1st Farm Credit Services, ACA

Quarterly Report
September 30, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial position 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 2012 Annual Report for the year ended December 31, 2012.

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 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 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 2012 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

Above average temperatures and minimal precipitation the last week of September allowed producers to continue harvesting. Statewide temperatures for the week ended September 30, 2013 averaged 64.6 degrees, 3.3 degrees above normal. Precipitation throughout the association territory has been below average for most of the third quarter. The United States (U.S.) Drought Monitor showed a large portion of the territory as moderate drought until late September rains provided some relief. Topsoil moisture conditions statewide were rated 49% short and 30% adequate.

Corn prices in central Illinois at September 30, 2013 were $4.19 per bushel, down $2.79 from second quarter, and down $3.39 per bushel compared to one year ago. Soybean prices for the same period were $12.65 per bushel, down $3.01 from second quarter, and down $3.24 per bushel compared to one year ago.

The corn crop was 71% mature, compared to 98% last year and the 5-year average of 73%. Corn harvest reached 13% complete, compared to 69% last year and the 5-year average of 34%. Corn condition was rated 45% good and 17% excellent. Based on conditions as of September 1, the 2013 Illinois corn crop is expected to yield 165 bushels per acre. Ears per acre of 29,900 are the highest ear count on record. Production of corn for grain would be 1.96 billion bushels, 53% more than produced in 2012. Corn production in the U.S. is anticipated to realize a new record at 13.8 billion bushels, a 28% increase from 2012.

Soybeans turning yellow reached 88%. Ten percent of the soybean crop has been harvested. Soybean condition was rated 47% good and 9% excellent. Soybean production in Illinois is forecasted at 430 million bushels, up 12% from last year. Yield is expected to be 46 bushels per acre. Soybean production in the United States is anticipated to be the fourth largest on record at 3.15 billion bushels, up 4% from last year.

According to the September 1, 2013 Hogs and Pigs Report, in the United States the number of hogs and pigs was up slightly from a year ago, and up 3% from last quarter. Breeding inventory was up slightly compared to one year ago, but down 1% from last quarter. This quarter's pig crop was up 2% from last year, and sows farrowing were down slightly from the same period one year ago.

Loan Portfolio

Loans totaled $4.2 billion at September 30, 2013, a $72.6 million increase from December 31, 2012. The net increase in loans was due to the continued strong demand for farm real estate loans, partially offset by reduced operating loan demand from grain producers.

Portfolio Credit Quality

The credit quality of our portfolio has improved from December 31, 2012. Adversely classified loans decreased to 0.9% of the portfolio at September 30, 2013, from 1.5% of the portfolio at December 31, 2012. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At September 30, 2013, $277.8 million of our loans were, to some level, guaranteed under these governmental programs.

Risk Assets

The following table summarizes risk information (dollars in thousands):

As of:	**September 30 2013**	December 31 2012
Loans:		
Nonaccrual	**$ 24,519**	$ 27,621
Accruing restructured	**550**	665
Accruing loans 90 days or more past due	**--**	--
Total risk loans	**25,069**	28,286
Other property owned	**295**	--
Total risk assets	**$ 25,364**	$ 28,286
Risk loans as a percentage of total loans	**0.6%**	0.7%
Total delinquencies as a percentage of total loans	**0.4%**	0.8%

Our risk assets have decreased from December 31, 2012 and remain at acceptable levels. 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 September 30, 2013 and represented 0.6% of our total portfolio. At September 30, 2013, 45.5% of our nonaccrual loans were current.

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, 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:

Allowance as a percentage of:	**September 30 2013**	December 31 2012
Loans	**0.2%**	0.2%
Nonaccrual loans	**34.3%**	33.9%
Total risk loans	**33.5%**	33.1%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2013.

