1st Farm Credit Services, ACA

Quarterly Report
June 30, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of 1st Farm Credit Services, ACA (the parent) and 1st Farm Credit Services, FLCA and 1st Farm Credit Services, PCA (the subsidiaries). This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2014 (2014 Annual Report).

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 or additional copies of our report, 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 financialreporting@agribank.com. The AgriBank and combined AgriBank and Affiliated Associations' financial reports are also available through AgriBank's website at www.agribank.com.

FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2014 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

In Illinois, corn planted area at 11.8 million acres is down 1 percent from 2014. Planted area for soybeans however, at 10.1 million acres, is up 3 percent from 2014. This represents the highest planted soybean acreage in Illinois since 2006 when 10.1 million acres were planted. The U.S. corn planted acreage is estimated at 88.9 million acres, down 2 percent from 2014. This represents the lowest planted acreage in the U.S. since 2010. The U.S. soybean crop has a record planted acreage of 85.1 million acres and is up 2 percent from 2014.

Rain has continued to be the story while plaguing northern and central Illinois. This has led to inconsistent crop growth in many fields. This June was the wettest on record dating back to 1895. Subsoil moisture content was rated at 43 percent adequate and 56 percent surplus with topsoil at 36 percent adequate and 63 percent surplus.

Spring temperatures have generally averaged slightly below normal and averaged considerably more precipitation. Corn silking was at 2 percent, behind the 5-year average of 12 percent. Corn condition was rated at 62 percent good to excellent with 27 percent being in fair condition. Soybeans emerged reached 90 percent, behind the 5-year average of 94 percent. Soybean condition was rated at 52 percent good to excellent with 33 percent being in fair condition. Crop progress in general is not as favorable as 2014.

Corn prices in Central Illinois at June 30, 2015 were $3.98 per bushel, down $0.10 per bushel compared to one year ago and down $2.95 compared to two years ago. Soybean prices for the same period were $10.47 per bushel, down $3.44 per bushel compared to one year ago. Lower prices will continue to benefit our livestock producers through lower feed costs.

According to the June 1, 2015 Hogs and Pigs Report, in the United States, the inventory of all hogs and pigs was 66.9 million head, up slightly from March 1 and up 9 percent from this period last year. The average pigs saved per litter was a record high 10.37 for the March-May period, compared to 9.78 last year. Farrowings during this period show a small rise of 1 percent from 2014. Farrowing intentions show producers expect to see a slight decrease into the fall and winter.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $4.8 billion at June 30, 2015, a decrease of $16.2 million from December 31, 2014. The decrease was primarily due to increased repayments on operating loan balances, which is typical following post year end grain sales. This is offset with growth in mortgage loans.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2014. Adversely classified loans increased to 2.1% of the portfolio at June 30, 2015, from 1.5% of the portfolio at December 31, 2014. Adversely classified loans are loans with well defined credit weakness. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At June 30, 2015, $343.5 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

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

As of:	**June 30 2015**	December 31 2014
Loans:		
Nonaccrual	**$26,182**	$24,929
Accruing restructured	**1,751**	2,182
Accruing loans 90 days or more past due	**3,830**	1,595
Total risk loans	**31,763**	28,706
Other property owned	**275**	188
Total risk assets	**$32,038**	$28,894
Total risk loans as a percentage of total loans	**0.7%**	0.6%
Nonaccrual loans as a percentage of total loans	**0.5%**	0.5%
Total delinquencies as a percentage of total loans	**0.7%**	0.4%

Our risk assets have increased from December 31, 2014, but remain at acceptable levels. Despite the increase in risk assets, 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 June 30, 2015 and 42.5% of our nonaccrual loans were current.

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

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 periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality and current economic and environmental conditions.

The following table presents comparative allowance coverage of various loan categories:

As of:	**June 30 2015**	December 31 2014
Allowance as a percentage of:		
Loans	**0.4%**	0.3%
Nonaccrual loans	**68.5%**	63.6%
Total risk loans	**56.5%**	55.2%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2015.

