, 2013	**$ 15,912**	**$ 100,000**	**$ 339,360**	**$ 600,888**	**$ 1,056,160**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

AgStar Financial Services, ACA
(in thousands)

For the year ended December 31	2013	2012	2011
Cash flows from operating activities			
Net income	**$ 116,130**	$ 107,381	$ 75,412
Depreciation on premises and equipment	**4,853**	4,258	3,681
Gain on sale of premises and equipment	**(760)**	(675)	(352)
Depreciation on assets held for lease	**8,405**	8,088	7,822
Gain on disposal of assets held for lease	**(119)**	(184)	(165)
Increase in loans held for sale	**(4,470)**	--	--
Amortization of premiums on loans and investment securities	**1,160**	1,073	852
Provision for (reversal of) loan/lease losses	**(3,078)**	7,182	7,400
Stock patronage received from Farm Credit Institutions	**(8,822)**	(8,161)	(9,750)
Loss on other property owned	**2,004**	1,484	1,435
Changes in operating assets and liabilities:			
Accrued interest receivable	**(5,373)**	(6,967)	(4,588)
Other assets	**(669)**	(72)	(6)
Accrued interest payable	**159**	(4,840)	(2,886)
Other liabilities	**5,171**	2,203	14,398
Net cash provided by operating activities	**114,591**	110,770	93,253
Cash flows from investing activities			
Increase in loans, net	**(450,225)**	(731,279)	(296,682)
(Purchases) redemptions of investment in AgriBank, FCB, net	**(83)**	(2,862)	5,733
Redemptions of investment in other Farm Credit Institutions, net	**83**	82	97
Decrease (increase) in investment securities, net	**20,294**	20,172	(39,218)
Purchases of assets held for lease, net	**(9,442)**	(8,512)	(6,737)
Proceeds from sales of other property owned	**7,501**	2,950	4,260
Purchases of premises and equipment, net	**(2,758)**	(3,824)	(5,931)
Decrease (increase) in restricted cash	**218**	(1,332)	(202)
Net cash used in investing activities	**(434,412)**	(724,605)	(338,680)
Cash flows from financing activities			
Increase in note payable to AgriBank, FCB, net	**251,946**	656,441	259,876
Patronage distributions	**(25,115)**	(42,692)	(14,508)
Preferred stock issued, net	**96,299**	--	--
Preferred stock dividend	**(3,132)**	--	--
Capital stock and participation certificates (retired) issued, net	**(177)**	86	59
Net cash provided by financing activities	**319,821**	613,835	245,427
Net change in cash	**--**	--	--
Cash at beginning of year	**--**	--	--
Cash at end of year	**$ --**	$ --	$ --
Supplemental schedule of non-cash activities			
Stock financed by loan activities	**$ 1,024**	$ 1,269	$ 1,119
Stock applied against loan principal	**582**	555	435
Stock applied against interest	**8**	4	9
Interest transferred to loans	**938**	8,138	1,952
Loans transferred to other property owned	**2,821**	8,571	7,732
Financed sales of other property owned	**138**	954	934
Deferred gain related to financed sales of other property owned	**51**	--	--
Decrease (increase) in payable to Farmer Mac not yet settled	**218**	(1,332)	(202)
Supplemental information			
Interest paid	**$ 95,651**	$ 104,540	$ 113,470
Taxes paid	**3,965**	2,544	2,145

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AgStar Financial Services, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

Association

AgStar Financial Services, ACA (the Association) and its subsidiaries, AgStar Financial Services, FLCA and AgStar Financial Services, PCA (the subsidiaries) are lending institutions of the Farm Credit System (System). We are a member-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible member stockholders for qualified agricultural purposes in the counties Aitkin, Anoka, Benton, Blue Earth, Brown, Carlton, Carver, Cass, Chisago, Cook, Cottonwood, Crow Wing, Dakota, Dodge, Faribault, Fillmore, Freeborn, Goodhue, Hennepin, Houston, Isanti, Itasca, Jackson, Kanabec, Lake, LeSueur, McLeod, Martin, Mille Lacs, Morrison, Mower, Murray, Nicollet, Nobles, Olmsted, Pine, Pipestone, Ramsey, Rice, Rock, St. Louis, Scott, Sibley, Sherburne, Stearns, Steele, southern Todd, Wabasha, Waseca, Washington, Watonwan, Winona, and Wright counties in the state of Minnesota and Ashland, Barron, Bayfield, Burnett, Chippewa, Douglas, Dunn, Eau Claire, Iron, Pepin, Pierce, Polk, Rusk, St. Croix, Sawyer, and Washburn counties in the state of Wisconsin.

We borrow from AgriBank, FCB (AgriBank) and provide financing and related services to our clients. Our ACA holds all the stock of the FLCA and PCA subsidiaries and provides lease financing options for agricultural production or operating purposes. The FLCA makes secured long-term agricultural real estate, rural home, and part-time farmer mortgage loans and holds certain types of investments. The PCA makes short-term and intermediate term loans and holds certain types of investments. We also service certain loans.

We offer various risk management services, including credit life, term life, credit disability, debt protection, title, crop hail, and multi-peril crop insurance for clients and those eligible to borrow. We also offer services, such as fee appraisals, retirement and succession planning, cash management, farm business consulting, producer education, auction clerking, title search, and fleet management services to our clients.

Farm Credit System and District

Farm Credit System Lending Institutions: The System is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of December 31, 2013, the System consisted of three Farm Credit Banks (FCB), one Agricultural Credit Bank (ACB), and 82 customer-owned cooperative lending institutions (associations). AgriBank, FCB (AgriBank), a System bank, and its affiliated associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). At December 31, 2013, the District consisted of 17 Agricultural Credit Associations (ACA) that each has wholly-owned Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries.

FLCAs are authorized to originate long-term real estate mortgage loans. PCAs are authorized to originate short-term and intermediate-term loans. ACAs are authorized to originate long-term real estate mortgage loans and short-term and intermediate-term loans either directly or through their subsidiaries. Associations are authorized to provide lease financing options for agricultural purposes and are also authorized to purchase and hold certain types of investments. AgriBank provides funding to all associations chartered within the District.

Associations are authorized to provide, either directly or in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers may include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related service businesses. In addition, associations can participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a System lending institution, but have operations that are functionally similar to the activities of eligible borrowers.

Farm Credit System Regulator: The Farm Credit Administration (FCA) is authorized by Congress to regulate the System banks and associations. We are examined by the FCA and certain association actions are subject to the prior approval of the FCA and/or AgriBank.

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

At the discretion of the FCSIC, the Insurance Fund is also available to provide assistance to certain troubled System institutions and for the operating expenses of the FCSIC. Each System bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2.0% of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. This percentage of aggregate obligations can be changed by the FCSIC, at its sole discretion, to a percentage it determines to be actuarially sound. The basis for assessing premiums is debt outstanding with adjustments made for nonaccrual loans and impaired investment securities which are assessed a surcharge. A deduction from the premium base is taken for loans and investment securities that are guaranteed. The premium rate on this base was 10 basis points, 5 basis points, and 6 basis points for 2013, 2012, and 2011, respectively. With the addition of a 10 basis point surcharge, the premium rate on nonaccrual loans and impaired investments was 20 basis points, 15 basis points, and 16 basis points for 2013, 2012, and 2011, respectively. In 2014, this premium rate on accrual loans is currently projected to increase to 12 basis points and on nonaccrual loans to 22 basis points. AgriBank, in turn, assesses premiums to District associations each year based on similar factors.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Reporting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. Preparing financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Certain amounts in prior years' financial statements have been reclassified to conform to the current year's presentation.

Principles of Consolidation

The consolidated financial statements present the consolidated financial results of AgStar Financial Services, ACA and its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

Loans Held to Maturity: Loans are carried at their principal amount outstanding net of any unearned income, cumulative charge-offs, unamortized deferred fees and costs on originated loans, and unamortized premiums or discounts on purchased loans. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Material fees, net of related costs, are deferred and recognized over the life of the loan as an adjustment to net interest income. Other loan origination fees are recorded as income because the net amount of these fees and related expenses is not material to the consolidated financial statements taken as a whole.

We place loans in nonaccrual status when:

- principal or interest is delinquent for 90 days or more (unless the loan is well secured and in the process of collection) or
- circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status, we reverse current year accrued interest to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment of the loan, unless the net realizable value is less than the recorded investment in the loan, then it is charged-off against the allowance for loan/lease losses. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior charge-offs. In these circumstances interest is credited to income when cash is received. Loans are charged-off at the time they are determined to be uncollectible. Nonaccrual loans may be returned to accrual status when:

- principal and interest are current,
- prior charge-offs have been recovered,
- the ability of the borrower to fulfill the contractual repayment terms is fully expected,

- the borrower has demonstrated payment performance, and
- the loan is not classified as doubtful or loss.

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as troubled debt restructurings are considered risk loans.

Loans Held for Sale: Loans held for sale include rural residential mortgages originated for sale. We elected the fair value option for all loans held for sale. Loans are valued on an individual basis and gains or losses are recorded in "Fee and miscellaneous income, net" in the Consolidated Statements of Income. Direct loan origination costs and fees for loans held for sale are recognized in income at origination. Interest income on loans held for sale is calculated based upon the note rate of the loan and is recorded in "Interest income" in the Consolidated Statements of Income.

Allowance for Loan/Lease Losses: The allowance for loan/lease losses is an estimate of losses in our loan portfolio as of the financial statement date. We determine the appropriate level of allowance for loan/lease losses based on periodic evaluation of factors such as:

- loan loss history,
- estimated probability of default,
- estimated loss severity,
- portfolio quality, and
- current economic and environmental conditions.

Loans in our portfolio that are considered impaired are analyzed individually to establish a specific allowance. A loan is impaired when it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. We generally measure impairment based on the net realizable value of the collateral. All risk loans are considered to be impaired loans. Risk loans include:

- nonaccrual loans,
- accruing restructured loans, and
- accruing loans 90 days or more past due.

We record a specific allowance to reduce the carrying amount of the risk loan by the amount the recorded investment exceeds the net realizable value of collateral. When we deem a loan to be uncollectible, we charge the loan principal and prior year(s) accrued interest against the allowance for loan/lease losses. Subsequent recoveries, if any, are added to the allowance for loan/lease losses.

An allowance is recorded for probable and estimable credit losses as of the financial statement date for loans that are not individually assessed as impaired. We use a two-dimensional loan risk rating model that incorporates a 14-point rating scale to identify and track the probability of borrower default and a separate 6-point scale addressing the loss severity. The combination of estimated default probability and loss severity is the primary basis for recognition and measurement of loan collectability of these pools of loans. These estimated losses may be adjusted for relevant current environmental factors.

Changes in the allowance for loan/lease losses consist of provision activity, recorded in "Provision for (reversal of) loan/lease losses" in the Consolidated Statements of Income, recoveries, and charge-offs.

Investment Securities: We are authorized to purchase and hold certain types of investments. As we have the positive intent and ability to hold these investments to maturity, they have been classified as held-to-maturity and are carried at cost adjusted for the amortization of premiums and accretion of discounts. If an investment is determined to be other-than-temporarily impaired, the carrying value of the security is written down to fair value. The impairment loss is separated into credit related and non-credit related components. The credit related component is expensed through "Fee and miscellaneous income, net" in the Consolidated Statements of Income in the period of impairment. The non-credit related component is recognized in other comprehensive income and amortized over the remaining life of the security as an increase in the security's carrying amount.

Investment in AgriBank: Accounting for our stock investment in AgriBank is on a cost plus allocated equities basis.

Leases: We have finance, conditional sales, and operating leases. Under finance/conditional sales leases, unearned income from lease contracts represents the excess of gross lease receivables plus residual receivables over the cost of leased equipment. We amortize net unearned finance income to earnings using the interest method. The carrying amount of finance/conditional sales leases is included in “Loans held to maturity” on the Consolidated Statements of Condition and represents lease rent receivables net of the unearned income plus the residual receivable. We recognize operating lease revenue evenly over the term of the lease in “Net operating lease income” on the Consolidated Statements of Income. We charge depreciation and other expenses against revenue as incurred. The carrying amount of operating leases is included in “Assets held for lease, net” on the Consolidated Statements of Condition and represents the asset cost net of accumulated depreciation.

