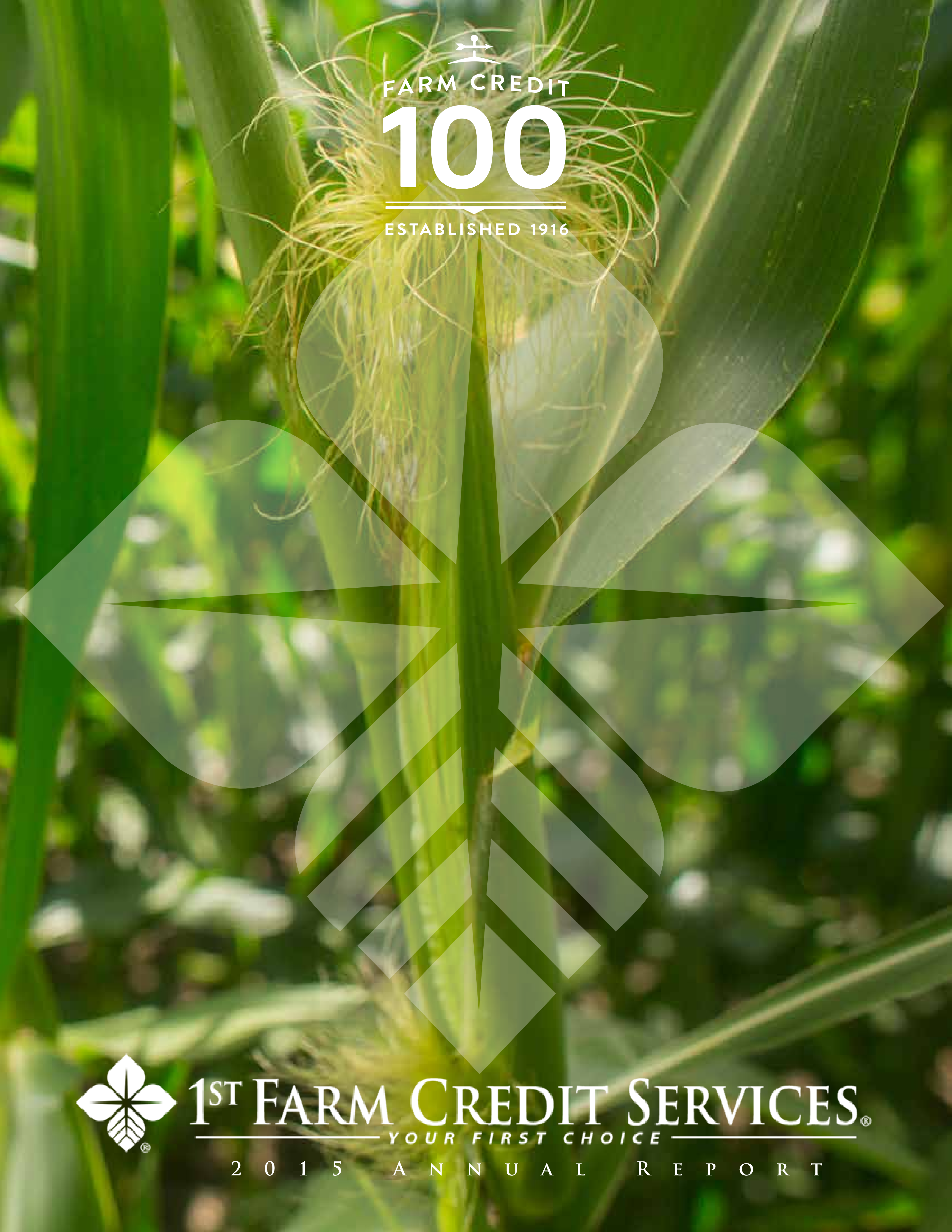
FARM CREDIT
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ESTABLISHED 1916
1ST FARM CREDIT SERVICES®
YOUR FIRST CHOICE
2015 ANNUAL REPORT

A CENTURY OF SUPPORT FOR RURAL COMMUNITIES AND AGRICULTURE

And We're Just Getting Started

In 2016, Farm Credit is celebrating 100 years of supporting rural communities and agriculture with reliable, consistent credit and financial services. We've been fulfilling our mission of helping these areas grow and thrive by providing farmers with the capital they need to make their businesses successful and by financing vital infrastructure and communication services. Because a steady flow of capital means more jobs and economic growth, Farm Credit is able to invest in the vibrancy of communities throughout rural America.

