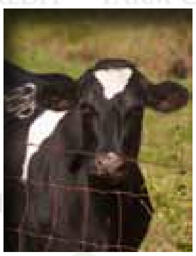
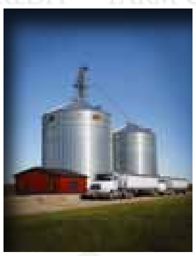
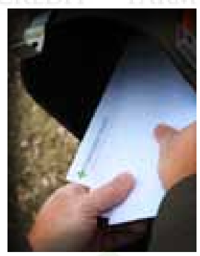
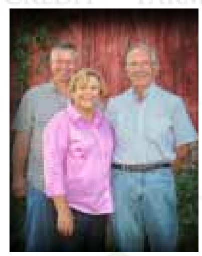
1ST FARM CREDIT SERVICES®

YOUR FIRST CHOICE


2012 ANNUAL REPORT

SMART CHOICES

Managing increasing risk

Coming into 2012, many of us involved in agriculture did not know what to expect. As net farm income reached all-time highs in 2011, where would that leave us in 2012? As a financial cooperative, 1st Farm Credit Services has experienced a growth in income, capital, assets and other elements during the last five years. However, the leaders of the cooperative entered 2012 prepared for a very different year than what unfolded.

Overall, our industry enjoyed – in fact we were blessed with – a favorable ag economy in 2012. Many of the positive aspects continued in 2012. 1st Farm Credit Services had another strong year: growing income, capital, assets and crop insurance acres insured. Our loan portfolio quality improved to an even stronger position. However, not all of agriculture has equally benefited.

The drought of 2012 impacted many grain operations, however, crop insurance protection helped to eliminate some of the financial risk. Livestock producers and the ethanol industry had a difficult time absorbing higher grain costs. The nursery, greenhouse and landscaping segments have been hit hard by the nation's recession. These are all examples of how strong financial planning for the future and risk management are imperative to continued prosperity.

It is exactly during times like these when our industry and 1st Farm Credit Services must look hard at what is to come and prepare for net farm income levels to adjust back toward trend line. 1st Farm Credit Services is preparing and managing for increased risk in the future. Making Smart Choices is critical to all aspects of our industry. Along with positioning ourselves for the future, we see these profitable times as an opportunity to give back to agriculture and the communities we serve.

Our largest single donation in 2012 was a gift that will continue to serve for several years. With an additional $250,000 contribution to the 1st Farm Credit Services Donor Advised Fund through the IAA Foundation, we will continue to be able to give to groups dedicated to agriculture youth, leadership and education. The Board of Directors established this fund in 2010 with an initial gift of $1 million. We hope these dollars – and all that we give – help make agriculture and the people working and living in rural Illinois stronger.

The agriculture industry is cyclical, and none of us can predict what the future holds. It is critical that we prepare for the unknowns to remain in a favorable position.

1st Farm Credit Services has been making Smart Choices in order to be prepared. Your Association is building its capital position, improving operating cost ratios, keeping its loan portfolio strong and investing in team members to prepare them for when our industry's financial climate becomes more cloudy and overcast. Smart Choices now can ensure we remain successful, regardless of what the future holds.

Gary J. Ash
President and
Chief Executive Officer
2006-Present

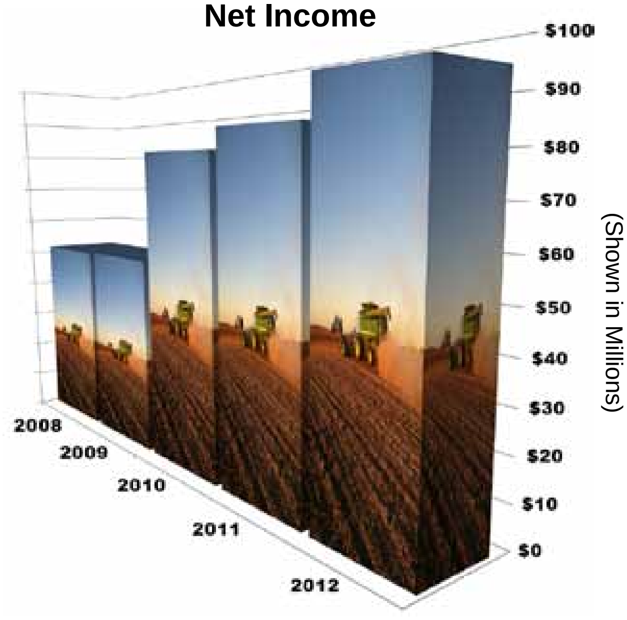
Steve Cowser
Chairperson of
the Board of Directors
2011-2013

$94.3 MILLION

$94.3 Million in Net Income

1st Farm Credit Services continued to have favorable Net Income in 2012. Stronger loan growth and non-interest income helped contribute to the overall Net Income of the Association.

Net Income



Total Member Equity

With $752.1 Million in Total Member Equity, the Association is supporting past and future asset growth. Continuing to increase Total Member Equity is essential for positioning the Association to meet the growing needs of stockholders.


GSI
GSI

$4.8 BILLION

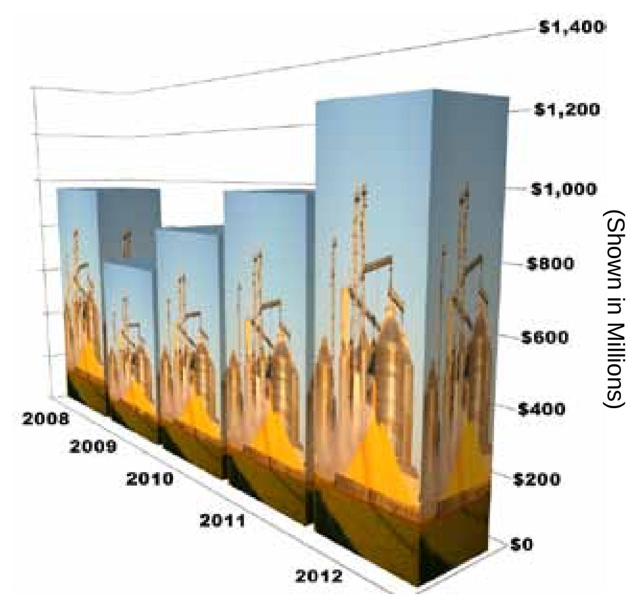
BILLION
BILLION
BILLION
BILLION
BILLION
BILLION
BILLION

$4.8 Billion in Total Owned and Managed Assets

1st Farm Credit Services marked another year of growth. The Association saw the average daily balance increase 8.2% in 2012.

Total Owned and Managed Assets

New Term Loans



Growth in new loans on real estate, machinery, equipment, facilities and investments in government-guaranteed loans continued in 2012.


450
HD

1.5 MILLION ACRES

MILLION ACRES

MILLION ACRES

MILLION ACRES

MILLION ACRES

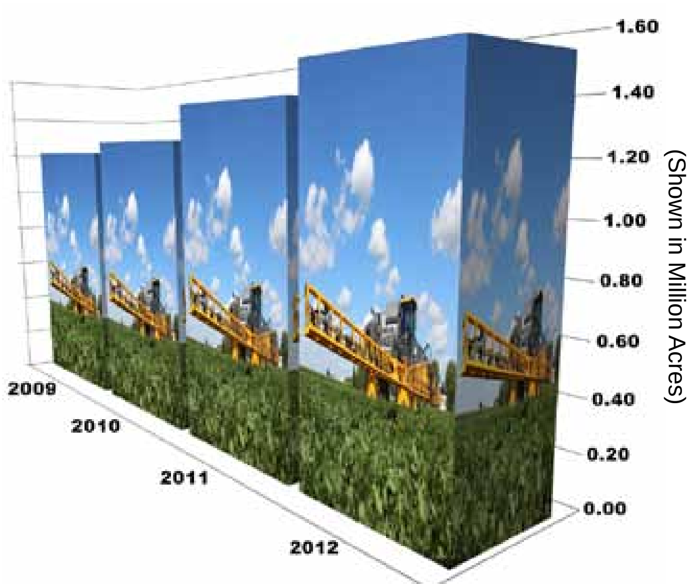
MILLION ACRES

MILLION ACRES

MILLION ACRES

1.5 Million Acres of Land Insured with Multi-Peril Crop Insurance provided by 1st Farm Credit Services

Net Multi-Peril Acres Insured



The 2012 crop year illustrated the importance of having Crop Insurance as a risk management tool for our stockholders. For the third year in a row, the Association saw more than an 8% increase in the number of acres insured with Multi-Peril Crop Insurance. 1st Farm Credit Services team members processed more than 3,500 Multi-Peril Crop Insurance claims in 2012.

Enterprise Plus
Brought to you by Farm Credit

1st Farm Credit Services began offering the new Enterprise Plus product, which gives extra coverage to protect farms all together and individually. By adding Enterprise Plus to an existing Enterprise Unit Crop Insurance policy, farmers gain additional protection for each individual unit. The protection means increased potential for claim payments based on individual yields, regardless of how the overall operation performs.

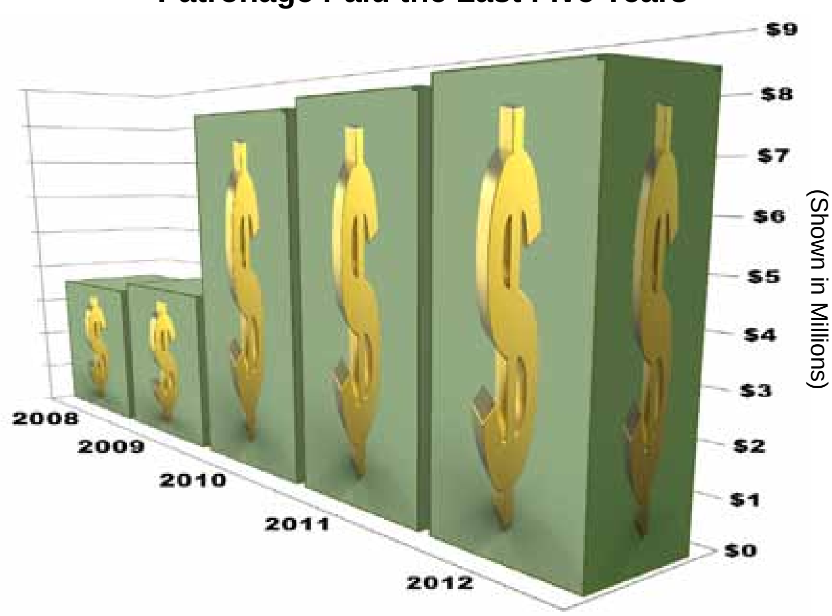
$8.4 MILLION

MILLION
MILLION
MILLION
MILLION
MILLION
MILLION
MILLION

The Board of Directors approved $8.4 Million in Patronage, which was paid to eligible clients in 2013.

As Illinois farmers considered the effects of the 2012 drought, 1st Farm Credit Services offered relief to clients by providing a 0.5% interest rate credit on all stockholder Operating Loans from October through December 2012.

Patronage Paid the Last Five Years



1st Farm Credit Services' patronage-eligible loan and lease clients are able to share in the Association's success through the Patronage Program. Since 2006, $38.4 million has been returned to clients.

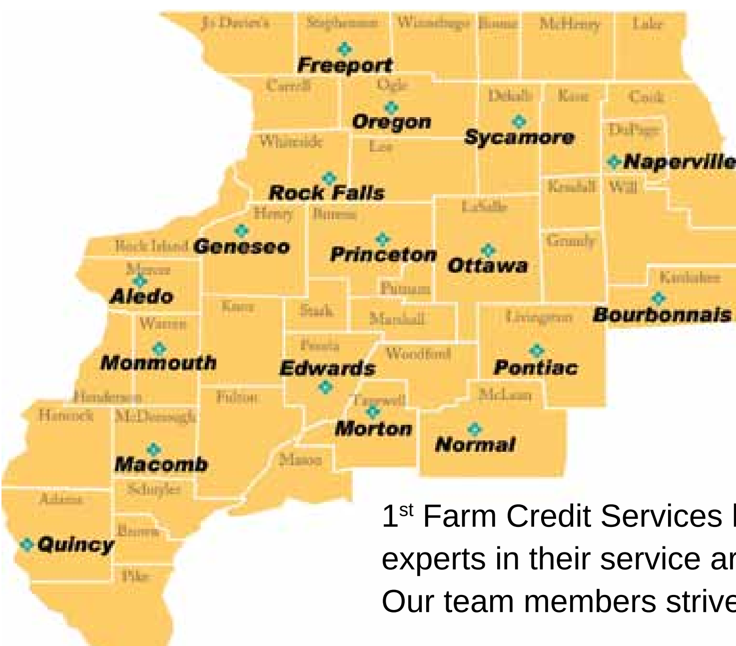
The Patronage Program is one way the Association strives to remain Your First Choice.