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets. Gains or losses on disposition are included in “Fee and miscellaneous income, net” in the Consolidated Statements of Income. Depreciation and maintenance and repairs expenses are included in “Other operating expenses” in the Consolidated Statements of Income and improvements are capitalized.

Other Property Owned: Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at the fair value less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan/lease losses. Revised estimates to the fair value less costs 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. Related income, expenses, and gains or losses from operations and carrying value adjustments are included in “Fee and miscellaneous income, net” in the Consolidated Statements of Income.

Post-Employment Benefit Plans: The District has various post-employment benefit plans in which our employees participate. Expenses related to these plans are included in the “Salaries and employee benefits” in the Consolidated Statements of Income.

The defined contribution plan allows eligible employees to save for their retirement either pre-tax, post-tax, or both, with an employer match on a percentage of the employee’s contributions. We provide benefits under this plan in the form of a fixed percentage of salary contribution in addition to the employer match. Employer contributions are expensed when incurred.

Certain employees also participate in the defined benefit retirement plan of the District. The plan is comprised of two benefit formulas. At their option, employees hired prior to October 1, 2001 are on the cash balance formula or on the final average pay formula. New benefits eligible employees hired between October 1, 2001 and December 31, 2006 are on the cash balance formula. Effective January 1, 2007, the defined benefit retirement plan was closed to new employees. The District plan utilizes the "Projected Unit Credit" actuarial method for financial reporting purposes and the "Entry Age Normal Cost" method for funding purposes.

Certain employees also participate in the non-qualified defined benefit Pension Restoration Plan of the AgriBank District. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above the Internal Revenue Code compensation or other limits.

We also provide certain health insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated cost of these benefits is accrued during the employees’ active service period.

Income Taxes: The ACA and PCA accrue federal and certain state income taxes. The ACA and PCA are exempt from Minnesota state income tax. Deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance. The expected future tax consequences of uncertain income tax positions are accrued.

The FLCA is exempt from federal and state income taxes, as well as other taxes, to the extent provided in the Farm Credit Act.

Patronage Program: We have a nonqualified patronage program that requires the allocation of earnings for each fiscal year provided all statutory and regulatory capital requirements have been met. Nonqualified patronage distributions do not qualify as a deduction from our taxable income, and the client receiving it does not record it as taxable income, until it is redeemed at some future date. The redemption of nonqualified patronage distributions is at the discretion of the Board of Directors.

Commitments to Extend Credit: Unfunded commitments for residential mortgages intended to be held for sale are considered derivatives and recorded on the Consolidated Statements of Condition at fair value with changes in fair value recorded in income. All other unfunded loan commitments are not considered derivatives. Reserves for credit exposure on all other unfunded credit commitments are recorded in other liabilities.

Derivatives: We are party to derivative financial instruments called “to be announced” securities (TBAs) to manage exposure to interest rate risk and changes in the fair value of forward loans held for sale and the interest rate lock commitments that are determined prior to funding. TBAs are measured in terms of notional amounts. The notional amount is not exchanged and is used as a basis on which interest payments are determined.

In accordance with Financial Accounting Standards Board (FASB) guidance on “Accounting for Derivative Instruments and Hedging Activities”, derivatives are recorded on the Consolidated Statements of Condition as Other assets or Other liabilities on a net basis, measured at fair value. Changes in the fair values of derivatives are accounted for as gains or losses through earnings. Losses resulting from counterparty risk are accounted for as a component of Other comprehensive income, in the equity section of the Consolidated Statements of Condition.

Statements of Cash Flows: For purposes of reporting cash flow, cash includes cash on hand.

Fair Value Measurement: The accounting guidance describes three levels of inputs that may be used to measure fair value.

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following:

- quoted prices for similar assets or liabilities in active markets,
- quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, quoted prices that are not current, or principal market information that is not released publicly,
- inputs that are observable such as interest rates and yield curves, prepayment speeds, credit risks, and default rates, and
- inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity’s own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued, but are not yet effective, and have determined that no such standards are expected to have a material impact to our consolidated financial statements. In addition, no accounting pronouncements were adopted during 2013.

NOTE 3: LOANS HELD TO MATURITY AND ALLOWANCE FOR LOAN/LEASE LOSSES

Loans consisted of the following (dollars in thousands):

	2013		2012		2011	
As of December 31	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 3,253,439**	**51.1%**	$ 2,889,701	48.9%	$ 2,455,497	47.3%
Production and intermediate term	**1,770,700**	**27.8%**	1,761,770	29.8%	1,602,684	30.9%
Agribusiness	**638,637**	**10.1%**	610,220	10.3%	546,843	10.6%
Other	**700,736**	**11.0%**	651,645	11.0%	582,850	11.2%
Total	**$ 6,363,512**	**100.0%**	$ 5,913,336	100.0%	$ 5,187,874	100.0%

The other category is comprised of communication, energy, water and waste water, and rural residential real estate related loans as well as finance and conditional sales leases and loans originated under our mission related investment authority.

Portfolio Concentrations

We have individual borrower, agricultural, and territorial concentrations. As of December 31, 2013, volume plus commitments to our ten largest borrowers totaled an amount equal to 3.7% of total loans and commitments.

Agricultural concentrations were as follows:

As of December 31	**2013**	2012	2011
Cash grains	**36.6%**	34.4%	32.8%
Agribusiness	**12.7%**	12.7%	12.2%
Swine	**11.5%**	11.3%	11.5%
Home mortgages	**9.5%**	8.7%	8.6%
Dairy	**8.9%**	9.4%	10.4%
Landlords	**3.7%**	3.9%	4.1%
Cattle	**3.7%**	3.8%	4.0%
Renewable energy	**3.5%**	3.6%	3.9%
Forest products	**3.4%**	2.3%	2.3%
Other	**6.5%**	9.9%	10.2%
Total	**100.0%**	100.0%	100.0%

While these concentrations represent our maximum potential credit risk as it relates to recorded loan principal, a substantial portion of our lending activities are collateralized. This reduces our exposure to credit loss associated with our lending activities. We consider credit risk exposure in establishing the allowance for loan/lease losses.

Participations

We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, or comply with the FCA Regulations or General Financing Agreement (GFA) limitations.

The following table presents information regarding participations purchased and sold (in thousands):

	AgriBank		Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations		Participations		Participations		Participations	
As of December 31, 2013	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	**$ --**	**$ (195,942)**	**$ 189,199**	**$ (111,410)**	**$ 839,959**	**$ (16,186)**	**$ 1,029,158**	**$ (323,538)**
Production and intermediate term	**--**	**(98,586)**	**37,048**	**(963,378)**	**1,141,776**	**(3,085)**	**1,178,824**	**(1,065,049)**
Agribusiness	**--**	**(60,348)**	**301,266**	**(71,250)**	**122,741**	**(106,403)**	**424,007**	**(238,001)**
Other	**--**	**(19,365)**	**342,133**	**(9,375)**	**7,301**	**(7,015)**	**349,434**	**(35,755)**
Total	**$ --**	**$ (374,241)**	**$ 869,646**	**$ (1,155,413)**	**$ 2,111,777**	**$ (132,689)**	**$ 2,981,423**	**$ (1,662,343)**
As of December 31, 2012								
Real estate mortgage	$ --	$ (207,281)	$ 162,721	$ (197,756)	$ 732,676	$ (44,392)	$ 895,397	$ (449,429)
Production and intermediate term	--	(113,165)	46,663	(833,291)	768,884	(84,987)	815,547	(1,031,443)
Agribusiness	--	(64,209)	201,785	(203,510)	176,759	(296,894)	378,544	(564,613)
Other	--	(17,985)	317,571	(2,794)	3,209	(4,962)	320,780	(25,741)
Total	$ --	$ (402,640)	$ 728,740	$ (1,237,351)	$ 1,681,528	$ (431,235)	$ 2,410,268	$ (2,071,226)
As of December 31, 2011								
Real estate mortgage	$ --	$ (218,133)	$ 175,415	$ (95,738)	$ 603,748	$ (28,096)	$ 779,163	$ (341,967)
Production and intermediate term	--	(117,741)	28,888	(885,623)	721,237	(143,535)	750,125	(1,146,899)
Agribusiness	--	(61,830)	174,647	(250,236)	173,738	(357,701)	348,385	(669,767)
Other	--	(14,947)	261,239	(6,664)	2,400	(5,000)	263,639	(26,611)
Total	$ --	$ (412,651)	$ 640,189	$ (1,238,261)	$ 1,501,123	$ (534,332)	$ 2,141,312	$ (2,185,244)

Credit Quality and Delinquency

One credit quality indicator we utilize is the FCA Uniform Classification System that categorizes loans into five categories. The categories are defined as follows:

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

The following table summarizes loans and related accrued interest receivable classified under the FCA Uniform Classification System by loan type (dollars in thousands):

	Acceptable		OAEM		Substandard/ Doubtful/Loss		Total	
As of December 31, 2013	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 3,117,201**	**95.0%**	**$ 48,033**	**1.5%**	**$ 114,465**	**3.5%**	**$ 3,279,699**	**100.0%**
Production and intermediate term	**1,704,111**	**95.4%**	**40,012**	**2.3%**	**41,638**	**2.3%**	**1,785,761**	**100.0%**
Agribusiness	**585,988**	**91.5%**	**37,933**	**5.9%**	**16,813**	**2.6%**	**640,734**	**100.0%**
Other	**680,384**	**96.9%**	**6,501**	**0.9%**	**15,311**	**2.2%**	**702,196**	**100.0%**
Total	**$ 6,087,684**	**95.0%**	**$ 132,479**	**2.1%**	**$ 188,227**	**2.9%**	**$ 6,408,390**	**100.0%**
As of December 31, 2012								
Real estate mortgage	$ 2,711,617	93.1%	$ 38,737	1.3%	$ 161,724	5.6%	$ 2,912,078	100.0%
Production and intermediate term	1,694,965	95.5%	17,618	1.0%	63,034	3.5%	1,775,617	100.0%
Agribusiness	543,715	88.8%	56,453	9.2%	12,498	2.0%	612,666	100.0%
Other	632,587	96.9%	1,480	0.2%	19,032	2.9%	653,099	100.0%
Total	$ 5,582,884	93.8%	$ 114,288	1.9%	$ 256,288	4.3%	$ 5,953,460	100.0%
As of December 31, 2011								
Real estate mortgage	$ 2,211,334	89.2%	$ 73,464	3.0%	$ 192,681	7.8%	$ 2,477,479	100.0%
Production and intermediate term	1,494,124	92.4%	53,838	3.3%	69,467	4.3%	1,617,429	100.0%
Agribusiness	481,951	87.8%	51,863	9.5%	14,831	2.7%	548,645	100.0%
Other	553,335	94.7%	10,876	1.9%	20,178	3.4%	584,389	100.0%
Total	$ 4,740,744	90.7%	$ 190,041	3.6%	$ 297,157	5.7%	$ 5,227,942	100.0%

The following table provides an aging analysis of past due loans and related accrued interest receivable by loan type (in thousands):

As of December 31, 2013	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total Loans	90 Days Past Due and Accruing
Real estate mortgage	**$ 14,371**	**$ 16,620**	**$ 30,991**	**$ 3,248,708**	**$ 3,279,699**	**$ --**
Production and intermediate term	**4,770**	**2,478**	**7,248**	**1,778,513**	**1,785,761**	**--**
Agribusiness	**--**	**--**	**--**	**640,734**	**640,734**	**--**
Other	**2,657**	**12,125**	**14,782**	**687,414**	**702,196**	**--**
Total	**$ 21,798**	**$ 31,223**	**$ 53,021**	**$ 6,355,369**	**$ 6,408,390**	**$ --**
As of December 31, 2012						
Real estate mortgage	$ 16,719	$ 33,589	$ 50,308	$ 2,861,770	$ 2,912,078	$ 99
Production and intermediate term	2,561	5,051	7,612	1,768,005	1,775,617	27
Agribusiness	14,158	892	15,050	597,616	612,666	--
Other	3,523	10,854	14,377	638,722	653,099	--
Total	$ 36,961	$ 50,386	$ 87,347	$ 5,866,113	$ 5,953,460	$ 126
As of December 31, 2011						
Real estate mortgage	$ 27,599	$ 25,168	$ 52,767	$ 2,424,712	$ 2,477,479	$ --
Production and intermediate term	6,422	10,159	16,581	1,600,848	1,617,429	7
Agribusiness	--	2,165	2,165	546,480	548,645	--
Other	13,139	2,381	15,520	568,869	584,389	33
Total	$ 47,160	$ 39,873	$ 87,033	$ 5,140,909	$ 5,227,942	$ 40