Results of Operations

Net income for the nine months ended September 30, 2013 totaled $69.0 million compared to $68.4 million for the same period in 2012. The following table illustrates profitability information:

As of September 30	**2013**	2012
Return on average assets	**2.1%**	2.3%
Return on average members' equity	**11.8%**	13.1%

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

For the nine months ended September 30	2013	2012	Increase (decrease) in net income
Net interest income	$ 81,107	$ 74,946	$ 6,161
(Reversal of) provision for loan losses	(102)	1,136	1,238
Patronage income	15,947	17,201	(1,254)
Other income	13,453	14,739	(1,286)
Operating expenses	39,883	35,441	(4,442)
Provision for income taxes	1,697	1,959	262
Net income	$ 69,029	$ 68,350	$ 679

Net interest income was $81.1 million for the nine months ended September 30, 2013. The following table quantifies changes in net interest income for the nine months ended September 30, 2013 compared to the same period in 2012 (in thousands):

	2013 vs 2012
Changes in volume	$ 11,975
Changes in rates	(5,273)
Changes in nonaccrual income and other	(541)
Net change	$ 6,161

The decrease in the provision for loan losses was due to an increase of provision expense in our horticultural portfolio during the third quarter of 2012, partially offset by a complete payoff of one loan in the commercial portfolio in 2012.

The change in patronage income was primarily related to a $2.3 million decrease in patronage received on loans in the AgriBank Asset Pool Program. A portion of the decrease is due to the share of distributions from Allocated Insurance Reserve Accounts (AIRA) totaling $689 thousand received in 2012. These reserve accounts were established in previous years by the Farm Credit System Insurance Corporation when premiums collected increased the level of the Insurance Fund above the required 2% of insured debt. There has been no distribution in 2013. The change was partially offset by an increase in patronage received from AgriBank due to a higher patronage rate compared to the prior year.

The change in other income was primarily due to our share of non-recurring distributions from AIRA of $3.5 million in 2012, which was partially offset by increased fee income.

The change in operating expenses was primarily related to higher salary expenses and employee benefit expenses resulting from annual salary adjustments, adding additional staff to support association growth and increased costs for employer paid portion of employee health insurance and retirement expenses.

Changes in our return on average assets and return on average members' equity 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.

Funding, Liquidity and Capital

We borrow from AgriBank, under a note payable, in the form of a line of credit. 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.

Cost of funds associated with our note payable includes a marginal cost of debt component and a spread component, which includes cost of servicing, cost of liquidity and bank profit. Additionally, a risk premium may also be included in our cost of funds; however we were not subject to a risk premium at September 30, 2013 or December 31, 2012.

Total members' equity increased $62.6 million from December 31, 2012 primarily due to net income for the period and an increase in capital stock and participation certificates 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 8 in our 2012 Annual Report for a more complete description of these ratios. As of September 30, 2013, the ratios were as follows:

- The permanent capital ratio was 15.4%.
- The total surplus ratio was 15.1%.
- The core surplus ratio was 15.1%.

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 September 30, 2013 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.

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

November 4, 2013

CONSOLIDATED STATEMENTS OF CONDITION

1st Farm Credit Services, ACA

(in thousands)

(Unaudited)

	September 30 2013	December 31 2012
ASSETS		
Loans	**$ 4,167,966**	$ 4,095,401
Allowance for loan losses	**8,406**	9,365
Net loans	**4,159,560**	4,086,036
Investment in AgriBank, FCB	**128,256**	129,951
Investment securities	**230,308**	268,638
Accrued interest receivable	**49,014**	34,814
Premises and equipment, net	**23,600**	20,149
Other property owned	**295**	--
Assets held for lease, net	**22,186**	17,859
Other assets	**10,504**	15,001
Total assets	**$ 4,623,723**	$ 4,572,448
LIABILITIES		
Note payable to AgriBank, FCB	**$ 3,776,487**	$ 3,785,178
Accrued interest payable	**12,120**	11,570
Patronage distribution payable	**6,450**	8,400
Other liabilities	**13,885**	15,159
Total liabilities	**3,808,942**	3,820,307
Contingencies and commitments	**--**	--
MEMBERS' EQUITY		
Protected members' equity	**9**	12
Capital stock and participation certificates	**9,790**	9,694
Unallocated surplus	**804,982**	742,435
Total members' equity	**814,781**	752,141
Total liabilities and members' equity	**$ 4,623,723**	$ 4,572,448