1ST FARM CREDIT SERVICES

99%

SATISFACTION

99% of our client-owners say they are either “Satisfied” or “Very Satisfied” with the services they receive from the Association.



1st Farm Credit Services continues to report record levels of client satisfaction. In 2012, 77% of clients were “Very Satisfied” with the services they receive from the Association.

1st Farm Credit Services has 264 full-time team members who are experts in their service areas and dedicated to serving rural America. Our team members strive to be Your First Choice.

The 16 members of the 1st Farm Credit Services Board of Directors all have ties to agriculture and lead the Association with the needs and satisfaction of stockholders in mind.

The Bushnell family from Stillman Valley.
From left to right: son Cade, Meg and Fred.

$250 THOUSAND

THOUSAND
THOUSAND
THOUSAND
THOUSAND
THOUSAND
THOUSAND
THOUSAND

An additional $250,000 was contributed to the 1st Farm Credit Services Donor Advised Fund

In 2012, $85,000 was distributed from the 1st Farm Credit Services **Donor Advised Fund** through the IAA Foundation to 10 different organizations dedicated to agriculture youth, leadership and education. The groups that received gifts in 2012 were: Illinois FFA, Illinois 4-H, Illinois Agriculture in the Classroom, Cook County Farm Bureau Foundation, Illinois Ag Leadership Foundation, AgrAbility Unlimited, Annie's Project, College of Agricultural, Consumer, and Environmental Sciences at University of Illinois, Department of Agriculture at Illinois State University and Department of Agriculture at Western Illinois University.

1st Farm Credit Services donated $21,500 to 46 local **Illinois Food Banks** in 2012 as a way to recognize Illinois farmers' role in producing a safe and bountiful food supply, while helping those who struggle with hunger.

The Farm Credit Community Improvement Grant Program supported 25 **4-H Clubs and FFA Chapters** in their efforts to enhance and give back to their local communities. Each grant was worth $250.

34 students at universities and community colleges who are studying agriculture, or are in an agriculture-related curriculum, received **Scholarships** from the Association, for a total of $31,500 in scholarships.


FFA Grant Program


4-H Grant Program


Food Bank Donations


FFA Grant Program


Scholarship Program

Donor Advised Fund Program

EXECUTIVE LEADERSHIP TEAM

Gary J. Ash
President/CEO

Barbara Kay Stille
Senior Vice President/
General Counsel

Ron Homann
Risk Management Officer

Matt Ginder
Senior Vice President,
Marketplace Delivery

BOARD OF DIRECTORS

Clinton V. Brown
Towanda, IL

David A. Keller
Mt. Carroll, IL

Jeffrey Austman
Vice Chair
Forrest, IL

Kathleen Hainline
Stanford, IL

Roger Schrodt
Galesburg, IL

Rodney F. McGaughey
Carthage, IL

Michael L. Menold
Princeville, IL

David H. Peters
Manteno, IL

Robert F. Keller
Chief Information Officer

Terry L. Hinds
Senior Vice President, Business Lending & Corporate Relations

Jim Garvin
Chief Financial Officer

Keith Braucht
Chief Operating Officer

Larry L. Fischer
Quincy, IL

Roger J. Newell
Williamsfield, IL

Kevin Aves
Kirkland, IL

Steve Cowser
Chair
Bradford, IL

Brian C. Baldwin
Warrenville, IL

Mike Pratt
Dixon, IL

John C. Schmitt
Quincy, IL

John S. Baylor
Cuba, IL

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1st Farm Credit Services, ACA

AgriBank, FCB's (AgriBank) financial condition and results of operations materially impact members' investment in 1st Farm Credit Services, ACA. To request free copies of the AgriBank and combined AgriBank and Affiliated Associations' financial reports contact us at 2000 Jacobssen Drive, Normal, IL 61761, (309) 268-0100 or through our website at www.1stfarmcredit.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 agribankmn@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 members are provided such report no later than 90 days after the end of the calendar year. The Quarterly Reports are available on our website approximately 40 days after the end of each calendar quarter.

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

1st Farm Credit Services, ACA

(Dollars in thousands)

	2012	2011	2010	2009	2008
Statement of Condition Data					
Loans	**$4,095,401**	$3,381,073	$3,210,793	$2,696,336	$2,453,776
Allowance for loan losses	**9,365**	10,949	13,314	11,046	6,174
Net loans	**4,086,036**	3,370,124	3,197,479	2,685,290	2,447,602
Investment in AgriBank, FCB	**129,951**	121,828	110,657	104,574	104,195
Investment securities	**268,638**	274,513	210,008	202,173	111,617
Other property owned	**--**	48	--	961	--
Other assets	**87,823**	79,685	77,472	69,949	65,826
Total assets	**$4,572,448**	$3,846,198	$3,595,616	$3,062,947	$2,729,240
Obligations with maturities of one year or less	**$3,820,307**	$3,180,416	$3,007,600	$34,378	$39,980
Obligations with maturities greater than one year	**--**	--	--	2,513,628	2,222,953
Total liabilities	**3,820,307**	3,180,416	3,007,600	2,548,006	2,262,933
Protected members' equity	**12**	16	17	28	31
Capital stock and participation certificates	**9,694**	9,189	8,665	8,036	7,768
Unallocated surplus	**742,435**	656,577	579,334	506,877	458,508
Total members' equity	**752,141**	665,782	588,016	514,941	466,307
Total liabilities and members' equity	**$4,572,448**	$3,846,198	$3,595,616	$3,062,947	$2,729,240
Statement of Income Data					
Net interest income	**$100,677**	$97,205	$84,838	$68,593	$62,700
Provision for loan losses	**1,463**	746	2,863	6,945	1,114
Patronage income	**25,344**	23,531	24,049	18,747	13,149
Other expense, net	**28,514**	30,196	23,333	28,175	22,060
Provision for income taxes	**1,769**	4,356	2,216	35	937
Net income	**$94,275**	$85,438	$80,475	$52,185	$51,738
Key Financial Ratios					
Return on average assets	**2.4%**	2.3%	2.5%	1.9%	1.9%
Return on average members' equity	**13.3%**	13.7%	14.7%	10.7%	11.7%
Net interest income as a percentage of average earning assets	**2.6%**	2.8%	2.8%	2.6%	2.4%
Members' equity as a percentage of total assets	**16.4%**	17.3%	16.4%	16.8%	17.1%
Net charge-offs as a percentage of average loans	**0.1%**	0.1%	--	0.1%	--
Allowance for loan losses as a percentage of loans	**0.2%**	0.3%	0.4%	0.4%	0.3%
Permanent capital ratio	**14.9%**	15.0%	14.1%	14.0%	13.2%
Total surplus ratio	**14.7%**	14.7%	13.8%	13.7%	12.9%
Core surplus ratio	**14.7%**	14.7%	13.8%	13.7%	12.9%
Other					
Loans serviced for AgriBank, FCB	**$1,425**	$1,703	$2,745	$2,988	$3,310
Patronage distribution payable to members	**$8,400**	$8,200	$8,000	$3,800	$3,550
Asset pool loans serviced for AgriBank, FCB	**$501,065**	$585,222	$501,389	$559,351	$626,161

The patronage distribution to members accrued for the year ended December 31, 2012 is distributed in cash during the first quarter of 2013. The patronage distributions accrued for the years ended December 31, 2011, 2010, 2009 and 2008 were distributed in cash during the first quarter of each subsequent year. No income was distributed to members in the form of dividends, stock or allocated surplus during these periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS
1st Farm Credit Services, ACA

The following commentary reviews the consolidated financial position and consolidated results of operations of 1st Farm Credit Services, ACA and its 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 position and results of operations.

The Farm Credit System

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. At December 31, 2012, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank and 82 customer owned cooperative lending institutions (associations). The System serves all 50 states, Washington D.C. and Puerto Rico. This network of financial cooperatives is owned and operated by the rural customers the System serves – the American farmer and rancher.

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). 1st Farm Credit Services, ACA is one of the affiliated associations in the District.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System banks and associations. The Farm Credit System Insurance Corporation (Insurance Corporation) ensures the timely payment of principal and interest on Systemwide debt obligations, the retirement of protected borrower capital at par or stated value and is used for other specified purposes.

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 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 risk inherent in our lending activities and
- changes in our assumptions for determining the allowance for loan losses, other than temporary impairment and fair value measurements.

Loan Portfolio

Total loans were $4.1 billion at December 31, 2012, an increase of $714.3 million from December 31, 2011. The components of total loans are outlined in the following table (in thousands):

As of December 31	**2012**	2011	2010
Real estate	**$2,144,049**	$1,712,097	$1,629,177
Commercial	**1,727,378**	1,517,084	1,492,255
Other	**196,353**	120,483	61,320
Nonaccrual	**27,621**	31,409	28,041
Total loans	**$4,095,401**	$3,381,073	$3,210,793

The other category is comprised of communication and energy related loans, finance leases as well as bonds originated under our Mission Related Investment authority.

The increase in total loans from December 31, 2011 was a result of continued strong demand for farm real estate and continued growth in operating and equipment loans.

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

As part of a separately maintained pool, we have sold participation interests in real estate loans to AgriBank. The total participation interests in this pool were $501.1 million, $585.2 million and $501.4 million at December 31, 2012, 2011 and 2010, respectively.

Portfolio Distribution

We are chartered to serve certain counties in Illinois. No county contained more than 5% of our total loan portfolio at December 31, 2012.

Commodities exceeding 5% of our portfolio included: crops 61.1%, landlords 11.4%, livestock 8.6% and processing and marketing 7.1%. Additional commodity concentration information is included in Note 3.

The commercial loan portfolio has some seasonality and a strong correlation to grain input costs. These loans normally peak at year end and then decline until late spring as grain inventories are liquidated. Loan balances then increase throughout the summer and fall as farmers borrow for operating and capital needs.

Agricultural and Economic Conditions

National

Extensive drought in the U.S., particularly in the Midwest, has reduced crop yields, resulting in increased crop prices. Multi-peril crop insurance (MPCI) will generally mitigate the economic impact of the drought for most crop producers. These insurance policies range in coverage levels from catastrophic and yield protection (at the lower end) to revenue protection (at the higher end). The MPCI policies are sold and serviced through private insurance companies designated by the United States Department of Agriculture (USDA) to provide insurance coverage. These companies share the risk of loss by reinsuring with large reinsurance companies. In addition, the USDA and its Federal Crop Insurance Corporation reinsures a portion of the risk along with the other private reinsurance companies. The USDA has reported that 84.0% of corn and soybean acres (collectively) were covered under MPCI in 2012. This is modestly lower than the 88.0% and 85.0% for corn and soybeans, respectively, covered in 2011. The majority of these policies provide for revenue protection. In addition, many crop producers have strengthened their financial positions over the past several years and are expected to withstand the financial impact of the drought. However, increased prices for corn and soybeans and other grains are placing pressure on livestock, poultry, ethanol and dairy producers who rely on these inputs. Some producers have mitigated a portion of this risk by locking in prices for these inputs for 2012. However, some users of corn and soybeans in our portfolio will be unable to avoid some level of losses as we move into 2013.

Local

The 2012 growing season was impacted by the most severe drought in decades. A significant portion of our territory received inadequate rainfall and higher than normal temperatures. Fortunately, most corn and soybean producers carried crop insurance with revenue protection, which will offset the effect of reduced yields. The crop year began earlier than normal due to reduced winter and spring moisture that enabled planting to start in March. Dry conditions persisted throughout the growing season. The early planting combined with higher temperatures and lack of rainfall contributed to the crop maturing earlier than usual. Harvest proceeded much faster than usual. Illinois corn yields averaged 105 bushels per acre, 52 bushels per acre below the previous year. This was the lowest yield since the previous severe drought of 1988. Illinois soybean yields averaged 43 bushels per acre, 4 bushels per acre below the previous year. The soybean crop was aided by late summer rains and some relief in late summer temperatures. Grain prices were highly volatile as buyers and sellers tried to estimate the extent of damage to the crop. Corn prices ranged from a low near $6 per bushel early in the year to a high well above $8 per bushel in the summer. Soybeans ranged from $12 per bushel to a high well above $17 per bushel. Both commodities lost their price gains in the fall as crop yields became more widely known. Crop input costs increased 8% in 2012 due to higher fertilizer, fuel, and seed. Costs are expected to moderate in 2013, yet remain above the rate of inflation. Net farm income for 2012 was forecasted slightly below the record levels of 2011. Continued strong income is expected for 2013, well above the previous ten year average.