Risk Loans

The following table presents risk loan information (accruing loans include accrued interest receivable) (in thousands):

As of December 31	**2013**	2012	2011
Nonaccrual loans:			
Current	**$ 102,081**	$ 97,123	$ 105,736
Past due	**37,316**	54,468	58,954
Total nonaccrual loans	**139,397**	151,591	164,690
Accruing restructured loans	**2,101**	102	--
Accruing loans 90 days or more past due	**--**	126	40
Total risk loans	**$ 141,498**	$ 151,819	$ 164,730
Volume with specific reserves	**$ 26,523**	$ 20,279	$ 61,059
Volume without specific reserves	**114,975**	131,540	103,671
Total risk loans	**$ 141,498**	$ 151,819	$ 164,730
Total specific reserves	**$ 5,841**	$ 5,524	$ 10,198

For the year ended December 31	**2013**	2012	2011
Income on accrual risk loans	**$ 327**	$ 55	$ 99
Income on nonaccrual loans	**5,344**	4,509	5,927
Total income on risk loans	**$ 5,671**	$ 4,564	$ 6,026
Average risk loans	**$ 165,888**	$ 178,683	$ 201,267

The decrease in nonaccrual loans was due to settling volume mainly through upgrading, payoffs, paydowns, or charge-offs on certain accounts in the dairy, general farms, and bond segments of our portfolio. The increase in accruing restructured loans was primarily the result of loans restructured to improve the borrowers' cash flow. These loans are performing according to the restructure plans.

To mitigate credit risk, we have entered into a Standby Commitment to Purchase Agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac). In the event of default, subject to certain conditions, we have the right to sell the loans identified in the agreement to Farmer Mac. This agreement remains in place until receipt of full payment. The net investment of loans subject to the purchase agreement was $426.8 million, $244.1 million, and $223.7 million at December 31, 2013, 2012, and 2011, respectively. Fees paid to Farmer Mac for these commitments totaled $1.6 million, $1.2 million, and $1.1 million in 2013, 2012, and 2011, respectively. These amounts are included in "Other operating expenses" in the Consolidated Statements of Income. Sales of loans to Farmer Mac under this agreement have been minimal, with $432 thousand of sales occurring in 2012. There were no sales of loans to Farmer Mac under this agreement in 2013 or 2011.

On March 8, 2012, we terminated the Credit Default Swap Agreement entered into on October 9, 2009 with AgFunding 2009-A LLC. The loan pool balance was then $40.3 million. Early redemption was allowed by the Agreement once the aggregate outstanding principal balance of the pool was less than 20.0% of the original $202 million note balance. The balance of the pool was $50.4 million as of December 31, 2011. There were five tranches in the synthetic securitization. The Junior Risk tranche, held by us, had the first risk of loss and totaled $1.7 million on March 8, 2012. The next risk of loss fell into Tranches A, B, and C. These totaled $1.4 million on March 8, 2012 and were owned by a third party. The only loss in this securitization occurred in 2011 for $58 thousand against the Junior Risk tranche.

Nonaccrual loans by loan type were as follows (in thousands):

As of December 31		2013		2012		2011
Real estate mortgage	$	**92,501**	$	106,889	$	114,705
Production and intermediate term		**32,304**		28,889		37,644
Agribusiness		**13**		1,579		3,311
Other		**14,579**		14,234		9,030
Total	$	**139,397**	$	151,591	$	164,690

Accruing loans 90 days or more past due and related accrued interest by loan type were as follows (in thousands):

As of December 31		2013		2012		2011
Real estate mortgage	$	**--**	$	99	$	--
Production and intermediate term		**--**		27		7
Other		**--**		--		33
Total	$	**--**	$	126	$	40

All loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection and, as such, were eligible to remain in accruing status.

All risk loans are considered to be impaired loans. The following table provides additional impaired loan information (in thousands):

	As of December 31, 2013			For the year ended December 31, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	**$ 14,316**	**$ 15,814**	**$ 3,176**	**$ 18,886**	**$ --**
Production and intermediate term	**1,865**	**2,529**	**868**	**1,890**	**--**
Other	**10,359**	**10,587**	**1,797**	**10,575**	**--**
Total	**$ 26,540**	**$ 28,930**	**$ 5,841**	**$ 31,351**	**$ --**
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	**$ 80,133**	**$ 113,136**	**$ --**	**$ 91,026**	**$ 4,235**
Production and intermediate term	**30,550**	**53,380**	**--**	**30,697**	**1,022**
Agribusiness	**13**	**60**	**--**	**1,328**	**192**
Other	**4,262**	**5,121**	**--**	**11,486**	**222**
Total	**$ 114,958**	**$ 171,697**	**$ --**	**$ 134,537**	**$ 5,671**
Total impaired loans:					
Real estate mortgage	**$ 94,449**	**$ 128,950**	**$ 3,176**	**$ 109,912**	**$ 4,235**
Production and intermediate term	**32,415**	**55,909**	**868**	**32,587**	**1,022**
Agribusiness	**13**	**60**	**--**	**1,328**	**192**
Other	**14,621**	**15,708**	**1,797**	**22,061**	**222**
Total	**$ 141,498**	**$ 200,627**	**$ 5,841**	**$ 165,888**	**$ 5,671**

	As of December 31, 2012			For the year ended December 31, 2012	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 15,004	$ 25,936	$ 3,909	$ 30,555	$ --
Production and intermediate term	1,745	2,047	910	7,911	--
Agribusiness	892	853	87	696	--
Other	2,638	2,992	618	3,049	--
Total	$ 20,279	$ 31,828	$ 5,524	$ 42,211	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 92,011	$ 124,828	$ --	$ 94,533	$ 3,338
Production and intermediate term	27,247	51,049	--	28,918	989
Agribusiness	686	1,346	--	1,731	129
Other	11,596	12,263	--	11,290	108
Total	$ 131,540	$ 189,486	$ --	$ 136,472	$ 4,564
Total impaired loans:					
Real estate mortgage	$ 107,015	$ 150,764	$ 3,909	$ 125,088	$ 3,338
Production and intermediate term	28,992	53,096	910	36,829	989
Agribusiness	1,578	2,199	87	2,427	129
Other	14,234	15,255	618	14,339	108
Total	$ 151,819	$ 221,314	$ 5,524	$ 178,683	$ 4,564

	As of December 31, 2011			For the year ended December 31, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 36,506	$ 47,735	$ 5,577	$ 37,578	$ --
Production and intermediate term	20,494	22,825	3,378	20,642	--
Agribusiness	--	24	--	6	--
Other	4,059	8,644	1,243	3,985	--
Total	$ 61,059	$ 79,228	$ 10,198	$ 62,211	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 78,199	$ 95,894	$ --	$ 89,560	$ 3,035
Production and intermediate term	17,157	45,984	--	28,042	897
Agribusiness	3,311	8,486	--	15,996	1,199
Other	5,004	5,445	--	5,458	895
Total	$ 103,671	$ 155,809	$ --	$ 139,056	$ 6,026
Total impaired loans:					
Real estate mortgage	$ 114,705	$ 143,629	$ 5,577	$ 127,138	$ 3,035
Production and intermediate term	37,651	68,809	3,378	48,684	897
Agribusiness	3,311	8,510	--	16,002	1,199
Other	9,063	14,089	1,243	9,443	895
Total	$ 164,730	$ 235,037	$ 10,198	$ 201,267	$ 6,026

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

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

We had $778 thousand in commitments to lend additional money to borrowers whose loans were at risk at December 31, 2013.

Troubled Debt Restructurings

Included within our loans are troubled debt restructurings. These loans have been modified by granting a concession in order to maximize the collection of amounts due when a borrower is experiencing financial difficulties. All risk loans, including troubled debt restructurings, are analyzed within our allowance for loan/lease losses.

The following table presents information regarding troubled debt restructurings that occurred during the year ended December 31 (in thousands):

	2013		2012		2011	
	Pre-modification	Post-modification	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	**$ 8,658**	**$ 8,651**	$ 1,416	$ 1,325	$ 22,524	$ 22,917
Production and intermediate term	**11,690**	**11,698**	1,205	1,224	5,563	5,801
Agribusiness	**--**	**--**	--	--	9,308	9,308
Communication	**9,005**	**9,005**	--	--	--	--
Rural residential real estate	**135**	**135**	--	--	--	--
Total	**$ 29,488**	**$ 29,489**	$ 2,621	$ 2,549	$ 37,395	$ 38,026

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

The following table presents troubled debt restructurings that defaulted during the years ended December 31 in which the modification date was within 12 months of the respective reporting period (in thousands):

	2013	2012	2011
Real estate mortgage	**$ 25**	$ 464	$ 9,900
Production and intermediate term	**--**	303	5
Total	**$ 25**	$ 767	$ 9,905

The following table presents information regarding troubled debt restructurings outstanding as of December 31 (in thousands):

	2013	2012	2011
Troubled debt restructurings	**$ 56,962**	$ 36,957	$ 35,236
Troubled debt restructurings in nonaccrual status	**54,861**	36,855	35,236

Troubled debt restructurings volume increased $20 million between 2013 and 2012, mainly the result of three larger commercial accounts, all in nonaccrual status, in the telecom, dairy and beef industries. The original loan terms were modified to minimize our economic loss and avoid foreclosure. As of the end of 2013, all three accounts were performing according to the modified terms.

Additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring were $2 thousand at December 31, 2013.

Allowance for Loan/Lease Losses

A summary of the changes in the allowance for loan/lease losses follows (in thousands):

For the year ended December 31	**2013**	2012	2011
Balance at beginning of year	**$ 26,814**	$ 26,833	$ 39,312
Provision for (reversal of) loan losses	**(3,078)**	7,182	7,400
Loan recoveries	**6,026**	3,351	3,043
Loan charge-offs	**(5,037)**	(10,533)	(22,860)
Leasing and other, net	**--**	(19)	(62)
Balance at end of year	**$ 24,725**	$ 26,814	$ 26,833

Our allowance levels reflect the continued improvements made in our portfolio. Larger provision expense was taken in prior years reflecting the impact of the volatility in the commodity and financial markets during those years. In the years presented, adverse accounts have paid down or off, been upgraded, or have taken charge-offs. In our opinion the allowance was reasonable in relation to the probable losses in the portfolio as of December 31, 2013.