Farm Credit is the premier funding source for farmers and ranchers throughout the country, because you — our members and owners — dared to plant seeds for the future. Year after year, our national network of borrower-owned lending institutions ensures that customers always stand front and center.

We've seen rural America through good times and tough challenges. Building on our century of experience, we're committed to helping you grow, today and tomorrow. Celebrating our past, preparing for the future.

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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:

1st Farm Credit Services, ACA
2000 Jacobssen Drive
Normal, IL 61761
(309) 268-0100
http://www.1stfarmcredit.com

AgriBank, FCB
30 East 7th Street, Suite 1600
St. Paul, MN 55101
(651) 282-8800
http://www.agribank.com/
financialreporting@agribank.com

Our 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 no later than 40 days after the end of each calendar quarter. To request free copies of our Annual or Quarterly Reports contact us as stated above.

MESSAGE FROM THE CHAIRPERSON OF THE BOARD AND CHIEF EXECUTIVE OFFICER

Dear Farm Credit Customer:

2015 marks the completion of Farm Credit's 99th year and the start of our 100th year serving rural communities and agriculture. 1st Farm Credit Services is honored to celebrate a century of helping our clients.

During the past 100 years, agriculture experienced its share of successes and challenges, and we have been there to help clients every step of the way. As Farm Credit begins its next 100 years, we are pleased to report that your 1st Farm Credit Services cooperative remains strong and committed to meeting our mission of serving rural communities and agriculture in the northern 42 counties of Illinois.

In 2015 1st Farm Credit Services experienced solid asset growth, had more than a 10% increase in crop insurance acres insured, maintained good overall credit quality in our loan portfolio and exceeded our budgeted earnings for the year. As a result of this continuing strong performance, the 1st Farm Credit Services board of directors voted to increase the size of the upcoming patronage distribution to $18.0 million, double the level paid in 2015.

Last year we continued our focus of providing young and beginning farmers with opportunities to attend various educational programs. Our loan officers and credit staff invested considerable time in 2015 developing strategies on how they could help clients consider their options to maintain positive profit margins.

2015 was a year where profit margins were under pressure for most of agriculture in our territory. Although we saw some modest weakening of financial performance, overall, most farm operations made the necessary adjustments to avoid a severe financial setback. Yields across most of our territory were better than expected, and for many they were above average.

In 2015 we continued to support local communities and agriculture groups with financial support. Our student scholarships benefited 37 students. Our 4-H and FFA grant program and FFA Big Dreams in Blue Jackets Program helped local students. Through our 1st Farm Credit Services Donor Advised Fund, we donated $125 thousand to 16 organizations dedicated to agricultural education, youth and leadership. As part of our 100-year celebration, we provided an additional $50 thousand to 10 agricultural organizations based on voting by our clients at the Farm Progress Show. We also made a financial commitment to support FARM Illinois.

1st Farm Credit Services is proud of being involved in rural communities and the agriculture industry these past 100 years, and our team of professionals looks forward to serving clients as we start the next 100 years.