Illinois livestock producers entered 2012 with a positive outlook that turned negative with the drought. Most cattle and hog producers had profits in the first few months of the year when feed costs were more modest. As the drought expanded throughout the Midwest, feed costs increased dramatically. Producers continue to make production adjustments in response to higher feed costs. The beef herd liquidation continued into 2012 and is expected to level off in 2013. Due to the extent of beef herd liquidation, beef supplies will be tight and cash prices historically high well into the future. Hog producers have not expanded the sow herd in more than two years. Exports remain strong for beef and pork, boosting cash and futures prices. Average 2013 corn and soybean crops in South America and the U.S. would moderate feed costs and return profitability to the beef and pork sector. Dairy producers have had severe losses in recent years. The dairy sector is not expected to see meaningful profit until production and feed costs are curtailed. Livestock production systems have not fully adjusted to the severe changes in breakeven costs brought about by ethanol production and resulting higher grain and feed costs.

Agricultural real estate values increased throughout the territory in 2012. While valuation increases were not as strong as 2011, the increase was well above historical averages. Profitability in the grain sector from high corn and soybean prices continues to fuel demand. Demand continues to exceed supply, particularly for high quality farm land. There have been substantial profits in the grain sector, resulting in liquidity and solvency. Producers continue to see value in investing in agricultural real estate even at record high prices. Real estate values in the collar counties of Chicago continue to feel the impact of the recession and lack of recovery in housing starts. Agricultural land rental rates increased in 2012 and will rise in 2013 in response to higher net farm income and higher land values. Farm sector debt remains very low, equity is at historical levels, and the financial condition of the farm sector remains strong.

Analysis of Risk

The following table summarizes risk assets including accrued interest receivable and delinquency information (dollars in thousands):

As of December 31	**2012**	2011	2010
Loans:			
Nonaccrual	**$27,621**	$31,409	$28,041
Accruing restructured	**665**	580	613
Accruing loans 90 days or more past due	**--**	--	3
Total risk loans	**28,286**	31,989	28,657
Other property owned	**--**	48	--
Total risk assets	**$28,286**	$32,037	$28,657
Risk loans as a percentage of total loans	**0.7%**	0.9%	0.9%
Total delinquencies as a percentage of total loans	**0.8%**	0.6%	0.6%

Our risk assets have decreased from December 31, 2011 and remain at acceptable levels. The decrease in total risk loans from the prior year is primarily due to charge-offs in our horticultural portfolio and the complete payoff of one risk loan. Total risk loans as a percentage of total loans remains well within our established risk management guidelines.

Nonaccrual loans remained at an acceptable level at December 31, 2012, and represented 0.7% of total loans. At December 31, 2012, 32.6% of nonaccrual loans were current.

Portfolio Credit Quality

The credit quality of our portfolio improved during 2012. Adversely classified loans decreased to 1.5% of the portfolio at December 31, 2012, from 1.9% of the portfolio at December 31, 2011. 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 losses.

In certain circumstances, we use government guarantee programs to reduce the risk of loss. At December 31, 2012, $221.3 million of our loans were, to some level, guaranteed under these government programs.

We have a financial relationship with Federal Agricultural Mortgage Corporation (Farmer Mac), an institution of the System, to provide a standby commitment program for the repayment of principal and interest on certain loans. 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 program remains in place until receipt of full payment. As of December 31, 2012, $13.4 million of our loans were in this program.

Analysis of the Allowance for Loan Losses

The allowance for loan 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 losses based on the periodic evaluation of factors such as loan loss history, probability of default, estimated severity of loss given default, portfolio quality and current economic and environmental conditions.

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

As of December 31	**2012**	2011	2010
Allowance as a percentage of:			
Loans	**0.2%**	0.3%	0.4%
Nonaccrual loans	**33.9%**	34.9%	47.5%
Total risk loans	**33.1%**	34.2%	46.5%
Net charge-offs as a percentage of average loans	**0.1%**	0.1%	--
Adverse assets to risk funds	**10.0%**	11.7%	15.9%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2012.

Additional loan information is included in Notes 3, 11, 12, 13 and 14.

Investment Securities

In addition to loans, we hold investment securities. Investments include our share of securities made up of loans guaranteed by the Small Business Administration. Investment securities totaled $268.6 million, $274.5 million and $210.0 million at December 31, 2012, 2011 and 2010, 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 14.

Results of Operations

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

For the year ended December 31	**2012**	2011	2010
Net income	**$94,275**	$85,438	$80,475
Return on average assets	**2.4%**	2.3%	2.5%
Return on average members' equity	**13.3%**	13.7%	14.7%

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 members' equity as discussed in the Capital Adequacy section.

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

	Year ended December 31			Increase (decrease) in net income	
	2012	2011	2010	**2012 vs 2011**	2011 vs. 2010
Net interest income	**$100,677**	$97,205	$84,838	**$3,472**	$12,367
Provision for loan losses	**1,463**	746	2,863	**(717)**	2,117
Patronage income	**25,344**	23,531	24,049	**1,813**	(518)
Other income, net	**20,252**	15,821	19,632	**4,431**	(3,811)
Operating expenses	**48,766**	46,017	42,965	**(2,749)**	(3,052)
Provision for income taxes	**1,769**	4,356	2,216	**2,587**	(2,140)
Net income	**$94,275**	$85,438	$80,475	**$8,837**	$4,963

Net Interest Income

Net interest income was $100.7 million for the year ended December 31, 2012. The following table quantifies changes in net interest income (in thousands):

	2012 vs. 2011	2011 vs. 2010
Changes in volume	**$9,893**	$13,448
Changes in rates	**(6,384)**	(1,341)
Changes in nonaccrual income and other	**(37)**	260
Net change	**$3,472**	$12,367

Net interest income included income on nonaccrual loans that totaled $1.2 million, $1.2 million and $2.0 million in 2012, 2011 and 2010, 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 2.6%, 2.8% and 2.8% in 2012, 2011 and 2010, respectively. We expect margins to compress in the future as interest rates rise and competition increases.

Provision for Loan Losses

The variance in the provision for loan losses is related to our estimate of losses in our portfolio for the applicable years. The variance in the provision from the prior year is primarily a result of charge-offs in our horticultural portfolio. 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. We recorded patronage income of $10.5 million, $9.3 million and $11.0 million in 2012, 2011 and 2010, respectively. Changes in our note payable to AgriBank and patronage rate changes caused the variances in the patronage income amounts. The patronage rates paid by AgriBank were 32 basis points, 31 basis points and 42 basis points in 2012, 2011 and 2010, respectively.

Since 2008 we have participated in the asset pool program with AgriBank in which we sell participation interests in certain real estate loans. As part of this program we received patronage income in an amount that approximated the net earnings of 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 $14.9 million, $14.2 million and $13.1 million in 2012, 2011 and 2010, respectively. The patronage recorded included $689 thousand and $606 thousand of our share of the distribution from the Allocated Insurance Reserve Accounts (AIRA) related to the asset pool program in 2012 and 2010, respectively. These reserve accounts were established in previous years by the Insurance Corporation when premiums collected increased the level of the Farm Credit Insurance Fund beyond the required 2% of insured debt. No such distribution was received in 2011.

Other Income

The change in other income is primarily due to our share of distributions from AIRA. We received $3.5 million during 2012 and $2.8 million during 2010. There was no distribution in 2011.

Operating Expenses

The following presents a comparison of operating expenses by major category and the operating rate (operating expenses as a percentage of average earning assets) for the past three years (dollars in thousands):

For the year ended December 31	**2012**	2011	2010
Salaries and employee benefits	**$31,853**	$30,193	$28,144
Purchased and vendor services	**2,668**	2,080	1,651
Communications	**870**	844	798
Occupancy and equipment	**3,983**	3,806	3,538
Advertising and promotion	**2,002**	1,657	2,568
Examination	**939**	849	747
FCS insurance	**1,510**	1,713	1,205
Other	**4,941**	4,875	4,314
Total operating expenses	**$48,766**	$46,017	$42,965
Operating rate	**1.3%**	1.3%	1.4%

The operating expense increase, which correlates to strong performance, was primarily due to the increase in salaries and benefits from hiring additional employees, increased purchased and vendor services and an additional donation made to our outreach programs.

Provision for Income Taxes

The variance in provision for income taxes is related to our estimate of taxes based on taxable income. Patronage distributions to members reduced our tax liability in 2012, 2011 and 2010. Refer to Note 9 for additional discussion.

Funding and Liquidity

Funding

We borrow from AgriBank under a note payable, in the form of a line of credit, as described in Note 7. During 2012, our average balance was $3.3 billion with an average interest rate of 1.4%. Our average balance during 2011 was $3.0 billion with an average interest rate of 1.6% and during 2010 our average balance was $2.6 billion with an average interest rate of 1.8%. 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.

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, 2012, we had $412.4 million available under our line of credit. We generally apply excess cash to this line of credit.

Capital Adequacy

Total members' equity increased $86.4 million during 2012 primarily due to net income for the period and an increase in capital stock and participation certificates partially offset by patronage distribution accruals.

Members' equity position information follows (dollars in thousands):

As of December 31	**2012**	2011	2010
Members' equity	**$752,141**	$665,782	$588,016
Surplus as a percentage of members' equity	**98.7%**	98.6%	98.5%
Permanent capital ratio	**14.9%**	15.0%	14.1%
Total surplus ratio	**14.7%**	14.7%	13.8%
Core surplus ratio	**14.7%**	14.7%	13.8%

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

At December 31, 2012, our permanent capital, total surplus and core surplus ratios exceeded the regulatory minimum requirements. Additional discussion of these regulatory ratios is included in Note 8.

In addition to these regulatory requirements, we establish an optimum permanent capital target range. 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, 2012, our optimum permanent capital target range was 12% to 15%.

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 members' equity information is included in Note 8.

Initiatives

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

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). In September 2012, Northwest Farm Credit Services (Northwest) joined the alliance resulting in expanded agribusiness client programs in which ProPartners loans can be originated. The addition of Northwest increased our financial strength, processing capacity, technology, expertise, and geographic diversity to support our clients' growth. ProPartners is directed by representatives from 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 is established according to a prescribed formula which includes risk funds of the associations. We had $83.9 million, $87.1 million, and $77.1 million of ProPartners volume at December 31, 2012, 2011, and 2010, respectively. We also had $86.7 million of available commitment on ProPartners loans at December 31, 2012.

Trade Credit

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

Farm Cash Management

We offer Farm Cash Management to our members. Farm Cash Management links members' revolving lines of credit with an AgriBank investment bond to optimize members' use of funds.

Agriculture and Rural Community Bond Program

We participate in the Agriculture and Rural Community (ARC) Bond Program authorized during 2006 by the FCA in order to meet the changing needs of agriculture and rural America by making investments that support farmers, ranchers, agribusinesses and their rural communities and businesses. The ARC Bond Program is part of our mission related investments. These investments will help to increase their well-being and prosperity by providing an adequate flow of capital into rural areas. We had $10.8 million, $8.8 million and $8.0 million of volume under this program at December 31, 2012, 2011 and 2010, respectively.

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, as discussed in Note 7, governs this lending relationship.

Cost of funds under the General Financing Agreement includes:

- a marginal cost of debt component,
- a spread component, which includes cost of servicing, cost of liquidity and bank profit and
- a risk premium component, if applicable.

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.

In the periods presented, we were not subject to the risk premium component.

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, 2012, 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 growth that exceeded a targeted 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, 2012, $40.2 million of our investment in AgriBank consisted of stock representing distributed AgriBank surplus and $89.7 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,
- patronage based on the balance and net earnings of the pool of loans sold to AgriBank and
- equalization income based on our excess stock or growth required stock investment in AgriBank.

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:

- financial and retail systems, support and reporting,
- technology services,
- insurance services and
- internal audit services.

The total cost of services we purchased from AgriBank was $1.1 million, $1.1 million and $1.0 million in 2012, 2011 and 2010, respectively. Beginning in January 2012, benefit, human resource information systems, payroll and workforce management services were purchased from Farm Credit Foundations (Foundations).

Impact on Members' Investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of the AgriBank and the combined AgriBank and Affiliated Associations' financial reports contact us at 2000 Jacobssen Drive, Normal, IL 61761, (309) 268-0100 or through our website at www.1stfarmcredit.com. You may also contact AgriBank at 30 East 7th Street, Suite 1600, St. Paul, MN 55101, (651) 282-8800 or by e-mail to agribankmn@agribank.com. The 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 members are provided such report no later than 90 days after the end of the calendar year. The Quarterly Reports are available on our website approximately 40 days after the end of each calendar quarter.