A summary of changes in the allowance for loan/lease losses and period end recorded investments in loans by loan type follows (in thousands):

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2012	**$ 12,844**	**$ 8,060**	**$ 2,847**	**$ 3,063**	**$ 26,814**
Provision for (reversal of) loan losses	**(5,171)**	**(92)**	**400**	**1,785**	**(3,078)**
Loan recoveries	**4,421**	**881**	**339**	**385**	**6,026**
Loan charge-offs	**(1,676)**	**(1,512)**	**(669)**	**(1,180)**	**(5,037)**
Balance as of December 31, 2013	**$ 10,418**	**$ 7,337**	**$ 2,917**	**$ 4,053**	**$ 24,725**
Ending balance: individually evaluated for impairment	**$ 3,176**	**$ 868**	**$ --**	**$ 1,797**	**$ 5,841**
Ending balance: collectively evaluated for impairment	**$ 7,242**	**$ 6,469**	**$ 2,917**	**$ 2,256**	**$ 18,884**
Recorded investments in loans outstanding:					
Ending balance as of December 31, 2013	**$ 3,279,699**	**$ 1,785,761**	**$ 640,734**	**$ 702,196**	**$ 6,408,390**
Ending balance: individually evaluated for impairment	**$ 94,449**	**$ 32,415**	**$ 13**	**$ 14,621**	**$ 141,498**
Ending balance: collectively evaluated for impairment	**$ 3,185,250**	**$ 1,753,346**	**$ 640,721**	**$ 687,575**	**$ 6,266,892**
Allowance for loan losses:					
Balance as of December 31, 2011	$ 12,447	$ 9,504	$ 1,876	$ 3,006	$ 26,833
Provision for (reversal of) loan losses	5,544	(96)	1,204	530	7,182
Loan recoveries	1,332	1,297	308	414	3,351
Loan charge-offs	(6,479)	(2,645)	(541)	(868)	(10,533)
Other	--	--	--	(19)	(19)
Balance as of December 31, 2012	$ 12,844	$ 8,060	$ 2,847	$ 3,063	$ 26,814
Ending balance: individually evaluated for impairment	$ 3,909	$ 910	$ 87	$ 618	$ 5,524
Ending balance: collectively evaluated for impairment	$ 8,935	$ 7,150	$ 2,760	$ 2,445	$ 21,290
Recorded investments in loans outstanding:					
Ending balance as of December 31, 2012	$ 2,912,078	$ 1,775,617	$ 612,666	$ 653,099	$ 5,953,460
Ending balance: individually evaluated for impairment	$ 107,015	$ 28,992	$ 1,578	$ 14,234	$ 151,819
Ending balance: collectively evaluated for impairment	$ 2,805,063	$ 1,746,625	$ 611,088	$ 638,865	$ 5,801,641
Allowance for loan losses:					
Balance as of December 31, 2010	$ 12,988	$ 17,661	$ 5,609	$ 3,054	$ 39,312
Provision for (reversal of) loan losses	2,637	(2,316)	2,470	4,609	7,400
Loan recoveries	1,080	958	470	535	3,043
Loan charge-offs	(4,258)	(6,799)	(6,673)	(5,130)	(22,860)
Other	--	--	--	(62)	(62)
Balance as of December 31, 2011	$ 12,447	$ 9,504	$ 1,876	$ 3,006	$ 26,833
Ending balance: individually evaluated for impairment	$ 5,577	$ 3,378	$ --	$ 1,243	$ 10,198
Ending balance: collectively evaluated for impairment	$ 6,870	$ 6,126	$ 1,876	$ 1,763	$ 16,635
Recorded investments in loans outstanding:					
Ending balance as of December 31, 2011	$ 2,477,479	$ 1,617,429	$ 548,645	$ 584,389	$ 5,227,942
Ending balance: individually evaluated for impairment	$ 114,705	$ 37,651	$ 3,311	$ 9,063	$ 164,730
Ending balance: collectively evaluated for impairment	$ 2,362,774	$ 1,579,778	$ 545,334	$ 575,326	$ 5,063,212

NOTE 4: LOANS HELD FOR SALE

Loans held for sale, at fair value, consisted of the following:

For the year ended December 31	2013
Balance at beginning of year	$ --
Originations	4,455
Fair value adjustment	15
Balance at end of year	$ 4,470

Mortgage loans held for sale are on our Consolidated Statements of Condition. These represent mortgage loans whereby the interest rate is set prior to funding. We are subject to the effects of changes in mortgage interest rates from the date of the interest rate lock commitment through the sale of the loan to a third party investor. As a result, we are exposed to interest rate risk and related price risk during the period from the date of the interest rate lock commitment through the interest rate lock commitment cancellation or expiration date or through the date of sale to a third party investor. There were no loans held for sale in 2012 or 2011.

NOTE 5: INVESTMENT SECURITIES

We held investment securities of $462.4 million, $484.1 million, and $505.5 million at December 31, 2013, 2012, and 2011, respectively. Our investment securities consisted of:

- securities containing loans guaranteed by the Small Business Administration (SBA) or by the United States Department of Agriculture (USDA), and
- mortgage-backed securities issued by the Farmer Mac.

The investment securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. To date, we have not recognized any impairment on our investment portfolio.

The following table presents further information on investment securities (dollars in thousands):

As of December 31, 2013	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
SBA/USDA	**$ 190,040**	**$ 797**	**$ (8,112)**	**$ 182,725**	**3.8%**
Farmer Mac	**272,384**	**1,764**	**(5,099)**	**269,049**	**4.5%**
Total	**$ 462,424**	**$ 2,561**	**$ (13,211)**	**$ 451,774**	**4.2%**

As of December 31, 2012	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
SBA/USDA	$ 181,442	$ 2,117	$ (5,215)	$ 178,344	3.8%
Farmer Mac	302,650	5,361	(112)	307,899	4.7%
Total	$ 484,092	$ 7,478	$ (5,327)	$ 486,243	4.4%

As of December 31, 2011	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
SBA/USDA	$ 165,305	$ 945	$ (3,841)	$ 162,409	3.8%
Farmer Mac	340,181	7,338	(195)	347,324	5.1%
Total	$ 505,486	$ 8,283	$ (4,036)	$ 509,733	4.7%

Investment income is recorded in "Interest income" in the Consolidated Statements of Income and totaled $16.9 million, $19.1 million, and $20.1 million in 2013, 2012, and 2011, respectively.

The following table presents contractual maturities of our investment securities (in thousands):

As of December 31, 2013		Amortized Cost
Less than one year	**$**	**782**
One to five years		**26,873**
Five to ten years		**91,541**
More than ten years		**343,228**
Total	**$**	**462,424**

A summary of investments in an unrealized loss position presented by the length of time the investments have been in continuous unrealized loss position follows (in thousands):

	Less than 12 months		Greater than 12 months	
As of December 31, 2013	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
SBA/USDA	**$ 60,537**	**$ 2,828**	**$ 79,272**	**$ 5,284**
Farmer Mac	**137,499**	**4,698**	**7,551**	**401**
Total	**$ 198,036**	**$ 7,526**	**$ 86,823**	**$ 5,685**

In 2009, we established an indemnification allowance relating to one loan in the Farmer Mac mortgage-backed security pool. The indemnification allowance was no longer necessary in 2013 or 2012. The balance of the indemnification allowance was $1.6 million at December 31, 2011.

NOTE 6: INVESTMENT IN AGRIBANK

As of December 31, 2013, we were required by AgriBank to maintain an investment equal to 2.5% of the average quarterly balance of our note payable to AgriBank, plus an additional 1.0% on compound growth in excess of a defined annual rate, plus 8.0% of the quarter end balance of the participation interests in real estate loans sold to AgriBank under the Asset Pool program.

The balance of our investment in AgriBank, all required stock, was $150.0 million, $141.1 million, and $130.2 million at December 31, 2013, 2012, and 2011, respectively.

NOTE 7: PREMISES, EQUIPMENT, AND ASSETS HELD FOR LEASE, NET

Premises and equipment consisted of the following (in thousands):

As of December 31	**2013**	2012	2011
Land, buildings, and improvements	**$ 11,814**	$ 11,595	$ 11,301
Furniture and equipment	**25,491**	25,697	24,108
Subtotal	**37,305**	37,292	35,409
Less: accumulated depreciation	**20,512**	19,164	17,522
Premises and equipment, net	**$ 16,793**	$ 18,128	$ 17,887

We also hold property for agricultural leasing, primarily farm/vehicle equipment and facilities.

The following table provides a summary of our net operating lease income and property held for lease by major category (in thousands):

	2013	2012	2011
For the year ended December 31:			
Net operating lease income	**$ 1,634**	$ 1,839	$ 2,005
As of December 31:			
Farm/vehicle equipment	**$ 37,424**	$ 35,623	$ 35,756
Facilities	**17,095**	17,154	17,965
Subtotal	**54,519**	52,777	53,721
Less: accumulated depreciation	**18,067**	17,481	19,033
Assets held for lease, net	**$ 36,452**	$ 35,296	$ 34,688

The following is a schedule of expected future minimum rentals (in thousands):

	Operating Leases
2014	$ 8,508
2015	6,962
2016	4,766
2017	2,912
2018	1,327
Subsequent years	966
Total minimum future rentals	$ 25,441

NOTE 8: NOTE PAYABLE TO AGRIBANK

Our note payable to AgriBank represents borrowings, in the form of a line of credit, to fund our loan portfolio. The line of credit is governed by a GFA and our assets serve as collateral. The following table summarizes note payable information (dollars in thousands):

As of December 31	**2013**	2012	2011
Line of credit	**$ 6,500,000**	$ 6,000,000	$ 5,750,000
Outstanding principal under the line of credit	**5,862,433**	5,610,487	4,954,046
Interest rate	**1.6%**	1.6%	2.0%

Our note payable matures March 31, 2014, at which time the note will be renegotiated. During 2011, we were subject to a six basis point risk premium. Based on improvements in certain risk ratios throughout 2011, we were not subject to a risk premium in 2012 or 2013 and are not subject to a risk premium in 2014.

The GFA provides for limitations on our ability to borrow funds based on specified factors or formulas relating primarily to outstanding balances, credit quality, and financial condition. At December 31, 2013, and throughout the year, we were within the specified limitations and in compliance with all debt covenants.

NOTE 9: SUBORDINATED DEBT

We have $100 million of aggregate principal amount of Series A Subordinated Notes (Notes), due in 2025. The Notes bear a fixed interest rate of 9.0% per annum, payable semi-annually. Our Board of Directors has authorized up to a maximum of $200 million for subordinated debt issuance. At our option, we may redeem all or some of the Notes, at any time on or after a date 10 years from the closing date (March 2010). This debt is subordinate to all other creditor debt, including general creditors, and senior to all classes of stock. Proceeds have increased our regulatory permanent capital and total surplus ratios and position us for the future.

Our subordinated debt is not considered System debt and is not an obligation of, nor guaranteed by any System entity. Further, payments on the subordinated Notes are not insured by the FCSIC.

NOTE 10: EQUITY

Capitalization Requirements

In accordance with the Farm Credit Act, each client is required to invest in us as a condition of obtaining a loan. As authorized by the Agricultural Credit Act and our capital bylaws, our Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2% of the client's total loan(s) or one thousand dollars, whichever is less. The purchase of one participation certificate is required of all clients to whom a lease is issued and of all non-stockholder clients who purchase financial services. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The client acquires ownership of the capital stock at the time the loan or lease is made. The aggregate par value of the stock is added to the principal amount of the related obligation. We retain a first lien on the stock or participation certificates owned by clients.

Regulatory Capitalization Requirements

Under capital adequacy regulations, we are required to maintain a permanent capital ratio of at least 7.0%, a total surplus ratio of at least 7.0%, and a core surplus ratio of at least 3.5%. The calculation of these ratios in accordance with the FCA Regulations is discussed as follows:

- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. At December 31, 2013, our ratio was 15.4%.
- The total surplus ratio is average unallocated surplus less any deductions made in the computation of permanent capital divided by average risk-adjusted assets. At December 31, 2013, our ratio was 15.2%.
- The core surplus ratio is average unallocated surplus less any deductions made in the computation of total surplus and less any excess stock investment in AgriBank divided by average risk-adjusted assets. At December 31, 2013, our ratio was 12.5%.

Regulatory capital includes all of our investment in AgriBank that is in excess of the required investment under an allotment agreement with AgriBank. However, we had no excess stock at December 31, 2013, 2012, or 2011.

Description of Equities

As of December 31, 2013, we had 2,940,410 outstanding shares of Class B common stock and 242,091 outstanding shares of Class E participation certificates. All shares and participation certificates were at-risk and $5.00 par value.

Under our bylaws, we are also authorized to issue Class C and Class D common stock. Each of these classes of stock is at-risk and nonvoting with a $5.00 par value per share. We also are authorized to issue Class H preferred stock, an at-risk nonvoting stock with a $1.00 par value per share. Currently, no stock of these classes has been issued.