Sincerely,

Jeffery Austman
Chairperson of the Board
1st Farm Credit Services, ACA

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

March 8, 2016

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

1st Farm Credit Services, ACA

(dollars in thousands)

	2015	2014	2013	2012	2011
Statement of Condition Data					
Loans	**$5,244,991**	$4,787,390	$4,466,958	$4,095,401	$3,381,073
Allowance for loan losses	**17,998**	15,847	13,587	9,365	10,949
Net loans	**5,226,993**	4,771,543	4,453,371	4,086,036	3,370,124
Investment in AgriBank, FCB	**125,702**	121,675	133,456	129,951	121,828
Investment securities	**134,351**	171,967	218,796	268,638	274,513
Other property owned	**--**	188	15	--	48
Other assets	**88,306**	89,379	103,144	87,823	79,685
Total assets	**$5,575,352**	$5,154,752	$4,908,782	$4,572,448	$3,846,198
Obligations with maturities of one year or less	**$4,587,640**	$4,240,294	$4,075,918	$3,820,307	$3,180,416
Total liabilities	**4,587,640**	4,240,294	4,075,918	3,820,307	3,180,416
Protected members' equity	**8**	9	9	12	16
Capital stock and participation certificates	**10,025**	9,953	9,900	9,694	9,189
Unallocated surplus	**977,679**	904,496	822,955	742,435	656,577
Total members' equity	**987,712**	914,458	832,864	752,141	665,782
Total liabilities and members' equity	**$5,575,352**	$5,154,752	$4,908,782	$4,572,448	$3,846,198
Statement of Income Data					
Net interest income	**$120,392**	$114,173	$109,237	$100,677	$97,205
Provision for loan losses	**3,341**	3,309	5,477	1,463	746
Other expenses, net	**(25,855)**	(20,308)	(14,608)	(4,939)	(11,021)
Net income	**$91,196**	$90,556	$89,152	$94,275	$85,438
Key Financial Ratios					
Return on average assets	**1.8%**	1.9%	2.0%	2.4%	2.3%
Return on average members' equity	**9.6%**	10.4%	11.2%	13.3%	13.7%
Net interest income as a percentage of average earning assets	**2.4%**	2.5%	2.5%	2.6%	2.8%
Members' equity as a percentage of total assets	**17.7%**	17.7%	17.0%	16.4%	17.3%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%	0.1%	0.1%
Allowance for loan losses as a percentage of loans	**0.3%**	0.3%	0.3%	0.2%	0.3%
Permanent capital ratio	**16.4%**	16.2%	15.2%	14.9%	15.0%
Total surplus ratio	**16.2%**	16.0%	15.0%	14.7%	14.7%
Core surplus ratio	**16.2%**	16.0%	15.0%	14.7%	14.7%
Other					
Patronage distributions:					
Patronage distributions - Cash	**$9,013**	$8,615	$8,432	$8,217	$7,995
Loans serviced for AgriBank, FCB	**$276**	$473	$855	$1,425	$1,703
Asset Pool Loans serviced for AgriBank, FCB	**$342,240**	$387,605	$433,470	$501,065	$585,222

MANAGEMENT'S DISCUSSION AND ANALYSIS

1st Farm Credit Services, *ACA*

The following commentary reviews the consolidated financial condition and consolidated results of operations of 1st Farm Credit Services, ACA (the Association) and its subsidiaries, 1st Farm Credit Services, FLCA and 1st Farm Credit Services, PCA (subsidiaries) and provides additional specific information. The accompanying Consolidated Financial Statements and Notes to the Consolidated Financial Statements also contain important information about our financial condition and results of operations.

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of Rural America. As of January 1, 2016, the System consisted of three Farm Credit Banks (FCB), one Agricultural Credit Bank (ACB), and 74 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 governed by the rural customers the System serves.

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. The Farm Credit System Insurance Corporation (FCSIC) ensures the timely payment of principal and interest on Systemwide debt obligations and the retirement of protected borrower capital at par or stated value.