RESULTS OF OPERATIONS

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

For the six months ended June 30	**2015**	2014
Net income	**$40,734**	$37,756
Return on average assets	**1.6%**	1.6%
Return on average members' equity	**8.7%**	8.9%

Changes in these ratios are directly related to the changes in income discussed in this section, changes in assets discussed in the Loan Portfolio section and changes in capital discussed in the Funding, Liquidity and Capital section.

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

For the six months ended June 30	2015	2014	Increase (decrease) in net income
Net interest income	**$59,576**	$55,665	**$3,911**
Provision for loan losses	**1,983**	1,897	**(86)**
Patronage income	**9,845**	11,071	**(1,226)**
Other income, net	**4,383**	4,294	**89**
Operating expenses	**29,973**	29,057	**(916)**
Provision for income taxes	**1,114**	2,320	**1,206**
Net income	**$40,734**	$37,756	**$2,978**

The following table quantifies changes in net interest income for the six months ended June 30, 2015 compared to the same period in 2014 (in thousands):

	2015 vs 2014
Changes in volume	**$4,936**
Changes in interest rates	**(1,052)**
Changes in nonaccrual income and other	**27**
Net change	**$3,911**

The change in patronage income was primarily related to a decrease in patronage income received on loans in the AgriBank Asset Pool Program and a decrease in patronage received from AgriBank due to a lower patronage rate compared to the prior year.

The change in operating expenses was primarily related to increased salaries and benefits and Farm Credit System Insurance Corporation (FCSIC) expense. FCSIC expense increased primarily due to an increase in the premium rate charged on accrual loans by FCSIC from 12 basis points in 2014 to 13 basis points in 2015.

The change in provision for income taxes was primarily related to decreased income on our taxable entity.

FUNDING, LIQUIDITY AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable matures November 30, 2015 at which time the note will be renegotiated. 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. Due to the cooperative structure of the Farm Credit System and as the Association is a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future.

Cost of funds associated with our note payable includes a marginal cost of debt component, a spread component, which includes cost of servicing, cost of liquidity, bank profit and, if applicable, a risk premium component. However, we were not subject to a risk premium at June 30, 2015 or December 31, 2014.

Total members' equity increased $36.1 million from December 31, 2014 primarily due to net income for the period partially offset by patronage distribution accruals.

Farm Credit Administration regulations require us 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%. Refer to Note 7 in our 2014 Annual Report for a more complete description of these ratios. As of June 30, 2015, the ratios were as follows:

- The permanent capital ratio was 16.6%.
- The total surplus ratio was 16.4%.
- The core surplus ratio was 16.4%.

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section.

CERTIFICATION

The undersigned certify they have reviewed 1st Farm Credit Services, ACA's June 30, 2015 Quarterly Report. It has been prepared under the oversight of the audit committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate and complete to the best of our knowledge and belief.

Jeffrey Austman
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

August 3, 2015

CONSOLIDATED STATEMENTS OF CONDITION

1st Farm Credit Services, ACA
(in thousands)
(Unaudited)

As of:	**June 30 2015**	December 31 2014
ASSETS		
Loans	**$4,771,224**	$4,787,390
Allowance for loan losses	**17,945**	15,847
Net loans	**4,753,279**	4,771,543
Investment in AgriBank, FCB	**121,762**	121,675
Investment securities	**153,033**	171,967
Accrued interest receivable	**42,512**	41,330
Other property owned	**275**	188
Other assets	**44,650**	48,049
Total assets	**$5,115,511**	$5,154,752
LIABILITIES		
Note payable to AgriBank, FCB	**$4,130,601**	$4,201,067
Accrued interest payable	**14,382**	13,808
Patronage distribution payable	**4,600**	9,000
Other liabilities	**15,324**	16,419
Total liabilities	**4,164,907**	4,240,294
Contingencies and commitments	**--**	--
MEMBERS' EQUITY		
Protected members' equity	**9**	9
Capital stock and participation certificates	**9,978**	9,953
Unallocated surplus	**940,617**	904,496
Total members' equity	**950,604**	914,458
Total liabilities and members' equity	**$5,115,511**	$5,154,752