On May 30, 2013, we issued $100 million of Series A-1 non-cumulative perpetual preferred stock, representing 100,000 shares at $1,000 per share par value. This series may be held or transferred in blocks having an aggregate par value of not less than $250,000 and an investor must hold at least 250 shares. We used the net proceeds from the Series A-1 preferred stock issuance to increase our regulatory capital pursuant to current FCA Regulations, for the continued development of our business, and for general corporate purposes.

Dividends on the Series A-1 preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly in arrears on the 15th day of February, May, August, and November, beginning on August 15, 2013. Dividends accrue at a fixed annual rate of 6.75% from the date of issuance through August 14, 2023, and beginning on August 15, 2023 will accrue at an annual rate equal to the 3-month USD LIBOR rate, reset quarterly, plus 4.58%. The Series A-1 preferred stock is not mandatorily redeemable at any time. However, the Series A-1 preferred stock will be redeemable at par value, in whole or in part, at our option, quarterly beginning on August 15, 2023. In addition, the Series A-1 preferred stock will be redeemable in whole, at our option, at any time upon the occurrence of certain defined regulatory events. Series A-1 preferred stockholders do not have any voting rights, but may appoint two board observers after six unpaid dividend payments.

The Series A-1 preferred stock is junior to any subordinated debt, existing and future debt obligations, and to any series of preferred stock we may issue in the future with priority rights. Series A-1 preferred stock is senior to outstanding Class B, C, or D common stock, Class E participation certificates, Class H preferred stock, and patronage equities. The Series A-1 preferred stock has a preference as to dividends and on liquidation or dissolution over all other classes of equities.

Only holders of Class B stock have voting rights. Our bylaws allow us to pay dividends of up to eight percent on any classes of stock. However, no stock dividends have been declared to date other than the Series A-1 preferred stock dividends.

Our bylaws generally permit stock and participation certificates to be retired at the discretion of the Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2013, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

In the event of our liquidation or dissolution, according to our bylaws, any remaining assets after payment or retirement of all liabilities will be distributed in the following order of priority:

- first, to holders of Series A-1 preferred stock,
- second, to holders of Class H preferred stock,
- third, to holders of Class B, C, and D common stock and Class E participation certificates pro rata to all such stock,
- fourth, to member stockholders who have received capital through patronage transactions pro rata to all such capital, and
- lastly, any remaining assets shall be distributed to current and former member stockholders based on relative patronage transactions.

In the event of impairment, at the discretion of the Board of Directors, losses will be absorbed by unallocated capital reserves, patronage equities, or the concurrent impairment of all classes of stock, provided that no shares of Class H preferred stock may be impaired until all other classes of stock and participation certificates are fully impaired.

All classes of stock and participation certificates, other than Series A-1 preferred stock, are transferable to other clients who are eligible to hold such class of stock or participation certificates. Transfers of Class B common stock are subject to the approval of the Board of Directors. Transfers of Class C or D common stock or Class E participation certificates are only allowed if we meet the regulatory minimum capital requirements. Series A-1 preferred stock may only be transferred to qualified institutional buyers and accredited institutional investors, as those terms are defined by the Securities Act of 1933, as amended, and only in accordance with the terms and limitations of the Series A-1 preferred stock offering documents.

Patronage Distributions

We made net nonqualified patronage allocations of $61.6 million, $55.0 million, and $40.0 million in 2013, 2012, and 2011, respectively. Our nonqualified patronage allocation is based on a Board of Directors resolution requiring an allocation of annual net patronage-eligible earnings for each fiscal year. Patronage equities have no voting rights, are redeemed at the sole discretion of the Board of Directors and are transferable only if specifically authorized by the Board of Directors.

On January 20, 2011, the Board of Directors authorized the retirement of the remainder of the $13.9 million of 2001 nonqualified patronage allocations. This retirement was substantially completed by February 1, 2011. On January 18, 2012, the Board of Directors authorized the retirement of the remainder of the $17.8 million of 2002 nonqualified patronage allocations. This retirement was substantially completed by February 1, 2012. On September 19, 2012, the Board of Directors authorized the retirement of the remainder of the $22.8 million of 2003 nonqualified patronage allocations. This retirement was substantially completed by December 1, 2012. On September 18, 2013, the Board of Directors authorized the retirement of the remainder of the $24.7 million of 2004 nonqualified patronage allocations. This retirement was substantially completed by December 1, 2013. The timing of these payouts occurred within the Board of Directors' targeted 7-10 year retirement timeframe. On December 18, 2013, the Board of Directors authorized the payment of $88 thousand of dividends on approved transactions, to be paid by March 15, 2014. The timing and amounts of all future patronage redemptions and dividend payments remains at the discretion of the Board of Directors based on a combination of factors including the risk in our portfolio, earnings, and our current capital position.

We received a special stock patronage refund of $4.6 million from AgriBank on December 31, 2002. This stock received would be subject to tax only upon conversion to cash. Effective in 2002, our Board of Directors passed a resolution stating that, should we realize additional taxable income from the conversion of this stock, we will declare a patronage distribution to our member stockholders at such time in an amount equivalent to the amount of such additional taxable income realized.

The FCA Regulations prohibit patronage distributions to the extent they would reduce our permanent capital ratio below the minimum permanent capital adequacy standards. We do not foresee any events that would result in this prohibition in 2014.

NOTE 11: INCOME TAXES

Provision for (Benefit from) Income Taxes

Our provision for (benefit from) income taxes follows (dollars in thousands):

For the year ended December 31	**2013**	2012	2011
Current:			
Federal	**$ 5,889**	$ (1,788)	$ 3,392
State	**281**	181	243
Total current	**6,170**	(1,607)	3,635
Deferred:			
Federal	**(1,641)**	(1,573)	6,948
State	**(49)**	(191)	191
Total deferred	**(1,690)**	(1,764)	7,139
Provision for (benefit from) income taxes	**$ 4,480**	$ (3,371)	$ 10,774
Effective tax rate	**3.7%**	(3.2%)	12.5%

The following table quantifies the differences between the provision for (benefit from) income taxes and income taxes at the statutory rates (in thousands):

For the year ended December 31	**2013**	2012	2011
Federal tax at statutory rate	**$ 42,214**	$ 35,364	$ 29,304
Impact of graduated rates	**--**	96	361
State tax, net	**122**	69	260
Patronage distributions	**(7,760)**	(6,928)	(349)
Effect of non-taxable entity	**(29,445)**	(25,183)	(16,693)
Other	**(651)**	(6,789)	(2,109)
Provision for (benefit from) income taxes	**$ 4,480**	$ (3,371)	$ 10,774

Tax Related Matters

In 2013, a tax reduction was recorded reflecting the 2004 nonqualified patronage retired in the fourth quarter of 2013. This reduction is reflected in the above table in the “Patronage distributions” adjustment. In 2012, a tax reduction (included in “Other” in the preceding table) in the amount of $6.8 million was recorded, reflecting the deduction on the 2011 tax return from the 2002 nonqualified patronage retired in the first quarter of 2012. Also in 2012, a tax reduction was recorded reflecting the 2003 nonqualified patronage retired in the fourth quarter of 2012. This reduction is reflected in the above table in the “Patronage distributions” adjustment. In 2011, a tax reduction (included in “Other” in the above table) in the amount of $2.1 million was recorded, reflecting the deduction on the 2010 tax return from the 2001 nonqualified patronage retired in the first quarter of 2011.

Deferred Income Taxes

Tax laws require certain items to be included in our tax returns at different times than the items are reflected on our Consolidated Statements of Income. Some of these items are temporary differences that will reverse over time. We record the tax effect of temporary differences as deferred tax assets and liabilities netted on our Consolidated Statements of Condition.

Deferred tax assets and liabilities were composed of the following (in thousands):

As of December 31	2013	2012	2011
Allowance for loan/lease losses	**$ 4,351**	$ 4,831	$ 4,426
Postretirement benefit accrual	**462**	427	387
Deferred fee income, net	**654**	625	638
Accrued incentive	**1,186**	1,151	655
Leasing related, net	**(12,259)**	(14,224)	(15,555)
Accrued patronage income not received	**(934)**	(832)	(891)
Accrued pension asset	**--**	(125)	(226)
Depreciation	**(280)**	(370)	64
Other assets	**331**	321	283
Other liabilities	**(572)**	(555)	(296)
Deferred tax liabilities, net	**$ (7,061)**	$ (8,751)	$ (10,515)
Gross deferred tax assets	**$ 6,984**	$ 7,355	$ 6,453
Gross deferred tax liabilities	**$ (14,045)**	$ (16,106)	$ (16,968)

A valuation allowance for the deferred tax assets was not necessary at December 31, 2013, 2012, or 2011.

We have not provided deferred income taxes on approximately $59.8 million of patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. Also, we have not provided deferred income taxes on $4.6 million of patronage allocations in the form of AgriBank stock distributed in 2002 to the ACA and PCA. The Board of Directors has passed a resolution that, should this stock ever be converted to cash, creating a tax liability, an equal amount will be distributed to patrons at that time under our patronage program. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $618.9 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to stockholders in a manner that results in no additional tax liability to us.

Our income tax returns are subject to review by various United States taxing authorities. We record accruals for items that we believe may be challenged by these taxing authorities. However, we had no uncertain income tax positions at December 31, 2013. In addition, we believe we are no longer subject to income tax examinations for years prior to 2010.

NOTE 12: EMPLOYEE BENEFIT PLANS

Pension and Post-Employment Benefit Plans

Complete financial information for the pension and post-employment benefit plans may be found in the Combined AgriBank and Affiliated Associations 2013 Annual Report (District financial statements).

The Farm Credit Foundations Plan Sponsor and Trust Committees provide oversight of the benefit plans. These governance committees are comprised of elected or appointed representatives (senior leadership and/or Board of Director members) from the participating organizations. The Coordinating Committee (a subset of the Plan Sponsor Committee comprised of AgriBank District representatives) is responsible for decisions regarding retirement benefits at the direction of the AgriBank District participating employers. The Trust Committee is responsible for fiduciary and plan administrative functions.

Pension Plan: Certain employees participate in the AgriBank District Retirement Plan, a District-wide multi-employer defined benefit retirement plan. The plan is comprised of two benefit formulas. At their option, employees hired prior to October 1, 2001 are on the cash balance formula or on the final average pay formula. New benefits eligible employees hired between October 1, 2001 and December 31, 2006 are on the cash balance formula. Effective January 1, 2007, the defined benefit retirement plan was closed to new employees. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan's termination is contingent on the sufficiency of the plan's net assets to provide benefits at that time. This Plan is noncontributory and covers certain eligible District employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if we choose to stop participating in the plan, we may be required to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Because of the multi-employer nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee transfers to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

As disclosed in the District financial statements, the defined benefit pension plan reflects an unfunded liability totaling $255.2 million at December 31, 2013. The pension benefits funding status reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these consolidated financial statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The projected benefit obligation of the District-wide plan was $1.0 billion, $1.1 billion, and $934.8 million at December 31, 2013, 2012, and 2011, respectively. The fair value of the plan assets was $759.5 million, $640.1 million, and $557.6 million at December 31, 2013, 2012, and 2011, respectively. The accumulated benefit obligation, which is the actuarial present value of the benefits attributed to employee service rendered before the measurement date and based on current employee service and compensation, exceeds pension plan assets. The accumulated benefit obligation for the District-wide plan was $864.2 million, $908.2 million, and $788.0 million at December 31, 2013, 2012, and 2011, respectively. The funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. We recognize our proportional share of expense and contribute a proportional share of funding. Total plan expense for participating employers was $63.3 million, $52.7 million, and $44.0 million for 2013, 2012, and 2011, respectively. Our allocated share of plan expenses included in "Salaries and employee benefits" in the Consolidated Statements of Income was $8.8 million, $6.7 million, and $5.7 million for 2013, 2012, and 2011, respectively. Participating employers contributed $59.0 million, $51.3 million, and $27.9 million to the plan in 2013, 2012, and 2011, respectively. Our allocated share of these pension contributions was $8.3 million, $6.6 million, and $3.9 million for 2013, 2012, and 2011, respectively. Benefits paid to participants in the District were $49.8 million in 2013, none of which were paid to our senior officers who were actively employed during the year. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total District employer contributions expected to be paid into the pension plans during 2014 is $32.7 million. Our allocated share of these pension contributions is expected to be $4.7 million. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the District financial statements.