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", "outlook", 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 markets, international, 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 risks inherent in our lending activities
- Changes in our assumptions for determining the allowance for loan losses, other-than-temporary impairment, and fair value measurements

AGRICULTURAL AND ECONOMIC CONDITIONS

The United States Department of Agriculture (USDA) projects net farm income for 2015 to decline to $55.9 billion, after increasing 14.7% from 2005-2014. If realized, the forecasted 38.2%, or $34.5 billion, decline in net farm income from 2014 to 2015 would be the largest single-year decrease since 1983 (in both nominal and inflation-adjusted terms). Estimated livestock receipts for 2015 are 12.0%, or $25.4 billion, lower than 2014. Crop receipts for 2015 are projected to decline 8.7%, or $18.2 billion. The corn crop leads the decline in crop receipts, accounting for $8.6 billion of the total $18.2 billion decline in crop receipts. Significant changes in price, as opposed to change in output, were the primary driver of reductions in crop and livestock receipts.

Most grain producers in our service territory started the 2015 growing season with nearly perfect weather conditions and soil moisture supply. Planting was timely with 69.0% of Illinois corn acres planted in the two week period from April 20 - May 3 and 47.0% of Illinois soybean acres planted by May 17.

Heavy rains throughout June over widespread parts of the state caused flooding in some parts of our territory. Other areas were fortunate to have plenty of rain without excess flooding. June rainfall had an impact on crop conditions throughout the year. Average temperatures ranging within a few degrees of normal throughout July and August provided an excellent environment for crop growth in fields that survived early season flooding. Although crops in areas that received excessive rains in the early summer did not develop strong root systems and were especially hurt by lower than normal rainfall throughout late July and August, the drier conditions were beneficial in other areas of our territory. The drier late growing season set the stage for ideal in-field drying conditions leading up to harvest, resulting in harvest moisture ratings at or close to desired levels. Fall weather was nearly perfect and harvest progressed at a rapid pace with an unusually high number of days suitable for fieldwork from September through November.

According to the USDA National Agricultural Statistics Service (NASS), corn yields averaged 168.0 bushels per acre in Illinois, down from 200.0 in 2014 and 178.0 in 2013. Soybeans averaged 56.0 bushels per acre in Illinois in both 2015 and 2014, up from the 50.0 bushel average in 2013.

Despite narrower price spreads and overall less volatile grain markets compared to recent years, especially for corn, price levels were much lower in 2015. According to the University of Illinois Farmdoc, corn farm price received in Illinois throughout 2015 maintained a very tight margin from a high of $3.85 in July to a low of $3.62 in May. Monthly average prices for April through June were more than a dollar less than the corresponding monthly average in 2014. The soybean market experienced a higher level of volatility than corn in 2015, with farm price received in Illinois ranging from a high of $10.50 in January to a low of $8.92 in November. Monthly average soybean prices were consistently lower than the corresponding monthly average in 2014, dropping as much as $4.83, or 33.1% from $14.60 in June 2014 to $9.77 in June 2015.

Corn and soybean prices at these low levels will not result in break-even income levels for most producers. According to the University of Illinois Farmdoc, non-land input costs were relatively flat in 2015, down 2.0% from 2014 for the average Northern Illinois producer. Non-land input costs for producers in our territory are expected to drop approximately 4.9% more for the 2016 crop. However, input price declines of these levels will not bring profitability assuming trend line yields and continued low prices. Aside from farmers with little to no land costs, returns for both 2015 and 2016 are expected to be negative for producers in our territory.

Coming off an excellent year in 2014, livestock producers experienced a disappointing year in 2015 according to the USDA 2016 Farm Sector Income Forecast. Although input prices remained low throughout the year, cash receipts fell an estimated 12.0% to $186.8 billion. While a large portion of the decline is due to drops in dairy and hog receipts, broilers and cattle/calves were also impacted.

Most cattle and hog producers experienced modest profits throughout the majority of 2015, though prices have dropped in recent months. Production increases in response to higher profitability throughout 2014 and early 2015 became noticeable with growth in the sow herd and significant year over year growth in the beef cow inventory for the first time in 20 years. Swine exports need to grow to absorb expected production while the beef export market faces strong competition due to tight domestic supplies, comparatively high U.S. price, and strong U.S. dollar. Although cow/calf margins have been exceptional by any standard, there is a strong negative outlook for feeder cattle returns. The outlook for swine producers is neutral, as both costs and receipts are expected to stay near current levels. However, increased production by late 2016 is likely to push swine returns back to negative margins. Dairy producers have struggled in recent years, though achieving profitable levels at times. Even with curtailed feed costs, dairy margins are expected to be weak over the next two years with continued low milk prices.