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

CONSOLIDATED STATEMENTS OF INCOME

1st Farm Credit Services, ACA
(in thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
For the period ended June 30	**2015**	2014	**2015**	2014
Interest income	**$43,999**	$41,164	**$87,853**	$81,625
Interest expense	**14,389**	13,086	**28,277**	25,960
Net interest income	**29,610**	28,078	**59,576**	55,665
Provision for loan losses	**1,908**	1,544	**1,983**	1,897
Net interest income after provision for loan losses	**27,702**	26,534	**57,593**	53,768
Other income				
Patronage income	**4,827**	5,466	**9,845**	11,071
Financially related services income	**761**	426	**1,066**	739
Fee income	**1,644**	1,707	**2,989**	3,145
Miscellaneous income (loss), net	**97**	(58)	**328**	410
Total other income	**7,329**	7,541	**14,228**	15,365
Operating expenses				
Salaries and employee benefits	**10,312**	9,801	**19,887**	19,557
Other operating expenses	**4,934**	4,850	**10,086**	9,500
Total operating expenses	**15,246**	14,651	**29,973**	29,057
Income before income taxes	**19,785**	19,424	**41,848**	40,076
Provision for income taxes	**532**	316	**1,114**	2,320
Net income	**$19,253**	$19,108	**$40,734**	$37,756

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)

(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2013	$9	$9,900	$822,955	$832,864
Net income	--	--	37,756	37,756
Unallocated surplus designated for patronage distributions	--	--	(4,415)	(4,415)
Capital stock and participation certificates issued	--	392	--	392
Capital stock and participation certificates retired	--	(388)	--	(388)
Balance at June 30, 2014	$9	$9,904	$856,296	$866,209
Balance at December 31, 2014	$9	$9,953	$904,496	$914,458
Net income	**--**	**--**	**40,734**	**40,734**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(4,613)**	**(4,613)**
Capital stock and participation certificates issued	**--**	**361**	**--**	**361**
Capital stock and participation certificates retired	**--**	**(336)**	**--**	**(336)**
Balance at June 30, 2015	**$9**	**$9,978**	**$940,617**	**$950,604**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. While our accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry, this interim Quarterly Report is prepared based upon statutory and regulatory requirements and, accordingly, does not include all disclosures required by U.S. GAAP. The results of the six months ended June 30, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report for the year ended December 31, 2014 (2014 Annual Report).

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

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

Recently Issued or Adopted Accounting Pronouncements

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

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans consisted of the following (dollars in thousands):

As of:	**June 30, 2015**		December 31, 2014	
	Amount	%	Amount	%
Real estate	**$2,563,180**	**53.7%**	$2,517,451	52.6%
Commercial	**1,850,388**	**38.8%**	1,951,387	40.8%
Other	**357,656**	**7.5%**	318,552	6.6%
Total	**$4,771,224**	**100.0%**	$4,787,390	100.0%

We classify our loans into three categories primarily based on the authorities provided by the Farm Credit Administration regulations and to a lesser extent management purposes. The following listing details each loan category and provides a description of loan types within each category:

- Real estate primarily includes loans made under our FLCA lending authority for real estate mortgages.
- Commercial primarily includes loans made under our PCA lending authorities for production and intermediate term financing, processing and marketing, and agribusiness.
- Other is comprised primarily of communication and energy-related loans and purchased government guaranteed loans and bonds originated under our Mission Related Investment authority.

Delinquency

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

As of June 30, 2015	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	90 Days or More Past Due and Accruing
Real estate	**$5,487**	**$3,278**	**$8,765**	**$2,578,857**	**$2,587,622**	**$630**
Commercial	**9,297**	**12,558**	**21,855**	**1,844,964**	**1,866,819**	**1,184**
Other	**2,380**	**2,016**	**4,396**	**354,329**	**358,725**	**2,016**
Total	**$17,164**	**$17,852**	**$35,016**	**$4,778,150**	**$4,813,166**	**$3,830**