Retiree Medical Plans: District employers also provide certain health insurance benefits to eligible retired employees according to the terms of the benefit plan. The anticipated costs of these benefits are accrued during the period of the employee's active status. Postretirement benefit cost included in "Salaries and employee benefits" in the Consolidated Statements of Income were $238 thousand, $221 thousand, and $252 thousand for 2013, 2012, and 2011, respectively. Our cash contributions, equal to the benefits paid, were $127 thousand, $122 thousand, and $115 thousand for 2013, 2012, and 2011, respectively.

Nonqualified Retirement Plan: We also participate in the District-wide non-qualified defined benefit Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above the Internal Revenue Code compensation or other limits.

As disclosed in the District financial statements, the Pension Restoration Plan reflects an unfunded liability totaling $25.3 million at December 31, 2013. This plan is funded as the benefits are paid; therefore, there are no assets in the plan and the unfunded liability is equal to the projected benefit obligation. The projected benefit obligation of the Pension Restoration Plan was $25.3 million, $23.5 million, and $16.6 million at December 31, 2013, 2012, and 2011, respectively. The accumulated benefit obligation for the Pension Restoration Plan was $19.8 million, $17.5 million, and $13.6 million at December 31, 2013, 2012, and 2011, respectively. The amount of the pension benefits funding status is subject to many variables including interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their current employees. Total Pension Restoration Plan expense for participating employers was $3.6 million, $2.4 million, and $2.5 million for 2013, 2012, and 2011, respectively. Our allocated share of plan expenses included in “Salaries and employee benefits” in the Consolidated Statements of Income was $1.3 million, $423 thousand, and $747 thousand for 2013, 2012, and 2011, respectively. The Pension Restoration Plan is unfunded and we make annual contributions to fund benefits paid to our retirees covered by the plan. Our cash contributions, equal to the benefits paid, were $158 thousand for 2013. There were no benefits paid under the Pension Restoration Plan to senior officers who were actively employed during the year. We had no cash contributions and paid no benefits during 2012 or 2011.

Retirement Savings Plans

We participate in a defined contribution retirement savings plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2.0% and 50 cents on the dollar on the next 4.0% on both pre-tax and post-tax contributions. The maximum employer match is 4.0%. For employees hired after December 31, 2006, we contribute 3.0% of the employee’s compensation and will match employee contributions dollar for dollar up to a maximum of 6.0% on both pre-tax and post-tax contributions. The maximum employer contribution is 9.0%.

We also participate in the Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the IRS, be either a Chief Executive Officer or President of a participating employer, or have previously elected pre-tax deferrals in 2006 under predecessor nonqualified deferred compensation plans. Under this plan the employee may defer a portion of his/her salary, bonus, and other compensation. Additionally, the plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the retirement savings plan if it were not for certain IRS limitations.

Employer contribution expenses for the retirement savings plans, included in “Salaries and employee benefits” in the Consolidated Statements of Income, were $3.2 million, $3.0 million, and $2.7 million in 2013, 2012, and 2011, respectively. These expenses were equal to our cash contributions for each year.

Additionally, we participate in the Pre-409A Frozen Nonqualified Deferred Compensation Plan. This plan serves the same purpose as the Nonqualified Deferred Compensation Plan. However, the plan was frozen effective January 1, 2007. As such, no additional participants are eligible to enter the plan and no additional employer contributions will be made to the plan.

NOTE 13: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members, and other organizations with which such persons may be associated. Such transactions are subject to special approval requirements contained in the FCA Regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with other persons. In our opinion, none of these loans outstanding at December 31, 2013 involved more than a normal risk of collectability.

The following table presents information on loans and leases to related parties (in thousands):

	2013	2012	2011
As of December 31:			
Total related party loans and leases	**$ 28,770**	$ 29,842	$ 24,144
For the year ended December 31:			
Advances to related parties	**$ 18,826**	$ 24,815	$ 19,676
Repayments by related parties	**21,494**	21,272	13,884

The related parties can be different each year end primarily due to changes in the composition of our Board of Directors. Advances and repayments to related parties at the end of each year are included in the preceding chart.

We purchase various services from AgriBank including certain information systems, financial, accounting and reporting, and retail product processing and support services. The total cost of services we purchased from AgriBank was $1.8 million, $1.8 million, and $2.1 million in 2013, 2012, and 2011, respectively.

We also purchase human resource information systems, benefit, payroll, and workforce management services from Foundations. Foundations was operated as a part of AgriBank prior to January 1, 2012 when it formed a separate System service corporation. The System entities using Foundations' services contributed an investment into the service corporation in January 2012. Our investment was $83 thousand at December 31, 2013 and 2012. The total cost of services purchased from Foundations was $393 thousand and $334 thousand in 2013 and 2012, respectively.

We have an agreement with CoBank to provide certain cash management services to some of our clients. To support these cash management services, we have a cash management agreement with CoBank that includes an $8 million back-up cash management settlement facility.

NOTE 14: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have contingent liabilities and outstanding commitments which may not be reflected in the accompanying consolidated financial statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk not 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 loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2013, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $2.0 billion. Additionally, we had $38.4 million of issued standby letters of credit and $2.9 million of other commitments as of December 31, 2013. Refer to Note 17 for additional discussion regarding standby letters of credit included in the Consolidated Statements of Condition.

Commitments to extend credit and letters of credit generally have fixed expiration dates or other termination clauses and we may require payment of a fee. If commitments to extend credit and letters of credit remain unfulfilled or have not expired, they may have credit risk not recognized in the financial statements. Many of the commitments to extend credit and letters of credit will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Certain letters of credit may have recourse provisions that would enable us to recover from third parties amounts paid under guarantees, thereby limiting our maximum potential exposure. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers and we apply the same credit policies.

NOTE 15: DERIVATIVES

We use forward commitments to sell TBAs at specified prices to economically hedge the interest rate risk on loans held for sale and interest rate lock commitments. Changes in fair value subsequent to inception are based on changes in the fair value of the underlying loan and for commitments to originate loans and changes in the probability that the loan will fund within the terms of the commitment. Changes in the probability that the loan will fund within the terms of the commitment are affected primarily by changes in interest rates and the passage of time. As of December 31, 2013, we had $3 million of forward commitments to sell, hedging $4.5 million of mortgage loans held for sale and $588 thousand of unfunded mortgage loan commitments. The forward commitments to sell and the unfunded mortgage loan commitments on loans intended to be sold are considered derivatives and are valued at fair value. For 2013, we had a net loss of $2 thousand on TBAs relating to net fair value adjustments and sales. There were no TBAs in 2012 or 2011.

NOTE 16: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Note 2 for a more complete description of the three input levels.

Recurring Basis

We had loans held for sale of $4.5 million as of December 31, 2013 which were valued using Level 3 unobservable inputs. Total fair value gains related to these loans of $15 thousand were recognized in "Fee and miscellaneous income, net" in the Consolidated Statements of Income. We also had TBAs with a notional value of $3 million as of December 31, 2013 which were used to manage exposure to interest rate risk and changes in the fair value of loans held for sale and the interest rate lock commitments that are determined prior to funding. These derivatives were recorded on a net basis using Level 1 fair value inputs. Net losses related to TBAs sold, combined with fair value gains on the TBAs, resulted in a net loss of $2 thousand. These were included in "Fee and miscellaneous income, net" in the Consolidated Statements of Income. We did not have any material assets or liabilities measured at fair value on a recurring basis at December 31, 2012 or 2011.

Non-Recurring Basis

We may also be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information on assets measured at fair value on a non-recurring basis follows (in thousands):

As of December 31, 2013	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Loans	**$ --**	**$ 1,876**	**$ 19,840**	**$ 21,716**	**$ 539**
Other property owned	**--**	**--**	**5,270**	**5,270**	**(2,004)**

As of December 31, 2012	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Loans	$ --	$ 1,774	$ 13,719	$ 15,493	$ (1,828)
Other property owned	--	--	12,065	12,065	(1,484)

As of December 31, 2011	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Loans	$ --	$ 1,972	$ 51,432	$ 53,404	$ 6,476
Other property owned	--	--	8,424	8,424	(1,435)

Valuation Techniques

Loans held for sale: The loans held for sale portfolio is held at fair value. Fair value is based on quoted market prices, where available, or the prices for other similar mortgage loans with similar characteristics. As necessary, these prices are adjusted for typical securitization activities, including servicing value, portfolio composition, market conditions, and liquidity.

Derivatives: If an active market exists, the fair value is based on currently quoted market prices.

Loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

Other property owned: Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

Refer to Note 2 for a description of the methods used to determine the fair value hierarchy.

NOTE 17: FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of all our financial instruments is as follows (in thousands):

	2013		2012		2011	
As of December 31	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Net loans	**$ 6,343,257**	**$ 6,332,887**	$ 5,886,522	$ 5,977,781	$ 5,161,041	$ 5,251,334
Investment securities	**462,424**	**451,774**	484,092	486,243	505,486	509,733
Derivative assets	**18**	**18**	--	--	--	--
Financial liabilities:						
Note payable to AgriBank, FCB	**$ 5,862,433**	**$ 5,831,688**	$ 5,610,487	$ 5,681,952	$ 4,954,046	$ 5,028,579
Subordinated debt	**100,000**	**107,143**	100,000	116,193	100,000	112,278
Unrecognized financial instruments:						
Commitments to extend credit and letters of credit		**$ (2,572)**		$ (2,156)		$ (1,975)

Quoted market prices are generally not available for our financial instruments. Accordingly, we base fair values on:

- judgments regarding future expected losses,
- current economic conditions,
- risk characteristics of various financial instruments,
- credit risk, and
- other factors.

These estimates involve uncertainties, matters of judgment, and cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Estimating the fair value of our investment in AgriBank is not practical because the stock is not traded. As discussed in Notes 2 and 6, the investment is a requirement of borrowing from AgriBank.

A description of the methods and assumptions used to estimate the fair value of each class of our financial instruments, for which it is practical to estimate that value, follows:

Net loans: Because no active market exists for our loans, fair value is estimated by discounting the expected future cash flows using current interest rates at which similar loans would be made or repriced to borrowers with similar credit risk. In addition, loans are valued using the Farm Credit interest rate yield curve, prepayment rates, contractual loan information, credit classification, and collateral values. As the discount rates are based upon internal pricing mechanisms and other management estimates, management has no basis to determine whether the fair values presented would be indicative of the exit price negotiated in an actual sale. Furthermore, certain statutory or regulatory factors not considered in the valuation, such as the unique statutory rights of System borrowers, could render our portfolio less marketable outside the System.

For fair value of loans individually impaired, we assume collection will result only from the sale of the underlying collateral. Fair value is estimated to equal the total net realizable value of the underlying collateral. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

The loans held for sale portfolio is held at fair value; therefore, carrying amount is equal to fair value. Fair value is based on quoted market prices, where available, or the prices for other similar mortgage loans with similar characteristics. As necessary, these prices are adjusted for typical securitization activities, including servicing value, portfolio composition, market conditions, and liquidity.

Investment securities: If an active market exists, the fair value is based on currently quoted market prices. For those securities for which an active market does not exist, we estimate the fair value of these investments by discounting the expected future cash flows using current interest rates adjusted for credit risk.

Derivatives: If an active market exists, the fair value is based on currently quoted market prices.

Note payable to AgriBank: Estimating the fair value of the note payable to AgriBank is determined by segregating the note into pricing pools according to the types and terms of the underlying loans funded. We discount the estimated cash flows from these pools using the current rate charged by AgriBank for additional borrowings with similar characteristics.

Subordinated debt: We estimate the fair value of the subordinated debt by discounting the expected future cash requirements using current interest rates.

Commitments to extend credit and letters of credit: Estimating the fair value of commitments and letters of credit is determined by the inherent credit loss in such instruments.