Relationship with Other Farm Credit Institutions

Capital Markets Group

In 2012, we participated in the Illinois Capital Markets Group operating as a joint venture with another Illinois Farm Credit Association. Effective January 1, 2013, an additional AgriBank District Farm Credit Association joined the joint venture and will operate as the Capital Markets Group.

The Capital Markets Group will focus on generating revenue and loan volume for the financial benefits of all three participating associations. Loans purchased are accounted for by the respective associations. Management for each association has direct decision-making authority over the loans purchased and serviced for their respective association. The business arrangement provides an additional means for diversifying each participant's portfolio, helps reduce concentration risk and positions the participants for continued growth.

Federal Agricultural Mortgage Corporation

We have a relationship with Farmer Mac to provide the right to sell the loans identified in the agreement to Farmer Mac. Refer to the Loan Portfolio section for further discussion of this agreement.

BGM Technology Collaboration

We participate in the BGM Technology Collaboration (BGM) with certain other AgriBank District associations to facilitate the development and maintenance of certain retail technology systems essential to providing credit and other services to our member/borrowers. BGM operations are governed by representatives of each participating association. The expenses of BGM are allocated to each of the participating associations based on an agreed upon formula. The systems developed are owned by each of the participating associations.

4 Rivers, LLP

We participate with other AgriBank District associations in 4 Rivers, LLP (the LLP), which functions as a negotiating and administrative arm for crop insurance business. The LLP negotiates commission and profit share terms with the Approved Insurance Providers (AIP). The value proposition is that the LLP covers a larger geographical area, has more premium volume and offers the AIP potential for a more stable and profitable return. Each participating association continues to conduct crop insurance business independently within its chartered territory, whereas the LLP is utilized for negotiating contract terms and facilitating the pooling of crop insurance business in a manner which optimizes the value received by the participating associations. As a part of this relationship, our investment in 4 Rivers, LLP was $13 thousand at December 31, 2012, 2011 and 2010.

Investment in Other Farm Credit Institutions

We have a relationship with CoBank, ACB (CoBank), a System bank, which involves purchasing or selling participation interests in loans. As part of this relationship, our equity investment in CoBank was $79 thousand at December 31, 2012, 2011 and 2010, respectively. CoBank provides direct loan funds to associations in its chartered territory and also makes loans to cooperatives and other eligible borrowers.

In addition, we have a relationship with Foundations which involves purchasing benefit, human resource information systems, payroll and workforce management services. Foundations was operated as part of AgriBank prior to January 1, 2012 when it formed a System service corporation and thus is no longer operated as part of AgriBank. As of December 31, 2012, our investment in Foundations was $37 thousand. The total cost of services we purchased from Foundations was $165 thousand in 2012.

REPORT OF MANAGEMENT

1st Farm Credit Services, ACA

We prepare the consolidated financial statements of 1st Farm Credit 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 generally accepted auditing standards 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.

Steve Cowser
Chairperson of the Board
1st Farm Credit Services, ACA

Gary J. Ash
President and Chief Executive Officer
1st Farm Credit Services, ACA

James F. Garvin
Chief Financial Officer
1st Farm Credit Services, ACA

March 4, 2013

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

1st Farm Credit Services, ACA

The 1st Farm Credit 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, 2012. In making the assessment, management used the framework in Internal Control — Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2012, 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, 2012.

Gary J. Ash
President and Chief Executive Officer
1st Farm Credit Services, ACA

James F. Garvin
Chief Financial Officer
1st Farm Credit Services, ACA

March 4, 2013

REPORT OF AUDIT COMMITTEE

1st Farm Credit Services, ACA

The consolidated financial statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of five members of the Board of Directors of 1st Farm Credit 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 generally accepted auditing standards 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, 2012, 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 such other matters and received such 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, 2012.

Mike Pratt

Mike Pratt
Chairperson of the Audit Committee
1st Farm Credit Services, ACA

Kevin Aves
Brian C. Baldwin
John S. Baylor
Clinton V. Brown

March 4, 2013

Independent Auditor's Report

To the Board of Directors and Members of 1st Farm Credit Services, ACA,

We have audited the accompanying consolidated financial statements of 1st Farm Credit Services, ACA (the Association) and its subsidiaries, which comprise the consolidated statements of condition as of December 31, 2012, 2011 and 2010, and the related consolidated statements of income, changes in members' 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 1st Farm Credit Services, ACA and its subsidiaries at December 31, 2012, 2011 and 2010, 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

March 4, 2013

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

CONSOLIDATED STATEMENTS OF CONDITION

1st Farm Credit Services, ACA

(in thousands)

As of December 31	**2012**	2011	2010
ASSETS			
Loans	**$4,095,401**	$3,381,073	$3,210,793
Allowance for loan losses	**9,365**	10,949	13,314
Net loans	**4,086,036**	3,370,124	3,197,479
Investment in AgriBank, FCB	**129,951**	121,828	110,657
Investment securities	**268,638**	274,513	210,008
Accrued interest receivable	**34,814**	34,659	32,347
Premises and equipment, net	**20,149**	15,827	14,353
Other property owned	**--**	48	--
Assets held for lease, net	**17,859**	12,160	11,659
Other assets	**15,001**	17,039	19,113
Total assets	**$4,572,448**	$3,846,198	$3,595,616
LIABILITIES			
Note payable to AgriBank, FCB	**$3,785,178**	$3,146,145	$2,975,844
Accrued interest payable	**11,570**	11,576	11,521
Patronage distribution payable	**8,400**	8,200	8,000
Other liabilities	**15,159**	14,495	12,235
Total liabilities	**3,820,307**	3,180,416	3,007,600
Contingencies and commitments	**--**	--	--
MEMBERS' EQUITY			
Protected members' equity	**12**	16	17
Capital stock and participation certificates	**9,694**	9,189	8,665
Unallocated surplus	**742,435**	656,577	579,334
Total members' equity	**752,141**	665,782	588,016
Total liabilities and members' equity	**$4,572,448**	$3,846,198	$3,595,616

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

CONSOLIDATED STATEMENTS OF INCOME

1st Farm Credit Services, ACA

(in thousands)

Year ended December 31	**2012**	2011	2010
Interest income	**$146,711**	$144,753	$131,776
Interest expense	**46,034**	47,548	46,938
Net interest income	**100,677**	97,205	84,838
Provision for loan losses	**1,463**	746	2,863
Net interest income after provision for loan losses	**99,214**	96,459	81,975
Other income			
Patronage income	**25,344**	23,531	24,049
Financially related services income	**10,974**	10,160	10,159
Fee income	**4,460**	4,238	4,641
Allocated insurance reserve accounts distribution	**3,464**	--	2,810
Miscellaneous income, net	**1,354**	1,423	2,022
Total other income	**45,596**	39,352	43,681
Operating Expenses			
Salaries and employee benefits	**31,853**	30,193	28,144
Other operating expenses	**16,913**	15,824	14,821
Total operating expenses	**48,766**	46,017	42,965
Income before income taxes	**96,044**	89,794	82,691
Provision for income taxes	**1,769**	4,356	2,216
Net income	**$94,275**	$85,438	$80,475

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

1st Farm Credit Services, ACA

(in thousands)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2009	$28	$8,036	$506,877	$514,941
Net income	--	--	80,475	80,475
Unallocated surplus designated for patronage distributions	--	--	(8,018)	(8,018)
Capital stock/participation certificates issued	--	1,106	--	1,106
Capital stock/participation certificates retired	(11)	(477)	--	(488)
Balance at December 31, 2010	17	8,665	579,334	588,016
Net income	--	--	85,438	85,438
Unallocated surplus designated for patronage distributions	--	--	(8,195)	(8,195)
Capital stock/participation certificates issued	--	1,084	--	1,084
Capital stock/participation certificates retired	(1)	(560)	--	(561)
Balance at December 31, 2011	**16**	**9,189**	**656,577**	**665,782**
Net income	**--**	**--**	**94,275**	**94,275**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(8,417)**	**(8,417)**
Capital stock/participation certificates issued	**--**	**1,270**	**--**	**1,270**
Capital stock/participation certificates retired	**(4)**	**(765)**	**--**	**(769)**
Balance at December 31, 2012	**$12**	**$9,694**	**$742,435**	**$752,141**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

1st Farm Credit Services, ACA

(in thousands)

Year ended December 31	**2012**	2011	2010
Cash flows from operating activities			
Net income	**$94,275**	$85,438	$80,475
Depreciation on premises and equipment	**1,650**	1,465	1,343
(Gain) loss on sale of premises and equipment	**(173)**	(1)	50
Depreciation on assets held for lease	**3,217**	3,036	2,876
Gain on disposal of assets held for lease	**(49)**	(76)	(21)
Amortization of premiums on loans and investment securities	**4,664**	4,148	3,110
Provision for loan losses	**1,463**	746	2,863
Stock patronage received from AgriBank, FCB	**(5,166)**	(5,871)	(3,823)
Gain on other property owned	**(3)**	--	(866)
Changes in operating assets and liabilities:			
Accrued interest receivable	**(541)**	(3,045)	(4,247)
Other assets	**2,075**	2,074	(4,909)
Accrued interest payable	**(6)**	55	(453)
Other liabilities	**664**	2,260	(6,369)
Net cash provided by operating activities	**102,070**	90,229	70,029
Cash flows from investing activities			
Increase in loans, net	**(717,363)**	(172,721)	(514,065)
Purchases of investment in AgriBank, FCB, net	**(2,957)**	(5,300)	(2,260)
Purchases of investment in other Farm Credit Institutions, net	**(37)**	--	--
Decrease (increase) in investment securities, net	**2,393**	(67,962)	(10,780)
Purchases of assets held for lease, net	**(8,867)**	(3,461)	(1,875)
Proceeds from sales of other property owned	**51**	--	1,827
Purchases of premises and equipment, net	**(5,799)**	(2,938)	(1,165)
Net cash used in investing activities	**(732,579)**	(252,382)	(528,318)
Cash flows from financing activities			
Increase in note payable to AgriBank, FCB, net	**639,033**	170,301	462,216
Patronage distributions	**(8,217)**	(7,995)	(3,818)
Capital stock and participation certificates retired, net	**(307)**	(153)	(109)
Net cash provided by financing activities	**630,509**	162,153	458,289
Net change in cash	**--**	--	--
Cash at beginning of year	**--**	--	--
Cash at end of year	**$ --**	$ --	$ --
Supplemental schedule of non-cash activities			
Stock financed by loan activities	**$1,069**	$876	$909
Stock applied against loan principal	**254**	198	179
Stock applied against interest	**7**	2	3
Interest transferred to loans	**379**	731	422
Loans transferred to other property owned	**--**	48	--
Patronage distributions payable to members	**8,400**	8,200	8,000
Supplemental information			
Interest paid	**$46,040**	$47,493	$47,391
Taxes (refunded) paid	**(353)**	5,580	3,819

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1st Farm Credit Services, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

System and District

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. At December 31, 2012, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank and 82 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, 2012, the District consisted of 17 Agricultural Credit Associations (ACA) that each have 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.

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.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) 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 Insurance Corporation, the Insurance Fund is also available to provide assistance to certain troubled System institutions and for the operating expenses of the Insurance Corporation. Each System bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2% 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 Insurance Corporation, 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 while guaranteed loans and investment securities are deductions from the premium base. AgriBank, in turn, assesses premiums to the associations each year based on similar factors.

Association

1st Farm Credit Services, ACA and its subsidiaries, 1st Farm Credit Services, FLCA and 1st Farm Credit Services**,** PCA (the subsidiaries) are lending institutions of the System. We are a member-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Adams, Boone, Brown, Bureau, Carroll, Cook, DeKalb, DuPage, Fulton, Grundy, Hancock, Henderson, Henry, Jo Daviess, Kane, Kankakee, Kendall, Knox, Lake, LaSalle, Lee, Livingston, Marshall, Mason, McDonough, McHenry, McLean, Mercer, Ogle, Peoria, Pike, Putnam, Rock Island, Schuyler, Stark, Stephenson, Tazewell, Warren, Whiteside, Will, Winnebago and Woodford in the state of Illinois.

We borrow from AgriBank and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries. In addition to the authorization described for the District our FLCA subsidiary also services certain long-term real estate loans owned by AgriBank.

We, along with certain other System institutions, own Farm Credit Foundations (Foundations) which provides benefit, human resource information systems, payroll and workforce management services.

We offer various risk management services, including crop hail and multi-peril crop insurance for borrowers and those eligible to borrow. We also offer fee based real estate appraisals services to our members and others.

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.