As of December 31, 2014	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	90 Days or More Past Due and Accruing
Real estate	$1,264	$2,897	$4,161	$2,533,809	$2,537,970	$449
Commercial	965	9,203	10,168	1,960,209	1,970,377	--
Other	3,118	1,146	4,264	315,455	319,719	1,146
Total	$5,347	$13,246	$18,593	$4,809,473	$4,828,066	$1,595

Risk Loans

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

As of:	**June 30 2015**	December 31 2014
Volume with specific reserves	**$9,594**	$8,926
Volume without specific reserves	**22,169**	19,780
Total risk loans	**$31,763**	$28,706
Total specific reserves	**$5,507**	$4,708
For the six months ended June 30	**2015**	2014
Income on accrual risk loans	**$83**	$116
Income on nonaccrual loans	**505**	478
Total income on risk loans	**$588**	$594
Average risk loans	**$29,270**	$27,898

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at June 30, 2015.

Troubled Debt Restructurings (TDRs)

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

The following table presents information regarding TDRs that occurred during the six months ended June 30 (in thousands):

	2015		2014	
	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate	**$ --**	**$ --**	$2,168	$2,168
Commercial	**90**	**90**	1,139	1,139
Other	**--**	**--**	1	1
Total	**$90**	**$90**	$3,308	$3,308

Pre-modification represents the outstanding recorded investment of the loan just prior to restructuring and post-modification represents the outstanding recorded investment of the loan immediately following the restructuring. The recorded investment of the loan 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.

The primary types of modification typically include extension of maturity.

We had TDRs of $14 thousand that defaulted during the six months ended June 30, 2015, in which the modifications were within twelve months of the respective reporting period. TDRs with a payment default occurred in the commercial loan category. There were no TDRs that defaulted during the six months ended June 30, 2014, in which the modifications were within twelve months of the respective reporting period.

The following table presents information regarding TDRs outstanding (in thousands):

As of:	**June 30 2015**	December 31 2014
Accrual status:		
Real estate	**$1,745**	$2,053
Commercial	**6**	129
Total TDRs in accrual status	**$1,751**	$2,182
Nonaccrual status:		
Real estate	**$2,699**	$2,785
Commercial	**9,895**	9,853
Total TDRs in nonaccrual status	**$12,594**	$12,638
Total TDRs	**$14,345**	$14,820

Additional commitments to lend to borrowers whose loans have been modified in a TDR were $229 thousand at June 30, 2015.

Allowance for Loan Losses

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

Six months ended June 30	**2015**	2014
Balance at beginning of year	**$15,847**	$13,587
Provision for loan losses	**1,983**	1,897
Loan recoveries	**255**	54
Loan charge-offs	**(140)**	(384)
Balance at end of period	**$17,945**	$15,154

The increase in allowance for loan losses was related to $2.0 million provision expense recorded in the six months ended June 30, 2015.

NOTE 3: INVESTMENT SECURITIES

We held investment securities of $153.0 million at June 30, 2015 and $172.0 million at December 31, 2014. Our investment securities consisted of securities containing loans fully guaranteed by the Small Business Administration.

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

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

As of:	**June 30 2015**	December 31 2014
Amortized cost	**$153,033**	$171,967
Unrealized gains	**3,900**	4,308
Unrealized losses	**(294)**	(313)
Fair value	**$156,639**	$175,962

NOTE 4: CONTINGENCIES AND COMMITMENTS

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

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

NOTE 5: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Note 2 in our 2014 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at June 30, 2015 or December 31, 2014.

Non-Recurring Basis

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 June 30, 2015				**Six months ended June 30, 2015**
	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Impaired loans	**$ --**	**$623**	**$3,668**	**$4,291**	**($939)**
Other property owned	**--**	**--**	**286**	**286**	**6**

	As of December 31, 2014				Six months ended June 30, 2014
	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Impaired loans	$ --	$746	$3,683	$4,429	($776)
Other property owned	--	--	196	196	8

Valuation Technique

Impaired 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. If the process uses independent appraisals and other market-based information, they fall under Level 2. 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, they fall under Level 3.

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.

NOTE 6: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 3, 2015, which is the date the consolidated financial statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.