Agricultural real estate values escalated throughout the territory over the last five years. After some leveling in 2014, 2015 was the first year the market softened and declined in certain areas. Since 2010, growth in values has been powered by exceptional profitability in the grain sector fueling demand that exceeded supply, particularly for high quality farm land. During 2014, and even more so in 2015, as grain prices declined resulting in much lower net incomes, fewer producers have the financial resources needed to purchase agricultural real estate, especially at the high prices quality farmland continues to bring. Agricultural land rental rates were slightly lower in 2015 and may decline more in 2016, but are unlikely to decline enough to allow producers to achieve a positive profit margin on cash rented farmland.

Despite a weak outlook for agriculture in our territory for 2016, most farmers are entering a period of lower income with a strong financial position. In recent years farm sector debt has been very low, equity has been at historical levels, and the financial condition of the farm sector has been strong.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $5.2 billion at December 31, 2015, an increase of $457.6 million from December 31, 2014.

Components of Loans

(in thousands) As of December 31	**2015**	2014	2013
Accrual loans:			
Real estate	**$2,702,333**	$2,496,251	$2,381,213
Commercial	**2,062,329**	1,933,212	1,790,769
Other	**452,625**	332,998	272,327
Nonaccrual loans	**27,704**	24,929	22,649
Total loans	**$5,244,991**	$4,787,390	$4,466,958

The Other category is primarily comprised of communication and energy-related loans and purchased government guaranteed loans and bonds originated under our Mission Related Investment authority.

The increase in total loans from December 31, 2014 was due to continued demand for real estate loans and a continued higher usage rate on operating lines of credit.

We offer variable, fixed, capped, indexed, and adjustable interest rate loan programs to our borrowers**.** We also offer variable and fixed rate leases through Farm Credit Leasing (FCL). We determine interest margins charged on each lending program based on cost of funds, cost of delivering, credit risk, local market conditions, and the need to generate sufficient earnings.

As part of the AgriBank Asset Pool program, we have sold participation interests in real estate loans to AgriBank. The total participation interests in this program were $342.2 million, $387.6 million, and $433.5 million at December 31, 2015, 2014, and 2013, respectively.

Portfolio Distribution

We are chartered to serve certain counties in Illinois. No county comprised more than 5.0% of our total loan portfolio at December 31, 2015.

Agricultural concentrations exceeding 5.0% of our portfolio at December 31, 2015 included: crops 58.8%, landlords 10.1%, livestock 9.4%, and processing and marketing 7.3%. Additional commodity concentration information is included in Note 3 to the accompanying Consolidated Financial Statements.

Our commercial loan portfolio shows 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 capital needs.

Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2014. Adversely classified loans were 1.5% of the portfolio at December 31, 2015 and 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 December 31, 2015, $400.2 million of our loans were, to some level, guaranteed under these government programs.

We have entered into a Standby Commitment to Purchase Agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac), a System institution, to help manage credit risk. If a loan covered by the agreement goes into default, subject to certain conditions, we have the right to sell the loan to Farmer Mac at the legal obligation of the commitment. This agreement remains in place until the loan is paid in full. The guaranteed volume of loans subject to the purchase agreement was $25.7 million, $23.5 million, and $29.4 million at December 31, 2015, 2014, and 2013, respectively. We paid Farmer Mac commitment fees totaling $188 thousand, $209 thousand, and $201 thousand in 2015, 2014, and 2013, respectively. These amounts are included in "Other operating expenses" in the Consolidated Statements of Income. As of December 31, 2015, no loans have been sold to Farmer Mac under this agreement.

Risk Assets

Risk assets are comprised of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due (accruing loans include accrued interest receivable), and other property owned.