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		Nine Months Ended	
For the period ended September 30	**2013**	2012	**2013**	2012
Interest income	**$ 39,626**	$ 36,845	**$ 116,310**	$ 109,410
Interest expense	**12,120**	11,431	**35,203**	34,464
Net interest income	**27,506**	25,414	**81,107**	74,946
Provision for (reversal of) loan losses	**4**	1,513	**(102)**	1,136
Net interest income after provision for (reversal of) loan losses	**27,502**	23,901	**81,209**	73,810
Other income				
Patronage income	**5,491**	5,399	**15,947**	17,201
Financially related services income	**6,327**	6,145	**7,098**	6,907
Fee income	**1,190**	1,099	**4,520**	3,267
Allocated insurance reserve accounts distribution	**--**	--	**--**	3,464
Miscellaneous income, net	**958**	301	**1,835**	1,101
Total other income	**13,966**	12,944	**29,400**	31,940
Operating expenses				
Salaries and employee benefits	**9,162**	8,232	**26,285**	23,544
Other operating expenses	**4,580**	4,142	**13,598**	11,897
Total operating expenses	**13,742**	12,374	**39,883**	35,441
Income before income taxes	**27,726**	24,471	**70,726**	70,309
Provision for income taxes	**305**	664	**1,697**	1,959
Net income	**$ 27,421**	$ 23,807	**$ 69,029**	$ 68,350

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, 2011	$ 16	$ 9,189	$ 656,577	$ 665,782
Net income	--	--	68,350	68,350
Unallocated surplus designated for patronage distributions	--	--	(6,317)	(6,317)
Capital stock and participation certificates issued	--	874	--	874
Capital stock and participation certificates retired	(4)	(531)	--	(535)
Balance at September 30, 2012	$ 12	$ 9,532	$ 718,610	$ 728,154
Balance at December 31, 2012	$ 12	$ 9,694	$ 742,435	$ 752,141
Net income	**--**	**--**	**69,029**	**69,029**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(6,482)**	**(6,482)**
Capital stock and participation certificates issued	**--**	**708**	**--**	**708**
Capital stock and participation certificates retired	**(3)**	**(612)**	**--**	**(615)**
Balance at September 30, 2013	**$ 9**	**$ 9,790**	**$ 804,982**	**$ 814,781**

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 nine months ended September 30, 2013 are not necessarily indicative of the results to be expected for the year ending December 31, 2013. 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 2012 Annual Report for the year ended December 31, 2012.

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.

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:	**September 30, 2013**			December 31, 2012		
		Amount	%		Amount	%
Real estate	**$**	**2,270,744**	**54.5%**	$	2,154,458	52.6%
Commercial		**1,639,500**	**39.3%**		1,744,527	42.6%
Other		**257,722**	**6.2%**		196,416	4.8%
Total	**$**	**4,167,966**	**100.0%**	$	4,095,401	100.0%

The other category is comprised of communication and energy related loans, finance leases as well as 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):

		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 or More Past Due and Accruing
As of September 30, 2013												
Real estate	**$**	**3,154**	**$**	**2,651**	**$**	**5,805**	**$**	**2,291,970**	**$**	**2,297,775**	**$**	**--**
Commercial		**1,750**		**10,391**		**12,141**		**1,646,680**		**1,658,821**		**--**
Other		**--**		**47**		**47**		**258,570**		**258,617**		**--**
Total	**$**	**4,904**	**$**	**13,089**	**$**	**17,993**	**$**	**4,197,220**	**$**	**4,215,213**	**$**	**--**
As of December 31, 2012												
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	$	--