Principles of Consolidation

The consolidated financial statements present the consolidated financial results of 1st Farm Credit Services, ACA and its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

Loans: 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 fees are netted with the related origination costs and included as an adjustment to net interest income. The net amount of these fees and expenses are 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. 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 formally restructured. 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.

Allowance for Loan Losses: The allowance for loan 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 losses based on periodic evaluation of factors such as:

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

Loans in our portfolio that are considered impaired are analyzed individually to establish a specific allowance for impaired loans. 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 book value 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 losses. Subsequent recoveries, if any, are added to the allowance for loan 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 given default. The combination of estimated default probability and loss given default is the primary basis for recognition and measurement of loan collectability of these pools of loans.

Changes in the allowance for loan losses consist of provision activity, recorded in “Provision for loan losses” on the Consolidated Statements of Income, recoveries and charge-offs.

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

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 earnings 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.

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 “Miscellaneous income, net” on the Consolidated Statements of Income. Depreciation and maintenance and repairs expenses are included in “Other operating expenses” on 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 fair value less estimated selling costs upon acquisition and is included in “Other property owned” on the Consolidated Statements of Condition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Related income, expenses and gains or losses from operations and carrying value adjustments are included in “Miscellaneous income, net” on the Consolidated Statements of Income.

Leases: We have finance and operating leases. Under finance 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 leases is included in “Loans” 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 “Miscellaneous income, net” 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.

Post-Employment Benefit Plans: The District has various post-employment benefit plans in which Association employees participate.

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. Between October 1, 2001 and December 31, 2006, all new benefits-eligible employees 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 state income taxes. 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 other taxes to the extent provided in the Farm Credit Act.

Patronage Program: We accrue patronage distributions according to a prescribed formula approved by the Board of Directors. Generally, we pay the accrued patronage during the first quarter after year end.

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

Fair Value Measurement: The Financial Accounting Standards Board (FASB) guidance on "Fair Value Measurements" 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, the prices are not current or principal market information 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 our 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

In December 2011, the FASB issued guidance entitled, "Balance Sheet – Disclosures about Offsetting Assets and Liabilities." In January 2013, the FASB issued clarifying guidance surrounding the scope of financial instruments covered under this guidance. The offsetting disclosures are only applied to derivatives, repurchase agreements and securities lending transactions. The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities. The requirements apply to in scope financial instruments that are offset in accordance with the rights of offset set forth in accounting guidance and for those financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retroactively for all comparative periods and is effective for annual and interim reporting periods beginning on or after January 1, 2013. The adoption of this guidance will have no impact on our consolidated financial condition or consolidated results of operations.

In September 2011, the FASB issued guidance entitled, "Compensation – Retirement Benefits – Multiemployer Plans." The guidance is intended to provide more information about an employer's financial obligations to multiemployer pension and post-employment benefit plans which should help financial statement users better understand the financial health of significant plans in which the employer participates. For non-public entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2012. The adoption of this guidance did not have any impact on our consolidated financial condition or consolidated results of operations, but resulted in additional disclosures in Note 10.

In June 2011, the FASB issued guidance entitled, "Presentation of Comprehensive Income." The guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. An entity can elect to present items of net income and other comprehensive income in one continuous statement — referred to as the Statement of Comprehensive Income — or in two separate, but consecutive, statements. The guidance is intended to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. For non-public entities, the guidance is effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. The adoption of the guidance did not have any impact on our consolidated financial condition or consolidated results of operations. If, in future periods, we have other comprehensive income, expanded financial statement presentation will be required.

In May 2011, the FASB issued guidance entitled, "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS)." The guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. The amendments include the following:

- Application of the highest and best use valuation premise is only relevant when measuring the fair value of nonfinancial assets.
- An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to market risks such as interest rate risk and credit risk of counterparties.
- Expansion of the disclosures about fair value measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use.

The amendments are to be applied prospectively. For non-public entities, the amendments are effective for annual periods beginning after December 15, 2011. The adoption of this guidance did not have any impact on our consolidated financial condition or consolidated results of operations and did not result in additional disclosures at this time.

In April 2011, the FASB issued guidance entitled, "A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring." The guidance provides additional clarification to creditors for evaluating whether a modification or restructuring of a receivable is a troubled debt restructuring. The guidance is effective for non-public entities for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this guidance did not have a significant impact on our consolidated financial condition or consolidated results of operations and did not result in additional disclosures.

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans consisted of the following (dollars in thousands):

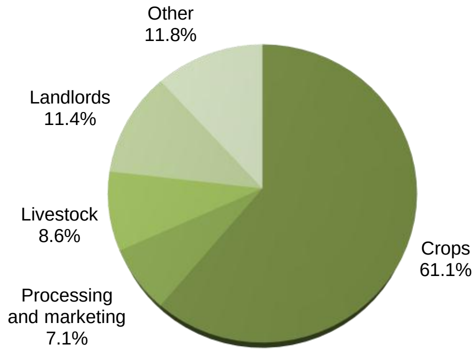
	2012		2011		2010	
As of December 31	Amount	**%**	Amount	%	Amount	%
Real estate	**$2,154,458**	**52.6%**	$1,723,090	50.9%	$1,639,582	51.1%
Commercial	**1,744,527**	**42.6%**	1,537,488	45.5%	1,509,637	47.0%
Other	**196,416**	**4.8%**	120,495	3.6%	61,574	1.9%
Total	**$4,095,401**	**100.0%**	$3,381,073	100.0%	$3,210,793	100.0%

The other category is comprised of communication and energy related loans, finance leases as well as bonds originated under our Mission Related Investment authority.

Portfolio Concentrations

We have concentrations with individual borrowers, within various agricultural commodities and within our chartered territory. At December 31, 2012, volume plus commitments to our ten largest borrowers totaled an amount equal to 5.3% of total loans and commitments.

Our agricultural commodity concentrations at December 31, 2012, were as follows:



The commodity concentrations have not changed materially from prior years.

We are chartered to operate in certain counties in Illinois. No county comprised more than 5% of our total loan portfolio at December 31, 2012.

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 losses.

Participations

We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume or comply with FCA Regulations or General Financing Agreement (GFA) limitations. The following table presents information regarding participations purchased and sold (in thousands):

	AgriBank, FCB		Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations		Participations		Participations		Participations	
As of December 31, 2012	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate	**$ --**	**($504,679)**	**$35,351**	**($20,420)**	**$15,611**	**($738)**	**$50,962**	**($525,837)**
Commercial	**--**	**(12,237)**	**548,017**	**(495,002)**	**346,570**	**(12,743)**	**894,587**	**(519,982)**
Other	**--**	**--**	**148,579**	**(83,581)**	**18,582**	**--**	**167,161**	**(83,581)**
Total	**$ --**	**($516,916)**	**$731,947**	**($599,003)**	**$380,763**	**($13,481)**	**$1,112,710**	**($1,129,400)**
As of December 31, 2011								
Real estate	$ --	($589,209)	$56,235	($39,376)	$16,903	($810)	$73,138	($629,395)
Commercial	--	(14,787)	435,709	(450,201)	375,385	(10,836)	811,094	(475,824)
Other	--	--	60,078	(39,332)	18,585	--	78,663	(39,332)
Total	$ --	($603,996)	$552,022	($528,909)	$410,873	($11,646)	$962,895	($1,144,551)

Information in the preceding chart excludes loans entered into under our Mission Related Investment authority and leasing authority.

Credit Quality and Delinquency

One credit quality indicator we utilize is the FCA Uniform Loan 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 that make collection in full highly questionable and
- Loss: loans are considered uncollectible.

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

	Acceptable		OAEM		Substandard/ Doubtful/Loss		Total	
As of December 31, 2012	Amount	%	Amount	%	Amount	%	Amount	%
Real estate	**$2,136,973**	**98.5%**	**$11,449**	**0.5%**	**$22,141**	**1.0%**	**$2,170,563**	**100.0%**
Commercial	**1,701,999**	**96.7%**	**17,857**	**1.0%**	**41,044**	**2.3%**	**1,760,900**	**100.0%**
Other	**196,724**	**99.9%**	**83**	**--**	**161**	**0.1%**	**196,968**	**100.0%**
Total loan portfolio	**$4,035,696**	**97.8%**	**$29,389**	**0.7%**	**$63,346**	**1.5%**	**$4,128,431**	**100.0%**
As of December 31, 2011								
Real estate	$1,694,188	97.5%	$17,646	1.0%	$26,111	1.5%	$1,737,945	100.0%
Commercial	1,469,876	94.5%	46,631	3.0%	38,651	2.5%	1,555,158	100.0%
Other	120,686	99.7%	102	0.1%	196	0.2%	120,984	100.0%
Total loan portfolio	$3,284,750	96.2%	$64,379	1.9%	$64,958	1.9%	$3,414,087	100.0%

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

As of December 31, 2012	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	**$2,440**	**$4,616**	**$7,056**	**$2,163,507**	**$2,170,563**	**$ --**
Commercial	**1,266**	**13,451**	**14,717**	**1,746,183**	**1,760,900**	**--**
Other	**12,565**	**64**	**12,629**	**184,339**	**196,968**	**--**
Total	**$16,271**	**$18,131**	**$34,402**	**$4,094,029**	**$4,128,431**	**$ --**
As of December 31, 2011						
Real estate	$381	$6,400	$6,781	$1,731,164	$1,737,945	$ --
Commercial	380	9,653	10,033	1,545,125	1,555,158	--
Other	4,249	--	4,249	116,735	120,984	--
Total	$5,010	$16,053	$21,063	$3,393,024	$3,414,087	$ --

Risk Loans

The following table presents risk loan information (in thousands):

As of December 31	2012	2011	2010
Nonaccrual loans:			
Current	**$9,003**	$15,171	$11,089
Past due	**18,618**	16,238	16,952
Total nonaccrual loans	**27,621**	31,409	28,041
Accruing restructured loans	**665**	580	613
Accruing loans 90 days or more past due	**--**	--	3
Total risk loans	**$28,286**	$31,989	$28,657
Volume with specific reserves	**$12,751**	$16,653	$12,401
Volume without specific reserves	**15,535**	15,336	16,256
Total risk loans	**$28,286**	$31,989	$28,657
Total specific reserves	**$3,931**	$6,102	$6,387

For the year ended December 31	2012	2011	2010
Income on accrual risk loans	**$34**	$43	$132
Income on nonaccrual loans	**1,209**	1,245	1,980
Total income on risk loans	**$1,243**	$1,288	$2,112
Average recorded investment	**$26,443**	$36,674	$41,242

To mitigate credit risk, we have entered into a Standby Commitment to Purchase Agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac) during 2012. 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 balance of loans under this agreement was $13.4 million at December 31, 2012. Fees paid to Farmer Mac for these commitments totaled $38 thousand in 2012. These amounts are included in “Other operating expenses” on the Consolidated Statements of Income. As of December 31, 2012, no sales of loans to Farmer Mac have been made under this agreement.

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

As of December 31	2012	2011	2010
Nonaccrual loans:			
Real estate	**$10,409**	$10,995	$10,406
Commercial	**17,148**	20,402	17,381
Other	**64**	12	254
Total nonaccrual loans	**$27,621**	$31,409	$28,041

There were no loans 90 days or more past due and still accruing interest at December 31, 2012 or 2011. There were $3 thousand of commercial loans 90 days or more past due and accruing interest at December 31, 2010.

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

	As of December 31, 2012			**For the period ended December 31, 2012**	
	Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate	**$2,964**	**$4,154**	**$859**	**$2,625**	**$ --**
Commercial	**9,787**	**10,012**	**3,072**	**9,492**	**--**
Other	**--**	**--**	**--**	**--**	**--**
Total	**$12,751**	**$14,166**	**$3,931**	**$12,117**	**$ --**
Impaired loans with no related allowance for credit losses:					
Real estate	**$8,049**	**$8,623**	**$ --**	**$7,007**	**$332**
Commercial	**7,422**	**11,787**	**--**	**7,115**	**905**
Other	**64**	**64**	**--**	**204**	**6**
Total	**$15,535**	**$20,474**	**$ --**	**$14,326**	**$1,243**
Total impaired loans:					
Real estate	**$11,013**	**$12,777**	**$859**	**$9,632**	**$332**
Commercial	**17,209**	**21,799**	**3,072**	**16,607**	**905**
Other	**64**	**64**	**--**	**204**	**6**
Total	**$28,286**	**$34,640**	**$3,931**	**$26,443**	**$1,243**

	As of December 31, 2011			For the period ended December 31, 2011	
	Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate	$2,650	$2,666	$936	$1,741	$ --
Commercial	14,003	14,242	5,166	18,636	--
Other	--	--	--	--	--
Total	$16,653	$16,908	$6,102	$20,377	$ --
Impaired loans with no related allowance for credit losses:					
Real estate	$8,925	$9,463	$ --	$8,919	$512
Commercial	6,399	9,367	--	7,002	770
Other	12	12	--	376	6
Total	$15,336	$18,842	$ --	$16,297	$1,288
Total impaired loans:					
Real estate	$11,575	$12,129	$936	$10,660	$512
Commercial	20,402	23,609	5,166	25,638	770
Other	12	12	--	376	6
Total	$31,989	$35,750	$6,102	$36,674	$1,288

[1]The recorded investment in the receivable 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.
[2]Unpaid principal balance represents the contractual principal balance of the loan.