Components of Risk Assets

(dollars in thousands)

As of December 31	**2015**	2014	2013
Loans:			
Nonaccrual	**$27,704**	$24,929	$22,649
Accruing restructured	**1,658**	2,182	3,541
Accruing loans 90 days or more past due	**5,542**	1,595	592
Total risk loans	**34,904**	28,706	26,782
Other property owned	**--**	188	15
Total risk assets	**$34,904**	$28,894	$26,797
Total risk loans as a percentage of total loans	**0.7%**	0.6%	0.6%
Nonaccrual loans as a percentage of total loans	**0.5%**	0.5%	0.5%
Total delinquencies as a percentage of total loans	**0.5%**	0.4%	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.

The increase in nonaccrual loans was primarily due to an increase in real estate loans going into nonaccrual status. Nonaccrual loans remained at an acceptable level at December 31, 2015, 2014, and 2013 and 43.8%, 52.7%, and 47.5% of our nonaccrual loans were current at December 31, 2015, 2014, and 2013, respectively.

The increase in accruing loans 90 days or more past due was primarily due to three loans originated under our Mission Related Investment authority becoming past due for greater than 90 days. Our accounting policy requires accruing loans past due 90 days to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, all accruing loans 90 days or more past due 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 the periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Allowance Coverage Ratios

As of December 31	**2015**	2014	2013
Allowance as a percentage of:			
Loans	**0.3%**	0.3%	0.3%
Nonaccrual loans	**65.0%**	63.6%	60.0%
Total risk loans	**51.6%**	55.2%	50.7%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%
Adverse assets to risk funds	**8.9%**	9.0%	6.5%

The increase in allowance for loan losses was related to $3.3 million provision for loan losses recorded in the year ended December 31, 2015 primarily related to changes in loss estimates, slight deterioration in credit quality, and increased exposure due to historically high farmland values.

Additional loan information is included in Notes 3, 10, and 12 to the accompanying Consolidated Financial Statements.

INVESTMENT SECURITIES

In addition to loans, we hold investment securities. Investment securities totaled $134.4 million, $172.0 million, and $218.8 million at December 31, 2015, 2014 and 2013, respectively. Our investment securities primarily consisted of our share of securities made up of loans guaranteed by the Small Business Administration.

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 Note 5 to the accompanying Consolidated Financial Statements.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands)

For the year ended December 31	**2015**	2014	2013
Net income	**$91,196**	$90,556	$89,152
Return on average assets	**1.8%**	1.9%	2.0%
Return on average members' equity	**9.6%**	10.4%	11.2%

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
- Changes in members' equity as discussed in the Capital Adequacy section

Changes in Significant Components of Net Income

(in thousands)	For the year ended December 31			Increase (decrease) in net income	
	2015	2014	2013	**2015 vs 2014**	2014 vs 2013
Net interest income	**$120,392**	$114,173	$109,237	**$6,219**	$4,936
Provision for loan losses	**3,341**	3,309	5,477	**(32)**	2,168
Patronage income	**19,492**	23,435	24,647	**(3,943)**	(1,212)
Other income, net	**18,855**	17,300	20,521	**1,555**	(3,221)
Operating expenses	**62,573**	58,249	57,299	**(4,324)**	(950)
Provision for income taxes	**1,629**	2,794	2,477	**1,165**	(317)
Net income	**$91,196**	$90,556	$89,152	**$640**	$1,404

Net Interest Income

Changes in Net Interest Income

(in thousands)	**2015 vs 2014**	2014 vs 2013
Changes in volume	**$10,903**	$10,277
Changes in interest rates	**(4,721)**	(5,392)
Changes in nonaccrual income and other	**37**	51
Net change	**$6,219**	$4,936

Net interest income included income on nonaccrual loans that totaled $729 thousand, $692 thousand, and $641 thousand in 2015, 2014, and 2013, 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 as a percentage of average earning assets) was 2.4%, 2.5%, and 2.6% in 2015, 2014, and 2013, respectively. We expect margins to further compress in the future if interest rates continue to rise and competition increases.