NOTE 18: QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly consolidated results of operations for the year ended December 31 follows (in thousands):

2013	First	Second	Third	Fourth	Total
Net interest income	**$ 41,353**	**$ 43,046**	**$ 44,739**	**$ 46,134**	**$ 175,272**
Provision for (reversal of) loan/lease losses	**1,629**	**(809)**	**(95)**	**(3,803)**	**(3,078)**
Patronage income	**4,073**	**4,209**	**4,062**	**9,196**	**21,540**
Other expense, net	**14,962**	**20,030**	**20,339**	**23,949**	**79,280**
Provision for (benefit from) income taxes	**4,019**	**3,494**	**(6,024)**	**2,991**	**4,480**
Net income	**$ 24,816**	**$ 24,540**	**$ 34,581**	**$ 32,193**	**$ 116,130**

2012	First	Second	Third	Fourth	Total
Net interest income	$ 38,221	$ 38,213	$ 40,126	$ 41,591	$ 158,151
Provision for (reversal of) loan/lease losses	1,724	3,759	1,777	(78)	7,182
Patronage income	3,211	4,375	3,260	7,492	18,338
Other expense, net	18,303	10,750	18,254	17,990	65,297
Provision for (benefit from) income taxes	(2,497)	3,557	2,122	(6,553)	(3,371)
Net income	$ 23,902	$ 24,522	$ 21,233	$ 37,724	$ 107,381

2011	First	Second	Third	Fourth	Total
Net interest income	$ 36,884	$ 36,488	$ 37,046	$ 37,147	$ 147,565
Provision for (reversal of) loan/lease losses	1,068	1,066	3,367	1,899	7,400
Patronage income	2,548	3,518	3,187	7,880	17,133
Other expense, net	16,613	17,671	16,888	19,940	71,112
Provision for (benefit from) income taxes	(1,695)	2,708	4,701	5,060	10,774
Net income	$ 23,446	$ 18,561	$ 15,277	$ 18,128	$ 75,412

NOTE 19: SUBSEQUENT EVENTS

We have evaluated subsequent events through February 28, 2014, which is the date the consolidated financial statements were available to be issued. There have been no material subsequent events that would require recognition in our 2013 consolidated financial statements or disclosures in the Notes to Consolidated Financial Statements.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

AgStar Financial Services, ACA
(Unaudited)

Description of Business

General information regarding the business is discussed in Note 1 of this Annual Report.

The description of significant business developments, if any, is discussed in the "Management's Discussion and Analysis" section of this Annual Report.

Description of Property

The following table sets forth certain information regarding our properties:

Location	Description	Usage
Apple Valley, MN	Leased	Branch
Baldwin, WI	Owned	Branch
Bloomington, IL	Leased	Commercial Unit
Blue Earth, MN	Leased	Branch
Des Moines, IA	Leased	Branch
Duluth, MN	Leased	Contact Office
Fargo, ND	Leased	Commercial Unit
Glencoe, MN	Owned	Branch
Lake Elmo, MN	Leased	Commercial Unit
Mankato, MN	Owned / Leased	Branch/Headquarters
Meridian, ID	Leased	Contact Office
Northfield, MN	Leased	Branch
Rice Lake, WI	Owned	Branch
Rochester, MN	Leased	Branch
St. Cloud, MN	Owned	Branch
Woodland, CA	Leased	Contact Office
Worthington, MN	Leased	Branch

Legal Proceedings

Information regarding legal proceedings is discussed in Note 14 of this Annual Report. We were not subject to any enforcement actions as of December 31, 2013.

Description of Capital Structure

Information regarding our capital structure is discussed in Note 10 of this Annual Report.

Description of Liabilities

Information regarding liabilities is discussed in Notes 8, 9, 10, 11, 12, 14, 15, and 17 of this Annual Report.

Selected Financial Data

The "Consolidated Five-Year Summary of Selected Financial Data" is presented at the beginning of this Annual Report.

Management's Discussion and Analysis

Information regarding any material aspects of our financial condition, changes in financial condition, and results of operations are discussed in the "Management's Discussion and Analysis" section of this Annual Report.

Board of Directors

Information regarding directors who served as of December 31, 2013, including business experience in the last five years and any other business interest where a director serves on the board of directors or as a senior officer follows:

Spencer Enninga, Chairperson of the Board, is a self-employed grain and livestock farmer and a seed sales representative. He is also President of Enninga Farms, Inc., Fulda, MN, a grain and livestock operation. His current term on the board began in 2011 and expires in 2014.

Kaye Compart, Vice Chairperson, is a self-employed livestock and grain farmer. She is also the Secretary of South Central Saddle Club, Mankato, MN, involved in horse shows, and a board member of the South Central Chapter of the University of Minnesota Alumni Association, Mankato, MN. Her current term on the board began in 2012 and expires in 2015.

Wesley Beck is a self-employed grain and livestock farmer. His current term on the board began in 2011 and expires in 2014.

David Bollman is a self-employed grain farmer. During the last five years, he was also a self-employed dairy farmer. His current term on the board began in 2013 and expires in 2016.

Theresa Ann Broome, Outside Director, is a human resources executive and consultant. From April, 2006 to August, 2010, she was a Sr. Vice President, Human Resources for American Achievement Corporation, Austin, TX, a consumer goods holding company. From August, 2010 to March, 2012, she was the Chief People Officer for Lower Colorado River Authority, Austin, TX, a power plant and park management company. She is currently a self-employed Human Resources Consultant. Prior to that, she had business and human resources careers at Coca Cola Enterprises and the U.S. Postal Service. Her current term on the board began in 2012 and expires in 2015.

Terry Ebeling is a self-employed grain farmer. His current term on the board began in 2013 and expires in 2016.

Larry Fischer is a self-employed grain and livestock farmer. He is President and Treasurer of Fischer Dairy, Inc., Sleepy Eye, MN, a dairy operation and President of Fischer Ridge, LLC, Sleepy Eye, MN, an entity created to own and manage recreational land. His current term on the board began in 2012 and expires in 2015.

Dale Holmgren is a self-employed grain and livestock farmer. He is also President of Svin Hus, Inc., Mankato, MN, a swine operation. His current term on the board began in 2013 and expires in 2016.

Steven Johnson is a self-employed grain farmer. He also serves on the board of Windom Hospital Foundation, a fund raising organization. His current term on the board began in 2013 and expires in 2016.

William Kiehne is a self-employed grain and livestock farmer. He is also President of Central Fillmore Foods, Harmony, MN, a swine operation, and CEO of Kiehne Family Farms, LLC, Harmony, MN, a grain and livestock operation. His current term on the board began in 2011 and expires in 2014.

Kevin Koppendrayer is a self-employed grain farmer and a seed sales representative. He is also the owner of Koppendrayer Trucking, Princeton, MN. His current term on the board began in 2012 and expires in 2015.

David Kretzschmar is a self-employed dairy and grain farmer. He is also President of Kretzschmar Holsteins, Inc., Mellen, WI, a dairy operation. His current term on the board began in 2011 and expires in 2014.

William McCue is a self-employed grain farmer. He is also a partner in McCue Family Farms Partnership, Belle Plaine, MN, a grain operation. His current term on the board began in 2013 and expires in 2016.

Gregory Nelson is a self-employed grain and livestock farmer. He is also on the board of the Wisconsin Beef Council, a trade group. His current term on the board began in 2011 and expires in 2014.

Lawrence Romuald, Appointed Director, is the Treasurer and CFO of Cooperative Resources International, Shawano, WI, a holding cooperative, and is an officer in AgSource Cooperative Services, Central Livestock Association, and Genex Cooperative, Inc., all of which are cooperative service providers in Shawano, WI. He is also the Acting Chairperson of the Plan Sponsor Committee for Foundations, a pension and benefits organization. His current term on the board began in 2013 and expires in 2015.

Lowell Schafer is a self-employed livestock farmer. He is also President of Schafer Farms, Goodhue, MN, a livestock operation. His current term on the board began in 2012 and expires in 2015.

Rick Sommers is a self-employed dairy farmer. His current term on the board began in 2012 and expires in 2015.

Pursuant to our bylaws, Directors are paid a reasonable amount for attendance at board meetings, committee meetings, or other special assignments. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or assignments. In 2013, the Board of Directors' per diem rate was $400 per day plus travel time compensation for each meeting attended. The Board of Directors regular monthly meetings are normally two days in length. In addition, they hold two, three-day planning sessions annually. In 2013, each Director received a $1,000 per month retainer fee, with the exception of the chairperson who received a $1,500 per month retainer fee. The Board committee chairperson for the Audit Committee, Human Resources Committee, and Credit Committee each received an additional retainer of $100 per month. Each Director is eligible for a variable retainer fee based on companywide financial and business objectives. The award is calculated as a percentage of the Director's annual per diem compensation. The performance criteria include return on equity, operating revenue growth, adverse assets to risk funds ratio, net operating rate, client satisfaction, and client loyalty. Under the terms of the plan, no payments are made in the event our return on equity or adverse assets to risk funds ratio fall outside specified threshold levels. The percentage used in the award calculation depends on the actual results for each performance criteria.

Information regarding compensation paid to each director who served during 2013 follows:

	Number of Days Served				
	Board Meetings	Other Official Activities	Compensation for Service on a Board Committee	Name of Committee	Total Compensation in 2013 [1]
Wesley Beck	25	18	$ 2,060	Audit	$ 36,882
David Bollman	25	27	1,845	Human Resources	42,833
Theresa Ann Broome	25	23	2,400	Human Resources	41,231
Kaye Compart	23	23	2,117	Human Resources	40,193
Terry Ebeling	23	24	2,117	Audit	38,936
Spencer Enninga	25	27	1,912	Audit	48,383
Larry Fischer	24	21	2,228	Audit	35,848
Dale Holmgren	25	30	2,116	Human Resources	42,949
Steven Johnson	25	24	2,268	Human Resources	42,640
William Kiehne	25	32	1,798	Credit	45,730
Kevin Koppendrayer	23	25	1,702	Audit	41,436
David Kretzschmar	24	22	958	Credit	39,738
William McCue	25	24	1,246	Credit	39,500
Gregory Nelson	24	22	1,261	Credit	38,799
Kent Ringkob [2]	0	0	--		2,040
Lawrence Romuald	24	17	2,610	Audit	36,144
Lowell Schafer	25	19	1,693	Credit	37,303
Rick Sommers	25	22	1,728	Credit	38,655
Total	415	400	$ 32,059		$ 689,240

[1] Compensation in 2013 includes taxable fringe benefits, if applicable.

[2] Not on Board at any time during 2013.

Senior Officers

The senior officers, and the date each began in his current position, include:

Paul A. DeBriyn	President and Chief Executive Officer	July, 1995
Joseph R. Deufel	Executive Vice President, Chief Credit Officer and Asst Secretary	July, 1991
Rodney W. Hebrink	Executive Vice President and Chief Financial Officer	December, 1985
James W. Manley	Executive Vice President and Chief Relationship Mgmt Officer	September, 2001
Paul B. Kohls	Sr. Vice President, General Counsel, and Secretary	January, 2012

All of the senior officers have held their current positions for the past five years, with the exception of Mr. Kohls.

Prior to 2012, Mr. Kohls was an Assistant General Counsel with us, originally hired in 2010. From 2005 to 2010, he was an attorney and Director of Government Affairs for Allianz Life Insurance Company of North America. During that same period, he was also a member of the Minnesota House of Representatives.

Information related to compensation paid to senior officers is provided in our Annual Meeting Information Statement (AMIS). The AMIS is available for public inspection at our Mankato office once it has been mailed to our stockholders.

Transactions with Senior Officers and Directors

Information regarding related party transactions is discussed in Note 13 of this Annual Report.

Travel, Subsistence, and Other Related Expenses

Directors and senior officers are reimbursed for reasonable travel, subsistence, and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at P.O. Box 4249, Mankato, MN 56002-4249, by phone (866-577-1831), by e-mail to AgStarEteam@agstar.com, or at our website, www.agstar.com.

The total directors' travel, subsistence, and other related expenses were $199 thousand, $154 thousand, and $159 thousand in 2013, 2012, and 2011, respectively.

Involvement in Certain Legal Proceedings

No events occurred during the past five years that are material to evaluating the ability or integrity of any person who served as a director or senior officer on January 1, 2014 or at any time during 2013.