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at December 31, 2012.

Troubled Debt Restructurings

Included within our loans are troubled debt restructurings, also known as formally restructured. 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. Loans classified as troubled debt restructurings are considered risk loans. All risk loans are analyzed within our allowance for loan losses.

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

	2012		2011	
	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Real estate	**$56**	**$56**	$2,293	$2,293
Commercial	**1,879**	**1,888**	9,608	9,608
Total	**$1,935**	**$1,944**	$11,901	$11,901

Pre-modification represents the recorded investment just prior to restructuring and post-modification 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 beginning of the respective reporting period (in thousands):

	2012	2011
Real estate	**$ --**	$2,283
Commercial	**122**	1,549
Total	**$122**	$3,832

Troubled debt restructurings outstanding at December 31, 2012 totaled $14.5 million, of which $13.8 million were in nonaccrual status compared to $15.7 million at December 31, 2011 of which $15.1 million were in nonaccrual status. Additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring were $53 thousand at December 31, 2012.

Allowance for Loan Losses

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

For the year ended December 31	**2012**	2011	2010
Balance at beginning of year	**$10,949**	$13,314	$11,046
Provision for loan losses	**1,463**	746	2,863
Loan recoveries	**82**	553	178
Loan charge-offs	**(3,129)**	(3,664)	(773)
Balance at end of year	**$9,365**	$10,949	$13,314

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

	Real estate	Commercial	Other	Total
Allowance for loan losses:				
Balance at December 31, 2011	**$3,298**	**$7,618**	**$33**	**$10,949**
(Reversal of) provision for loan losses	**(719)**	**1,900**	**282**	**1,463**
Loan recoveries	**3**	**79**	**--**	**82**
Loan charge-offs	**(1,018)**	**(2,111)**	**--**	**(3,129)**
Balance at December 31, 2012	**$1,564**	**$7,486**	**$315**	**$9,365**
Ending balance: individually evaluated for impairment	**$859**	**$3,072**	**$ --**	**$3,931**
Ending balance: collectively evaluated for impairment	**$705**	**$4,414**	**$315**	**$5,434**
Recorded investments in loans outstanding:				
Ending balance at December 31, 2012	**$2,170,563**	**$1,760,900**	**$196,968**	**$4,128,431**
Ending balance: individually evaluated for impairment	**$11,013**	**$17,209**	**$64**	**$28,286**
Ending balance: collectively evaluated for impairment	**$2,159,550**	**$1,743,691**	**$196,904**	**$4,100,145**
Allowance for loan losses:				
Balance at December 31, 2010	$3,107	$10,194	$13	$13,314
Provision for loan losses	192	534	20	746
Loan recoveries	2	551	--	553
Loan charge-offs	(3)	(3,661)	--	(3,664)
Balance at December 31, 2011	$3,298	$7,618	$33	$10,949
Ending balance: individually evaluated for impairment	$936	$5,166	$ --	$6,102
Ending balance: collectively evaluated for impairment	$2,362	$2,452	$33	$4,847
Recorded investments in loans outstanding:				
Ending balance at December 31, 2011	$1,737,945	$1,555,158	$120,984	$3,414,087
Ending balance: individually evaluated for impairment	$11,575	$20,402	$12	$31,989
Ending balance: collectively evaluated for impairment	$1,726,370	$1,534,756	$120,972	$3,382,098

NOTE 4: INVESTMENT IN AGRIBANK

At December 31, 2012, 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 growth that exceeded a targeted rate.

At December 31, 2012, we were also required by AgriBank to maintain an investment equal to 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 $130.0 million, $121.8 million and $110.7 million at December 31, 2012, 2011 and 2010, respectively.

NOTE 5: INVESTMENT SECURITIES

We held investment securities of $268.6 million, $274.5 million and $210.0 million at December 31, 2012, 2011 and 2010, respectively. Our investment securities consisted of loans guaranteed by the Small Business Administration. The 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	**2012**	2011	2010
Amortized cost	**$268,638**	$274,513	$210,008
Unrealized gains	**5,419**	5,310	6,023
Unrealized losses	**(508)**	(312)	(165)
Fair value	**$273,549**	$279,511	$215,866
Weighted average yield	**1.2%**	1.3%	1.4%

Investment income is recorded in "Interest income" on the Consolidated Statements of Income and totaled $3.5 million, $3.1 million and $3.0 million in 2012, 2011 and 2010, respectively.

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

As of December 31, 2012	Amortized Cost
One to five years	**$25,783**
Five to ten years	**121,320**
More than ten years	**121,535**
Total	**$268,638**

NOTE 6: PREMISES AND EQUIPMENT

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

As of December 31	**2012**	2011	2010
Land, buildings and improvements	**$19,482**	$15,247	$13,137
Furniture and equipment	**9,671**	8,440	7,582
Subtotal	**29,153**	23,687	20,719
Less: accumulated depreciation	**(9,004)**	(7,860)	(6,366)
Total	**$20,149**	$15,827	$14,353

NOTE 7: 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 total line of credit was $4.2 billion, $3.4 billion and $3.0 billion at December 31, 2012, 2011 and 2010, respectively, and the outstanding principal under the line of credit was $3.8 billion, $3.1 billion and $2.98 billion at December 31, 2012, 2011 and 2010, respectively. The interest rate is adjusted monthly and was 1.3%, 1.5% and 1.6% at December 31, 2012, 2011 and 2010, respectively. The maturity date is November 30, 2013, for our note payable, at which time the note will be renegotiated.

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, 2012, and throughout the year, we were within the specified limitations and in compliance with all debt covenants.

NOTE 8: MEMBERS' EQUITY

Capitalization Requirements

In accordance with the Farm Credit Act, each borrower 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 2.0% of the customer's total loan(s) or $1,000, whichever is less. The purchase of one participation certificate is generally required of customers to whom a lease is issued and of all non-stockholder customers who purchase financial services. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The borrower 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 customers.

Protection Mechanisms

Under the Farm Credit Act, certain borrower equity is protected. We are required to retire protected borrower equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock and participation certificates that were outstanding as of January 6, 1988, or were issued prior to October 6, 1988 as a requirement for obtaining a loan. If we were to be unable to retire protected borrower equity at par value or stated value, the Insurance Corporation would provide the amounts needed to retire this equity.

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 FCA Regulations is discussed as follows:

- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. At December 31, 2012, our ratio was 14.9%.
- 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, 2012, our ratio was 14.7%.
- 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, 2012, our ratio was 14.7%.

We have an agreement with AgriBank which defines how our investment in AgriBank is allocated in calculating regulatory capital ratios. According to the agreement, we include in our ratios all of our investment in AgriBank that is in excess of the required amount. We no longer have any excess stock at December 31, 2012, 2011 or 2010, respectively.

Description of Equities

The following table presents information regarding classes and number of shares of stock and participation certificates outstanding as of December 31, 2012. All shares and participation certificates are a $5.00 par value.

	Shares Outstanding
Class A common stock (protected)	**2,349**
Class C common stock (at-risk)	**1,892,725**
Participation certificates (at-risk)	**46,140**

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

Only holders of Class C common stock have voting rights. Our bylaws do not prohibit us from paying dividends on any classes of stock. However, no dividends have been declared to date.

Our bylaws generally permit stock and participation certificates to be retired at the discretion of our Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2012, 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 Class F preferred stock,
- second, pro rata to holders of Class A, B, C, D and E common stock and participation certificates.

In the event of impairment, losses will be absorbed pro rata by holders of Class A, B, C, D and E common stock and participation certificates, then by Class F preferred stock; however, protected stock will be retired at par value regardless of impairment.

All classes of stock, except Class B and Class E, are transferable to other customers who are eligible to hold such class as long as we meet the regulatory minimum capital requirements. Class B common stock may be transferred to those eligible to hold Class C common stock. Class E common stock may only be transferred to Farm Credit System institutions. Participation certificates may be transferred to any person or entity eligible to hold such participation certificates.

Patronage Distributions

We accrued patronage distributions of $8.4 million, $8.2 million and $8.0 million at December 31, 2012, 2011 and 2010, respectively. Generally, the patronage distributions are paid in cash during the first quarter after year end. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements.

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 2013.

NOTE 9: INCOME TAXES

Provision for Income Taxes

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

For the year ended December 31	**2012**	2011	2010
Current:			
Federal	**$1,285**	$3,257	$1,803
State	**484**	1,099	413
Total current	**1,769**	4,356	2,216
Deferred:			
Federal	**877**	(132)	(195)
State	**192**	(29)	(45)
(Decrease) increase in valuation allowance	**(1,069)**	161	240
Total deferred	**--**	--	--
Provision for income taxes	**$1,769**	$4,356	$2,216
Effective tax rate	**1.8%**	4.9%	2.7%

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

For the year ended December 31	**2012**	2011	2010
Federal tax at statutory rate (34%)	**$32,655**	$30,530	$28,115
State tax, net	**448**	660	292
Patronage distributions	**(2,856)**	(2,788)	(2,720)
Effect of non-taxable entity	**(27,369)**	(24,163)	(23,334)
(Decrease) increase in valuation allowance	**(1,069)**	161	240
Other	**(40)**	(44)	(377)
Provision for income taxes	**$1,769**	$4,356	$2,216

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	**2012**	2011	2010
Allowance for loan losses	**$2,660**	$3,170	$3,206
Postretirement benefit accrual	**206**	204	191
Accrued incentive	**202**	301	142
Leasing related, net	**(1,390)**	(779)	(426)
Accrued patronage income not received	**(628)**	(659)	(1,017)
AgriBank, FCB 2002 allocated stock	**(586)**	(586)	(556)
Accrued pension asset	**(74)**	(104)	(233)
Depreciation	**(11)**	(12)	(13)
Other liabilities	**(72)**	(159)	(79)
Total deferred tax assets	**307**	1,376	1,215
Valuation allowance	**(307)**	(1,376)	(1,215)
Net deferred tax assets(liabilities)	**$ --**	$ --	$ --
Gross deferred tax assets	**$3,068**	$3,675	$3,540
Gross deferred tax liabilities	**($2,761)**	($2,299)	($2,325)

Our patronage distributions are estimated to substantially reduce our taxable income going forward. Under these estimates, the ability to realize the entire tax savings represented by the future reversal of the deferred tax assets is uncertain and a valuation allowance has been established for the net deferred tax asset.

We have not provided for deferred income taxes on approximately $16.4 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. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $660.1 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

Our income tax returns are subject to review by various U.S. 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, 2012. In addition, we believe we are no longer subject to income tax examinations for years prior to 2009.

NOTE 10: 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, FCB and Affiliated Associations 2012 Annual Report (District financial statements).

The Farm Credit Foundations Coordinating and Trust Committees provide oversight of the District benefit plans. The governance committees are either elected or appointed representatives (senior leadership and/or Board of Director members) from the participating organizations. The Coordinating Committee is responsible for decisions regarding benefits at the direction of the 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 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 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 moves to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

As disclosed in the District financial statements, the defined benefit pension plan reflects an unfunded liability totaling $442.6 million at December 31, 2012. 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 $1.1 billion, $934.8 million and $834.2 million at December 31, 2012, 2011 and 2010, respectively. The fair value of the plan assets was $640.1 million, $557.6 million and $573.0 million at December 31, 2012, 2011 and 2010, respectively. The amount of the pension benefits and 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 $52.7 million, $44.0 million and $37.0 million for 2012, 2011 and 2010, respectively. Our allocated share of plan expenses included in “Salaries and employee benefits” on the Consolidated Statements of Income was $3.7 million, $3.1 million and $2.3 million for 2012, 2011 and 2010, respectively. Participating employers contributed $51.3 million, $27.9 million and $25.3 million to the plan in 2012, 2011 and 2010, respectively. Our allocated share of these pension contributions was $3.6 million, $2.2 million and $1.7 million for 2012, 2011 and 2010, respectively. 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 2013 is $57.2 million. Our allocated share of these pension contributions is expected to be $3.7 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 benefits included in “Salaries and employee benefits” on the Consolidated Statements of Income were $117 thousand, $130 thousand and $126 thousand for 2012, 2011 and 2010, respectively. Our cash contributions, equal to the benefits paid, were $102 thousand, $107 thousand and $101 thousand for 2012, 2011 and 2010, respectively.