Provision for Loan Losses

The fluctuation in the provision for loan losses is related to our estimate of losses in our portfolio for the applicable years. Additional discussion is included in Note 3 to the accompanying Consolidated Financial Statements.

Patronage Income

We received patronage income based on the average balance of our note payable to AgriBank. The patronage rates were 26.0 basis points, 33.5 basis points, and 34.5 basis points in 2015, 2014, and 2013, respectively. We recorded patronage income of $10.9 million, $13.1 million, and $12.8 million in 2015, 2014, and 2013, respectively.

Since 2008 we have participated in the AgriBank Asset Pool program in which we sell participation interests in certain real estate loans to AgriBank. As part of this program, we received patronage income in an amount that approximated the net earnings of the loans. Net earnings represents the net interest income associated with these loans adjusted for certain fees and costs specific to the related loans as well as adjustments deemed appropriate by AgriBank related to the credit performance of the loans, as applicable. In addition, we received patronage income in an amount that approximated the wholesale patronage had we retained the volume. We recorded asset pool patronage income of $8.6 million, $10.3 million, and $11.9 million in 2015, 2014, and 2013, respectively.

Patronage distributions for the programs discussed above are declared solely at the discretion of AgriBank’s Board of Directors.

Other Income

The change in other income was primarily due to a decrease in patronage income.

Operating Expenses

Components of Operating Expenses

(dollars in thousands)

For the year ended December 31	**2015**	2014	2013
Salaries and employee benefits	**$40,303**	$37,339	$38,029
Purchased and vendor services	**2,599**	2,243	2,625
Communications	**942**	926	1,024
Occupancy and equipment	**4,506**	4,637	4,163
Advertising and promotion	**2,025**	1,889	1,856
Examination	**1,080**	1,019	935
Farm Credit System insurance	**5,217**	4,454	3,427
Other	**5,901**	5,742	5,240
Total operating expenses	**$62,573**	$58,249	$57,299
Operating rate	**1.3%**	1.3%	1.3%

The increase in operating expenses was primarily related to the increase in salaries and employee benefits.

FCSIC insurance expense increased in 2015 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 Insurance Corporation has announced premiums will increase to 16 basis points for the first half and 18 basis points for the second half of 2016.

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 2015, 2014, and 2013. Additional discussion is included in Note 8 to the accompanying Consolidated Financial Statements.

FUNDING AND LIQUIDITY

We borrow from AgriBank, under a note payable, in the form of a line of credit, as described in Note 6 to the accompanying Consolidated Financial Statements. This line of credit is our primary source of liquidity and is used to fund operations and meet current obligations. At December 31, 2015, we had $449.7 million available under our line of credit. We generally apply excess cash to this line of credit.

Note Payable Information

(dollars in thousands) For the year ended December 31	**2015**	2014	2013
Average balance	**$4,183,335**	$3,907,501	$3,699,719
Average interest rate	**1.4%**	1.3%	1.3%

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 we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from unallocated surplus.

CAPITAL ADEQUACY

Total members' equity increased $73.3 million from December 31, 2014, primarily due to net income for the year and an increase in capital stock and participation certificates, which was partially offset by patronage distribution accruals.

Members' Equity Position Information

(dollars in thousands) As of December 31	Regulatory Minimums	**2015**	2014	2013
Members' equity		**$987,712**	$914,458	$832,864
Surplus as a percentage of members' equity		**99.0%**	98.9%	98.8%
Permanent capital ratio	7.0%	**16.4%**	16.2%	15.2%
Total surplus ratio	7.0%	**16.2%**	16.0%	15.0%
Core surplus ratio	3.5%	**16.2%**	16.0%	15.0%

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.

Additional discussion of these regulatory ratios is included in the Regulatory Matters section and in Note 7 to the accompanying Consolidated Financial Statements.