Client Privacy

Clients' nonpublic personal financial information is protected by Farm Credit Administration Regulation. Except as provided for in those Regulations, our directors and employees are restricted from disclosing information not normally contained in published reports or press releases about us or our clients without client consent. We do not sell or trade clients' personal information to marketing companies or information brokers. Client information may be disclosed, for example:

- to other Farm Credit System institutions in contemplation of the extension of credit or in servicing existing credit,
- as a credit reference for clients with other lenders with the client's written consent,
- to provide impersonal information to a credit bureau or consumer reporting agency,
- in certain legal or law enforcement proceedings,
- to external, internal, or Farm Credit Administration auditors in a review of client files during regular reviews or examinations, or
- to provide copies of real estate appraisals, if needed by an employee to become a licensed real estate appraiser, when required by State agencies.

Relationship with Qualified Public Accountant

There were no changes in independent auditors since the last Annual Report to stockholders and we are in agreement with the opinion expressed by the independent auditors. The total fees paid during 2013 were $275 thousand. The fees paid for audit services totaled $116 thousand. Other fees for services totaled $142 thousand for assurance and other services relating to our Series A-1 preferred stock offering and $15 thousand for consulting fees related to a new product offering, RuraLiving®, rolled out in 2013. Both of these services were approved by the Board Audit Committee. Additionally $2 thousand in fees was paid for accounting research software.

Financial Statements

The "Report of Management", "Report on Internal Control Over Financial Reporting", "Report of Audit Committee", "Independent Auditor's Report", "Consolidated Financial Statements", and "Notes to Consolidated Financial Statements" are presented prior to this portion of the Annual Report.

Credit and Services to Young, Beginning, and Small Farmers and Ranchers Program

Information regarding credit and services to young, beginning, and small farmers and ranchers, and producers or harvesters of aquatic products is discussed in an addendum to this Annual Report.

Equal Employment Opportunity

We are an equal opportunity employer. It is our policy to provide equal employment opportunity to all persons regardless of race, color, sex, creed, religion, national origin, age, disability, marital status, sexual orientation, public assistance status, veteran status, genetic information, pregnancy or any other status protected by law. We comply with all federal, state, and local equal opportunity employment regulations. All personnel decisions and processes relating to our employees and job applicants are conducted in an environment free of discrimination and harassment. We are committed to recruiting, hiring, training, and promoting without regard to the above listed factors.

YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

AgStar Financial Services, ACA

(Unaudited)

We have specific programs in place to serve the credit related needs of young, beginning, and small farmers and ranchers in our territory. The definitions of young, beginning, and small farmers and ranchers are as follows:

- Young: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.
- Beginning: A farmer, rancher or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the loan transaction date.
- Small: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than $250 thousand in annual gross sales of agricultural or aquatic products.

Mission Statement: We will provide ongoing access to credit, related services and outreach programs to qualified young, beginning, and small farmers.

Policy to complete Mission Statement: We will actively develop and execute an annual business plan to qualified young, beginning, and small (YBS) farmers. This plan will target and serve YBS farmers through a variety of credit and outreach programs in an effort to help the next generation of farmers succeed. We are further committed to supporting educational and developmental opportunities to this segment of farmers.

2013 Business Environment

The number of young farmers within our territory has been on a decline for several years. The 2002 USDA census data showed the young farmer population within our territory at 7%. Data from the 2007 USDA census revealed the young farmer population has declined to 6%. In comparison, 17% of our total loans are to young farmers. (The USDA census information and FCA definition of young farmers varies slightly. USDA information is reported for farmers 34 years of age and younger, versus the FCA’s definition of 35 years of age and younger.)

The number of beginning farmers has also diminished over the past years. According to the USDA census, beginning farmers within our territory dropped from 23% in 2002 to 20% in 2007. Using the FCA definition, 22% of our total loans are made to beginning farmers. (The USDA census information and FCA definition of beginning farmers slightly differs. While FCA defines a beginning farmer as an individual with 10 years or less experience, the USDA reports those who have been farming the same farm for 9 years or less.)

In the small farmer area there has been a widening disparity in gross farm income (GFI) between the large and small farmers. Of farmers surveyed in the 2002 census, 91% had less than $250 thousand in total value of sales. In the 2007 USDA census, this dropped to 87%. Forty-three percent of our total loans are to small farmers. (The FCA definition of a small farm [less than $250 thousand in annual gross sales] varies some from the USDA census information, which is reported as total value of sales.)

In 2013, we targeted $4.0 billion of aggregate YBS lending. Total aggregate YBS lending at year end 2013 was slightly over $4 billion, putting us above our targeted level.

Our YBS goals and results for 2013 were:

Total number of loans to Young, Beginning and Small Farmers			
	Goal	Actual	% of Goal
Young	9,600	9,989	104%
Beginning	11,000	12,300	112%
Small	22,600	24,369	108%

New loans made in 2013 to Young, Beginning and Small Farmers				
	Number of loans		Volume (in millions)	
	Goal	Actual	Goal	Actual
Young	3,975	4,334	$460	$380
Beginning	4,245	4,938	$550	$465
Small	9,560	10,891	$589	$528

The number of new loans to YBS farmers exceeded all targeted levels. Of the loans that utilized government agency guarantees in 2013, 59% were to YBS farmers.

2013 Highlights

Each of our Financial Service Officers working with our core market clients was charged with establishing relationships and writing new loans with six new, young, or beginning farmer prospects in 2013. The average number of new, young, or beginning clients per Financial Service Officer achieved was 8.1, surpassing the targeted level. Ongoing informal mentoring and financial counseling is provided as a normal course of business to young and beginning farmers. Closely linked to the mentoring program is the offering of related services. Financial Service Officers, through their normal course of business, also discuss the advantages and availability of other products and services, including crop insurance, cash management, and online banking services which are also available to YBS farmers.

As part of our YBS educational and outreach initiatives, we offered the “GroundBreakers Educational Conference” in February 2013. The two-day conference featured sessions on succession planning, margin management, legislative affairs, and negotiating land rents. The conference was attended by over 300 clients and prospects. Additionally, the AgStar Scholars program (supported by the AgStar Fund for Rural America) continues to offer financial assistance and internship opportunities to students studying agriculture at the University of Minnesota or the University of Wisconsin – River Falls. Nine college students were awarded scholarships in 2013. The Fund also awarded twenty $1,000 scholarships to graduating high school seniors who are moving on to study agriculture at the university or technical college level. We continue to provide young and beginning farmers with tuition assistance for state Farm Business Management programs. The program provided partial tuition assistance to nine clients and non-clients throughout our territory in 2013. We continue to be a financial sponsor of many innovative programs and conferences, the MN FFA Star awards, and the “Ag in the Classroom” program, just to name a few.

Programs for YBS farmers include standards and guidelines to provide for extension of sound and constructive credit, consistent with our business objectives. We review the YBS lending programs and underwriting standards on an ongoing basis. To minimize credit and profit risk exposure, maximum portfolio concentration and program graduation criteria were included in the program. Additionally, a risk pool of $50 million is available annually for YBS farmer loans and leases. In 2013, almost $39 million of the risk pool was utilized. The usage of the risk pool has increased significantly over the past few years as a result of continued YBS program enhancements.

FUNDS HELD PROGRAM

AgStar Financial Services, ACA

Purpose

This policy provides direction to management for administering uninsured voluntary and involuntary accounts in compliance with FCA Regulation 614.4175.

Objective

FCA Regulation 614.4175 provides that the association may provide funds to borrowers from voluntary advance conditional payment accounts in lieu of increasing the borrower's loan. The association also may establish involuntary payment accounts for purposes identified in the regulation and this policy. The direction in this policy provides for regulatory compliance in the administration of such voluntary and involuntary accounts and their management to avoid liquidity risk.

Voluntary Advance Conditional Payment Accounts

Voluntary advance conditional payments are available for the benefit and convenience of clients who desire to make conditional payments. The voluntary account balance may not exceed the outstanding balance on the related loan(s). Loans having a prepayment penalty or variable interest rate cap should not have a funds held balance greater than 10% of the principal balance.

The association will generally pay interest for the time voluntary funds are held unapplied at a floating rate of 50 basis points above the Federal Open Market Committee's target for the federal funds rate. Rate changes will be effective within 60 days of a change by the Federal Reserve board. If this calculated rate exceeds a loan's current billed interest rate, the association will pay a minimum interest rate of 50 basis points less than the loan's billed interest rate. ALCO shall have the authority to adjust the rate paid on funds held if the federal funds rate target no longer provides a reasonable correlation to the Association's variable cost of funds. Any change by ALCO in the method of determining the funds held rate shall be reported to the board within 60 days. The association will pay interest equal to the loan's billing rate on funds held required to be maintained either as a condition of the loan or required as a consequence of the repayment structure.

Withdrawal of Funds

Funds in a funds held account may be available to be returned to clients, upon request, for an eligible loan purpose in lieu of increasing the client's loan. Withdrawals from Funds Held in general should be limited and in general should not be less than $100. Upon the death of a client who has funds held balances, the association does not set up death beneficiaries or "payable on death" designations to distribute funds held balances.

Involuntary Payment Accounts

The association may establish involuntary payment accounts including, but not limited to, funds held for borrowers, such as loan proceeds to be disbursed for which the borrower is obligated; the unapplied insurance proceeds arising from any insured loss; any insurance premiums and applicable taxes collected in advance in connection with any loan.

Amounts in involuntary payments accounts must be reasonable for the purpose for which the account is intended, for example, equal to annual payments of insurance and taxes plus a reasonable contingency, funds for construction projects, or insurance proceeds to rebuild.

The association may pay a different rate of interest on funds held that are required to be maintained either as a condition of the loan or which have other restricted purposes such as insurance and tax escrows or insurance proceeds. If the interest rate on the involuntary payment account is above the association's standard funds held rate, the funds held balance should be limited to 20% of the principal balance.

ALCO shall have authority to adjust the rate paid on funds held if the federal funds rate target no longer provides a reasonable correlation to the Association's variable cost of funds. Any change by ALCO in the method of determining the funds held rate shall be reported to the board within 60 days.

Withdrawal of Funds on Involuntary Payment Accounts

Involuntary payment accounts may be used only for their specifically designated purpose. Withdrawal of escrow funds may be permitted if the funds are needed to protect the loan collateral or it is not adverse to the association's best interest to release the funds.

Agreement/Disclosures

The association shall require written agreements with borrowers and adequate disclosures regarding:

- The uninsured status of voluntary advance conditional payment funds or involuntary payment account funds and an explanation of the risk in the event of the association's liquidation;
- Limits on amounts that can be paid into voluntary advance conditional payment accounts or involuntary payment accounts;
- Interest rates that will be paid, including the terms of variable interest rates; and
- Withdrawal guidelines.

Liquidation

In the event of association liquidation, all borrowers having funds in voluntary or involuntary uninsured accounts shall be notified in accordance with FCA Regulation 627.2735. The notice shall advise that the funds ceased earning interest when the receivership was instituted, and the funds will be applied against the outstanding indebtedness of any loans of such borrower unless, within 15 days of such notice, the borrower directs the receiver to otherwise apply such funds in the manner provided for in existing loan documents.

The CEO, or other officer designated by the CEO, shall be responsible for developing and maintaining procedures to ensure administration of this policy.

The Board of Directors shall review the ongoing adequacy of this policy at least annually.

Delegated and Retained Authorities

All authorities included in the operating parameters are delegated as specified and to the extent not delegated are retained by the Board of Directors.

Exceptions

Any exceptions to this policy shall require approval of the Board of Directors and, at the option of the Board, may receive post approval.

Reporting

Material issues regarding this policy shall be reported to the Board of Directors by the CEO, or other association officer designated by the CEO, at such times and in such format as the CEO determines appropriate.

Revision Approval Date: 2/26/03; 2/22/07; 12/17/09; 11/18/10; 2/19/14

Initial Board Approval Date: 12/16/98

Related Documents

FCA Regulations 614.4175 and 627.2735; FCA BL-030


invested in you.

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