Nonqualified Retirement Plan: We also participate in a 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. 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 $2.4 million, $2.5 million and $1.7 million for 2012, 2011 and 2010, respectively. Our allocated share of plan expenses included in “Salaries and employee benefits” on the Consolidated Statements of Income was $130 thousand, $96 thousand and $83 thousand for 2012, 2011 and 2010, 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 $15 thousand per year for 2012, 2011 and 2010, respectively.

Retirement Savings Plan

We also 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%. Employer contribution expenses, included in "Salaries and employee benefits" on the Consolidated Statements of Income under the plan, were $1.3 million, $1.2 million and $1.2 million in 2012, 2011 and 2010, respectively. These expenses are equal to our cash contributions for each year.

NOTE 11: 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 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, 2012 involved more than a normal risk of collectability.

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

	2012	2011	2010
As of December 31:			
Total related party loans and leases	**$24,692**	$25,997	$36,218
For the year ended December 31:			
Advances to related parties	**$9,304**	$11,945	$15,982
Repayments by related parties	**10,072**	11,320	28,369

The composition of related parties can be different each year end primarily due to changes in the members 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 financial and retail systems, support and reporting, technology services, insurance services and internal audit services. The total cost of services we purchased from AgriBank was $1.1 million, $1.1 million and $1.0 million in 2012, 2011 and 2010, respectively. We purchase benefit, human resource information systems, payroll and workforce management services from Foundations. Foundations was operated as a part of AgriBank prior to January 1, 2012 when it formed a System service corporation. The System entities using Foundations' services contributed an investment into the service corporation in January 2012. Our investment was $37 thousand at December 31, 2012. The total cost of services purchased from Foundations was $165 thousand in 2012.

NOTE 12: CONTINGENCIES AND COMMITMENTS

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

From time to time, we may be named as a defendant in certain 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. Commercial letters of credit are agreements to pay a beneficiary under specific conditions. At December 31, 2012, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $1.3 billion.

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 13: FAIR VALUE MEASUREMENTS

The FASB guidance on “Fair Value Measurement” defines fair value 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. The 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.

Non-Recurring Basis

We do not have any assets or liabilities measured at fair value on a recurring basis at December 31, 2012, 2011 or 2010. We may 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, 2012	Fair Value Measurement Using			Total Fair Value	Total Gains (Losses)
	Level 1	Level 2	Level 3		
Loans	**$ --**	**$555**	**$8,705**	**$9,260**	**($958)**
Other property owned	**--**	**--**	**--**	**--**	**3**

As of December 31, 2011	Fair Value Measurement Using			Total Fair Value	Total Gains (Losses)
	Level 1	Level 2	Level 3		
Loans	$ --	$361	$10,718	$11,079	$285
Other property owned	--	--	50	50	--

As of December 31, 2010	Fair Value Measurement Using			Total Fair Value	Total Gains (Losses)
	Level 1	Level 2	Level 3		
Loans	$ --	$3,550	$2,765	$6,315	($343)
Other property owned	--	--	--	--	866

Valuation Techniques

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. We did not hold any other property owned at December 31, 2012.

The fair value measurement would fall under level 2 of the hierarchy if the process uses independent appraisals and other market-based information. The fair value measurement would fall under level 3 of the hierarchy if the process requires significant input based on management’s knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters.

NOTE 14: FAIR VALUE OF FINANCIAL INSTRUMENTS

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 and 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 4, 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: The estimate of the fair value of loan assets is determined by discounting the expected future cash flows using current interest rates. Current interest rates are estimated based on similar loans made or loans repriced to borrowers with similar credit risk. This methodology is used because no active market exists for the vast majority of these loans. Since the discount rates are based upon internal pricing mechanisms and other estimates, we cannot determine whether the fair values presented would equal 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 unmarketable outside the System.

We segregate the loan portfolio into pools of loans with homogenous characteristics for purposes of determining fair value of loans not individually impaired. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

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.

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.

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.

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.

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

	2012		2011		2010	
As of December 31	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Net loans	**$4,086,036**	**$4,132,021**	$3,370,124	$3,418,368	$3,197,479	$3,228,717
Investment securities	**268,638**	**273,549**	274,513	279,511	210,008	215,866
Financial liabilities:						
Note payable to AgriBank	**$3,785,178**	**$3,824,971**	$3,146,145	$3,186,966	$2,975,844	$2,999,269
Unrecognized financial instruments:						
Commitments to extend credit and letters of credit		**($1,621)**		($1,571)		($1,249)

NOTE 15: QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

2012	First	Second	Third	Fourth	Total
Net interest income	**$24,662**	**$24,870**	**$25,414**	**$25,731**	**$100,677**
Provision for (reversal of) loan losses	**9**	**(386)**	**1,513**	**327**	**1,463**
Patronage income	**5,543**	**6,259**	**5,399**	**8,143**	**25,344**
Other expense, net	**9,383**	**6,490**	**4,829**	**7,812**	**28,514**
Provision for (benefit from) income taxes	**368**	**927**	**664**	**(190)**	**1,769**
Net income	**$20,445**	**$24,098**	**$23,807**	**$25,925**	**$94,275**

2011	First	Second	Third	Fourth	Total
Net interest income	$24,639	$24,607	$23,765	$24,194	$97,205
Provision for (reversal of) loan losses	9	559	3,496	(3,318)	746
Patronage income	4,780	4,678	5,652	8,421	23,531
Other expense, net	8,485	8,579	4,657	8,475	30,196
Provision for (benefit from) income taxes	2,302	1,096	1,419	(461)	4,356
Net income	$18,623	$19,051	$19,845	$27,919	$85,438

2010	First	Second	Third	Fourth	Total
Net interest income	$19,842	$20,725	$20,971	$23,300	$84,838
Provision for loan losses	2,242	9	214	398	2,863
Patronage income	4,886	4,401	3,963	10,799	24,049
Other expense, net	5,910	7,735	1,098	8,590	23,333
Provision for income taxes	94	1,105	942	75	2,216
Net income	$16,482	$16,277	$22,680	$25,036	$80,475

NOTE 16: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 4, 2013, which is the date the financial statements were available to be issued. There have been no material subsequent events that would require recognition in our 2012 Consolidated Financial Statements or disclosures in the Notes to Consolidated Financial Statements.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

1st Farm Credit 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" portion of this Annual Report.

Description of Property

The following table sets forth certain information regarding our properties:

Location	Description	Usage
Aledo, IL	Owned	Branch
Bourbonnais, IL	Leased	Branch
Edwards, IL	Owned	Branch
Freeport, IL	Leased	Branch
Geneseo, IL	Owned	Branch
Macomb, IL	Owned	Branch
Monmouth, IL	Owned	Branch
Morton, IL	Owned	Branch
Naperville, IL	Leased	Branch
Normal, IL	Owned	Headquarters
Normal, IL	Leased	Branch
Oregon, IL	Owned	Branch
Ottawa, IL	Owned	Branch
Pontiac, IL	Leased	Branch
Princeton, IL	Owned	Branch
Quincy, IL	Owned	Branch
Rock Falls, IL	Leased	Branch
Sycamore, IL	Leased	Branch

Legal Proceedings

Information regarding legal proceedings is discussed in Note 12 of this Annual Report. We were not subject to any enforcement actions at December 31, 2012.

Description of Capital Structure

Information regarding our capital structure is discussed in Note 8 of this Annual Report.

Description of Liabilities

Information regarding liabilities is discussed in Notes 7, 8, 9, 10, 12 and 14 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" portion of this Annual Report.

Board of Directors

Information regarding directors who served as of December 31, 2012, 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:

Jeffrey Austman, Vice Chairperson
Forrest, IL
Jeff has a corn and soybean operation. He serves as a board member for the Prairie Central Board of Education. He also serves as board chairperson for the Gibson Area Hospital Foundation. He served as Vice Chairperson of the Board and Vice Chairperson of the Executive Committee. Jeff also served on the Business Operations and Risk Committee. He has served on the Board since 2009 and his term expires in 2016.

Kevin Aves
Kirkland, IL
Kevin farms with family members in their corn, soybean and wheat operation. He serves as a trustee and treasurer of the Kirkland Community Fire District. He served on the Audit Committee. He has served on the Board since 1992 and his term expires in 2013.

Brian C. Baldwin, Appointed Inside Director
Warrenville, IL
Brian is the managing director of a private investment management company. He has more than 18 years of risk management, finance and public accounting experience. Brian owns land which is enrolled in the Conservation Reserve Program. He served as Vice Chairperson on the Audit Committee. He has served on the Board since 2010 and his term expires in 2014.

John S. Baylor
Cuba, IL
John has a corn and soybean operation and also has a beef cow herd. He is a director on the AgriBank District Farm Credit Council Board. John served on the Audit Committee and the Government Affairs Committee. He has served on the Board since 1994 and his term expires in 2016.

Clinton V. Brown
Towanda, IL
Clinton has a corn and soybean operation and owns land which is enrolled in the Conservation Reserve Program. Clinton also owns a property management business. He served on the Audit Committee. He has served on the Board since 2011 and his term expires in 2014.

Steve Cowser, Chairperson
Bradford, IL
Steve farms with family members in their corn, soybean, wheat and hay operation. They also have a sow center and a cow/calf herd. He is a director with the Bureau County Pork Producers and serves as the Milo Township Supervisor. He served as Chairperson of the Board and Chairperson of the Executive Committee. He also served on the Governance and Compensation committees. He has served on the Board since 2004 and his term expires in 2016.

Larry L. Fischer, Appointed Outside Director
Quincy, IL
Larry owns farmland and is a trustee at John Wood Community College, where he served as Director of Agricultural Programs for 25 years and subsequently Vice President for Instruction for seven years. He serves as a director for the Southern Illinois University Alumni Association in Carbondale and is a board director for the Quincy Area Community Foundation. He served on the Governance, Compensation and Government Affairs committees. He has served on the Board since 1989 and his term expires in 2015.

Kathleen Hainline, Appointed Outside Director
Stanford, IL
Kathleen was affiliated with an agriculture risk management consulting/brokerage firm. She has 17 years of auditing experience in financial institutions and agribusiness. She served as Vice Chairperson on the Governance and Compensation committees. She has served on the Board since 2010 and her term expires in 2013.

David A. Keller
Mt. Carroll, IL
David farms with a family member in their corn, soybean and hay operation. He served on the Governance and Compensation committees. He has served on the Board since 1987 and his term expires in 2013.

Rodney F. McGaughey
Carthage, IL
Rod has a corn, soybean and hay operation and also has a beef cow/calf herd. He serves as a board director of the Hancock County Farm Bureau in Carthage. He also serves as town clerk of Prairie Township. Rod served as Chairperson on the Business Operations and Risk Committee. He also served on the Executive Committee. He has served on the Board since 1986 and his term expires in 2014.

Michael L. Menold
Princeville, IL
Mike farms with family members in their corn, soybean and pumpkin operation and is a seed sales representative. He served on the Business Operations and Risk Committee. He has served on the Board since 1995 and his term expired in 2012.

Roger J. Newell
Williamsfield, IL
Roger farms with family members in their corn, soybean and alfalfa operation. They also have a beef cow/calf herd and a purebred swine operation. He serves as chairman of the Multi-Township Board for Elba, Salen, Maquon and Chestnut Townships in Knox County. He also serves as the Elba Township Supervisor. Roger served as Vice Chairperson on the Business Operations and Risk Committee. He has served on the Board since 1995 and his term expires in 2015.

David H. Peters
Manteno, IL
David farms with family members and custom farms in a grain operation producing wheat, soybeans and corn. He serves as president on the Manteno Township Fire Protection District Fire Commission and director for the Manteno Farmer's Elevator both in Manteno. He also serves as treasurer of the Kankakee County Soil and Water Conservation District in Bourbonnais. David served as Chairperson on both the Governance and Compensation committees. He also served on the Executive Committee. He has served on the Board since 2010 and his term expires in 2013.

Mike Pratt
Dixon, IL
Michael farms with family members in their corn, soybean and seed corn operation. He served as Chairperson on the Audit Committee. He also served on the Executive Committee. He has served on the Board since 2002 and his term expires in 2014.