Risk Loans

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

As of:	September 30 2013	December 31 2012
Volume with specific reserves	$ 11,658	$ 12,751
Volume without specific reserves	13,411	15,535
Total risk loans	$ 25,069	$ 28,286
Total specific reserves	$ 3,936	$ 3,931
For the nine months ended September 30	2013	2012
Income on accrual risk loans	$ 38	$ 25
Income on nonaccrual loans	533	1,075
Total income on risk loans	$ 571	$ 1,100
Average risk loans	$ 27,877	$ 26,743

Troubled Debt Restructurings

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. 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. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the formally restructured loan to the lower of book value or net realizable value of collateral.

The following table presents information regarding the recorded investment for troubled debt restructurings that occurred during the nine months ended September 30 (in thousands):

	2013		2012	
	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate	$ 36	$ 36	$ 56	$ 56
Commercial	1,206	1,206	1,879	1,888
Total	$ 1,242	$ 1,242	$ 1,935	$ 1,944

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.

There were no troubled debt restructurings that defaulted during the nine months ended September 30, 2013 in which the modification was within twelve months of the beginning of the respective reporting period. Our real estate loans had $64 thousand and our commercial loans had $127 thousand of troubled debt restructurings that defaulted during the nine months ended September 30, 2012 in which the modifications were within twelve months of the respective reporting period.

Troubled debt restructurings outstanding at September 30, 2013 totaled $12.4 million, of which $11.8 million were in nonaccrual status compared to $14.5 million at December 31, 2012 of which $13.8 million were in nonaccrual status. Troubled debt restructurings decreased during the nine months ended September 30, 2013 primarily due to payments and charge-offs on restructured loans. Additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring were $212 thousand at September 30, 2013.

Allowance for Loan Losses

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

Nine months ended September 30	2013	2012
Balance at beginning of year	$ 9,365	$ 10,949
(Reversal of) provision for loan losses	(102)	1,136
Loan recoveries	30	63
Loan charge-offs	(887)	(3,127)
Balance at end of period	$ 8,406	$ 9,021

NOTE 3: Investment Securities

We held investment securities of $230.3 million at September 30, 2013 and $268.6 million at December 31, 2012. Our investment securities consisted of loans guaranteed by the Small Business Administration. These 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:	**September 30 2013**	December 31 2012
Amortized cost	**$ 230,308**	$ 268,638
Unrealized gains	**6,384**	5,419
Unrealized losses	**(182)**	(508)
Fair value	**$ 236,510**	$ 273,549
Weighted average yield	**1.3%**	1.2%

Investment income is recorded in "Interest income" on the Consolidated Statements of Income and totaled $2.5 million and $2.6 million for the nine months ended September 30, 2013 and 2012, respectively.

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

As of September 30, 2013	Amortized Cost
Less than one year	**$ 22**
One to five years	**30,105**
Five to ten years	**96,821**
More than ten years	**103,360**
Total	**$ 230,308**

NOTE 4: Contingencies and Commitments

In the normal course of business, we have various contingent liabilities and commitments outstanding, 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.

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.

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. The guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Notes 2 and 13 in our 2012 Annual Report for a more complete description of the three input levels.

Non-Recurring Basis

We did not have any assets or liabilities measured at fair value on a recurring basis at September 30, 2013 or December 31, 2012. 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):

	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
As of September 30, 2013					
Loans	**$ --**	**$ 242**	**$ 7,866**	**$ 8,108**	**$ (892)**
Other property owned	**--**	**--**	**307**	**307**	**472**
As of December 31, 2012					
Loans	$ --	$ 555	$ 8,705	$ 9,260	$ (958)
Other property owned	--	--	--	--	3

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.

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 6: Subsequent Events

We have evaluated subsequent events through November 4, 2013, 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.