John C. Schmitt
Quincy, IL
John has a corn, soybean, hay and other forages operation. He also has a beef cattle operation. He serves as a director for AgriBank, FCB in St. Paul, MN and Adams County Farm Bureau in Quincy. He served on the Audit Committee. He has served on the Board since 1995 and his term expires in 2013.

Roger Schrodt
Galesburg, IL
Roger has a corn and soybean operation. He serves as a board member for the Abingdon School Board of Education. Roger served on the Business Operations and Risk Committee. He has served on the Board since 2000 and his term expires in 2014.

Our bylaws permit compensation of directors for service at Board and committee meetings, and special assignments and travel time associated with those meetings. Directors are compensated at a daily rate of $650 per day for quarterly and regularly scheduled board meetings. Directors are also compensated at a daily rate of $500 per day for all other meetings or events attended. The annual stipend is variable, based upon actual business results, with a maximum amount of $4,500. The Board chairperson received an additional $1,500 annual stipend and the Board vice chairperson received an additional $750 annual stipend. Also, each committee chairperson received an additional $750 annual stipend. Only one chairperson stipend can be received by a Board member. Members of the Board of Directors did not receive any additional compensation for serving on Board committees.

Information regarding compensation for each director who served during 2012 follows:

	Number of Days Served		Compensation Paid for Service on a Board Committee	Name of Committee	Total Compensation Paid in 2012
	Board Meetings	Other Official Activities			
Austman, Jeffrey	16.0	11.0	$ --		$21,602
Aves, Kevin	16.0	7.0	--		19,796
Baldwin, Brian C.	11.0	5.5	--		14,488
Baylor, John S.	16.0	18.0	--		24,868
Brown, Clinton V.	16.0	16.5	--		23,805
Carstens, Wayne*	0.0	0.0	--		4,100
Cowser, Steve	16.0	18.5	--		26,081
Fischer, Larry L.	14.0	7.0	--		18,419
Hainline, Kathleen	16.0	7.0	--		18,617
Keller, David A.	16.0	6.0	--		19,283
McGaughey, Rodney F.	16.0	8.0	750	Business Operations and Risk	20,744
Menold, Michael L.**	16.0	9.5	--		20,370
Newell, Roger J.	15.0	4.5	--		17,105
Peters, David H.	16.0	7.5	750	Governance/Compensation***	20,311
Pratt, Mike	16.0	6.0	750	Audit	19,903
Schmitt, John C.	16.0	2.5	--		17,447
Schrodt, Roger	13.0	4.0	--		15,629
Total	245.0	138.5	$2,250		$322,568

*Director retainer payment only
**Not re-elected
***David H. Peters is the Chairperson of both the Governace Committee and Compensation Committee. Only one chairperson stipend can be received by a Board member.

Senior Officers

The senior officers (and the date each began his/her current position) include:

Gary J. Ash, President/Chief Executive Officer (May 2006)
Keith Braucht, Chief Operating Officer (July 2006)
Jim Garvin, Chief Financial Officer (October 1999)
Matt Ginder, Sr. Vice President, Marketplace Delivery (January 2010)
Terry L. Hinds, Sr. Vice President, Business Lending & Corporate Relations (January 2008)
Ron Homann, Risk Management Officer (August 2006)
Robert F. Keller, Chief Information Officer (July 2006)
Barbara Kay Stille, Sr. Vice President, General Counsel (May 2006)

All of the senior officers have been with our association for more than five years.

In addition to serving as a senior officer, Mr. Ash serves on the board for the American Red Cross of the Heartland, Bloomington, IL, which is a community service organization. Mr. Keller owns and operates Double Tap Academy, LLC, a personal safety equipment sales and consulting business. Mr. Ginder is an appointed trustee on the Village Board of Goodfield, IL.

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 office.

Transactions with Senior Officers and Directors

Information regarding related party transactions is discussed in Note 11 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 2000 Jacobssen Drive, Normal, IL 61761, (309) 268-0100 or through our website at www.1stfarmcredit.com.

The total directors' travel, subsistence and other related expenses were $165 thousand, $167 thousand and $134 thousand in 2012, 2011 and 2010, 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, 2013 or at any time during 2012.

Member Privacy

Farm Credit Administration Regulations protect members' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our association or our members not normally contained in published reports or press releases.

Relationship with Qualified Public Accountant

There were no changes in independent auditors since the last Annual Report to members and we are in agreement with the opinion expressed by the independent auditors. The total fees paid during 2012 were $82 thousand. The fees paid were for audit services.

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

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, religion, national origin, sex, age, disability, veteran status, genetic information, sexual orientation, creed, marital status, status with regard to public assistance, membership or activity involving a local human rights commission or any other characteristic protected by law. We comply with all state and local equal employment opportunity regulations. We conduct all personnel decisions and processes relating to our employees and job applicants in an environment free of discrimination and harassment.

FUNDS HELD PROGRAM

1st Farm Credit Services, ACA

The Association offers a Funds Held Program (Funds Held) that provides for customers to make advance payments on designated real estate and intermediate term loans. The following terms and conditions apply to all Funds Held unless the loan agreement or related documents between the Association and customer provide for other limitations.

Payment Application

Loan payments received by the Association before the loan has been billed will be placed in Funds Held as of the date received and applied against the next installment or other related charges on the installment due date. Loan payments received after the loan has been billed will be applied directly to the installment due on the loan or other related charges. Funds received in excess of the billed amount or other related charges will be placed in Funds Held, unless the client has specified that the funds be applied as a special payment of principal. At any time, the client may request that existing Funds Held be applied as a special principal payment or interest payment on the related loan. When a loan installment comes due, amounts in Funds Held for the loan will be automatically applied toward the installment on the due date. Any accrued interest on Funds Held will be applied to the payment first. Any excess funds will remain in the account. If the balance in Funds Held does not fully satisfy the entire payment, the client must pay the difference by the installment due date.

Account Maximum

The amount in Funds Held (principal portion) may not exceed the unpaid principal balance of the loan and may be limited by prepayment restrictions. Funds Held is not a depository account and is not insured.

Interest Rate

Interest will accrue on Funds Held accounts at a simple rate two (2) percentage points below the interest rate charged on the related loan. The Association may change the interest rate paid from time to time and shall notify borrowers of such change in the manner deemed appropriate by the Association. Interest on Funds Held account balances (exclusive of funds applied directly to billed amounts) will accrue from the date of receipt of the funds until the date the funds are applied to the loan. Borrowers receive periodic statements of accounts, including Funds Held account balances, interest rates and amounts of interest credited to the account.

Withdrawals

Unlimited withdrawals per month are allowed for any eligible loan purpose. The minimum withdrawal is $500.

Association Options

In the event of default, death or if the Association discontinues the Funds Held program, the Association may apply funds in the account to the unpaid loan balance and other amounts due, and shall return any excess funds to the customer.

Uninsured Account

Funds Held is not a depository account and is not insured. In the event of Association liquidation, customers having balances in Funds Held shall be notified according to regulations.

Questions: Please direct any questions regarding Funds Held to your local Farm Credit Services representative.

YOUNG, BEGINNING AND SMALL FARMERS AND RANCHERS

1st Farm Credit Services, ACA

We maintain a Young, Beginning, Small (YBS) farmer program and policy to support our mission in serving this key client segment. The YBS program and policy are reviewed annually by the Board of Directors. A description of the YBS program and a status report on key program components are set out below.

Farm Credit Administration Regulations Define YBS Farmer
YBS farmers or agribusinesses are those meeting **any** of the following criteria:

- Young farmers/agribusiness owners are 35 years old or younger as of the date the loan was originally made (based on the youngest liable party on the loan).
- Beginning farmers/agribusiness owners have 10 years or less experience as the primary manager of the farming operation as of the date the loan was originally made.
- Small farmers have sustained annual gross sales less than $250,000 in annual sales from agricultural production as of the date the loan was originally made.

YBS Farmer Demographics
We have used the 2007 United States Department of Agriculture (USDA) Ag census as the source of demographic data in our market for YBS farmers. We have 34,426 farmers in our 42 county territory. 5.9% or 2,044 are young farmers, 21.1% or 7,267 are beginning farmers, and 79% or 27,177 are small farmers. This data is as of 2007 whereas our portfolio data is current. The USDA data includes farmers who do not borrow money. The 2007 Ag census data is based on the number of farmers where our portfolio data is based on number of loans in each category.

Mission Statement
To achieve our vision, we must effectively serve the YBS farmers in our market place. Our success is dependent on being able to provide sound and constructive credit and financial services to YBS farmers who represent the future of agriculture in Illinois. We will also support local YBS farmer groups in the communities with various outreach programs and initiatives on an ongoing basis.

We will accomplish this mission by:

- Providing special loan programs and underwriting to meet the needs of YBS farmers,
- Offering either directly, or through external relationships a number of financial services which will benefit the YBS client in risk management,
- Making full use of both the Farm Service Agency (FSA) and Illinois Farm Development Authority (IFDA) guaranteed loan programs,
- Establishing both quantitative portfolio goals and qualitative goals for services offered and
- Continuing to participate in numerous outreach programs which benefit YBS farmers.

Portfolio Quantitative Goals
We will strive to maintain a portfolio mix of YBS farmers which matches that in the marketplace based on recent USDA Ag census data. As of 2007, 5.9% of all farmers were young and 21.1% of all farmers were beginning in our market territory. The small farmer segment in our territory is comprised of 27,177 farmers based on the 2007 USDA Ag census. 53% of these operations have Gross Farm Income of less than $10,000 and 71% of all small farmers do not borrow money. These two factors were considered when setting our small farmer goals.

Based on this information, our quantitative targets are to maintain the following portfolio goals during the business plan period:

	Pct of Total Loans		**Pct of New Loans**		**Pct of $ of New Loans**	
	Goal	Result	Goal	Result	Goal	Result
Young Farmers	8.0%	14.0%	8.0%	11.1%	5.0%	12.6%
Beginning Farmers	15.0%	15.4%	15.0%	11.4%	5.0%	12.6%
Small Farmers	40.0%	39.0%	40.0%	28.3%	20.0%	16.5%

Qualitative Goals for Our YBS Program
The following related services were offered directly or indirectly through others to YBS farmers during 2012:

- Crop Insurance, both Hail and Multi-Peril Crop Insurance
- Life Insurance through other local providers
- Farm Product Marketing Assistance through other local providers
- Farm Records and Tax Prep Services through other local providers (we subsidize part of first year's cost)
- Financial Planning and Management Services through other local providers
- Fee Real Estate Appraisal Services
- Equipment and Facility Leasing

We made use of federal and state loan guarantee programs in providing loans and leases to YBS Farmers.

- We maintain a Preferred Lender Program designation with FSA.
- We offer and support the use of the State of Illinois, IFDA Loan Restructuring and Guarantee Programs.

Outreach Programs
We have developed an annual marketing and promotion plan for the YBS farmer market segments. This program includes various promotions and programs that will both build awareness and provide financial assistance to local programs and groups, which assist YBS farmers. Additionally we continue periodic contacts with state and federal guarantee agencies to improve our working relationship and better understand their programs.

Our support of Outreach programs for YBS farmers includes:

- Providing an annual scholarship program for high school and community college students going on to college for an Agriculture degree.
- In late 2010 we funded a $1,000,000 Donor Advised Fund through Illinois Agricultural Association Foundation supporting Ag Education, Ag Youth and Ag Leadership in Illinois. The intended recipients are organizations such as Illinois 4-H, Illinois Future Farmers of America (FFA), Illinois Agriculture in the Classroom, Illinois Agriculture Leadership Foundation, University of Illinois College of ACES, Illinois State University Department of Agriculture and Western Illinois University School of Agriculture. Distributions occur annually. In late 2012 another $250,000 was added to this fund.
- Sponsored the "Cultivating Master Farmers" program with other Illinois Farm organizations.
- Annual sponsorship of Risk Management Seminars and Brock Seminars with paid invitations made to interested YBS clients.
- Supporting State and local FFA and 4-H Programs. We have a FFA and 4-H community involvement grant program where clubs and chapters can apply for one of 20 $250 grants available each calendar year.
- Piloting YBS Educational program in one of our branch offices with the involvement of outside organizations.
- Membership in, and support of, local Young Farmer Groups/Clubs in our territory.
- Publishing of the Country Spirit magazine which offers various articles providing valuable information to YBS farmers.
- Ongoing contact with other farm groups participating in initiatives which will benefit YBS farmers.

Safety and Soundness of Program
Our YBS farmer program has established specific lending standards for clients who use the program. The program has also established lending limits for new loan extension under the program. If our credit quality should fall below minimum guidelines, the program calls for a board review of the program for changes or possible suspension. At this time, our credit quality is well above minimum guidelines outlined in the program.

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