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, 2015, 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 7 to the accompanying Consolidated Financial Statements.

RELATIONSHIP WITH AGRIBANK

Borrowing

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement (GFA), as discussed in Note 6 to the accompanying Consolidated Financial Statements, governs this lending relationship.

Cost of funds under the GFA includes a marginal cost of debt component, a spread component, which includes cost of servicing, cost of liquidity, bank profit, and, if applicable, a risk premium component. However, in the periods presented, we were not subject to the risk premium component. Certain factors may impact our cost of funds, which primarily includes market interest rate changes impacting marginal cost of debt as well as changes to pricing methodologies impacting the spread components described above.

The marginal cost of debt approach simulates matching the cost of underlying debt with similar terms as the anticipated terms of our loans to borrowers. This approach substantially protects us from market interest rate risk. We may occasionally engage in funding strategies that result in limited interest rate risk with approval by AgriBank's Asset Liability Committee.

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 distributed AgriBank surplus. As of December 31, 2015, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on growth that exceeded a targeted rate. Prior to March 31, 2014, the required investment was equal to 2.5% 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 balance in the AgriBank Asset Pool program.

At December 31, 2015, $48.9 million of our investment in AgriBank consisted of stock representing distributed AgriBank surplus and $76.8 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.

Effective January 1, 2016, as an AgDirect, LLP partnering association, we are required to purchase stock in AgDirect, which purchases an equivalent amount of stock in AgriBank. Specifically, the AgDirect trade credit financing program is required to own stock in AgriBank in the amount of 6.0% of the AgDirect program's outstanding participation loan balance at quarter end plus 6.0% of the expected balance to be originated during the following quarter.

Patronage

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

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

Patronage income for 2013 on our note payable with AgriBank was paid in the form of cash and AgriBank stock. Beginning in 2014, patronage income earned on our note payable with AgriBank is paid in cash. All patronage income earned as part of the AgriBank Asset Pool program is paid in cash.

Purchased Services

We purchase various services from AgriBank including certain financial and retail systems, financial reporting services, tax reporting services, technology services, insurance services, and internal audit services.

The total cost of services we purchased from AgriBank was $1.1 million in each of 2015, 2014, and 2013.

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:

1st Farm Credit Services, ACA
2000 Jacobssen Drive
Normal, IL 61761
(309) 268-0100
www.1stfarmcredit.com

AgriBank, FCB
30 East 7th Street, Suite 1600
St. Paul, MN 55101
(651) 282-8800
www.agribank.com
financialreporting@agribank.com

Our 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 no later than 40 days after the end of each calendar quarter. To request free copies of our Annual or Quarterly Reports contact us as stated above.

OTHER RELATIONSHIPS AND PROGRAMS

Relationships with Other Farm Credit Institutions

ProPartners Financial: We participate in ProPartners Financial (ProPartners) alliance with certain other associations in the Farm Credit System to provide producer financing for agribusiness companies. ProPartners is directed by representatives from participating associations. The income, expense, and credit risks are allocated based on each association's participation interest of the ProPartners volume. Each association's allocation was established according to a prescribed formula which included risk funds of the associations. We had $113.4 million, $111.8 million, and $98.0 million of ProPartners volume at December 31, 2015, 2014, and 2013, respectively. We also had $162.6 million of available commitment on ProPartners loans at December 31, 2015.

Capital Markets Group: We participate in the Capital Markets Group (CMG) with certain other AgriBank District associations. The CMG focuses on generating revenue and loan volume for the financial benefit of all three participating associations. Management for each association has direct decision-making authority over the loans purchased and serviced for their respective association. The business arrangement provides 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 entered into a Standby Commitment to Purchase Agreement with Farmer Mac. This agreement allows us to sell loans identified under 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 members. 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.

Farm Credit Leasing: We have an agreement with Farm Credit Leasing (FCL), a System entity specializing in leasing products and providing industry expertise. Leases are originated and serviced by FCL and we purchase a participation interest in the cash flows of the transaction. This arrangement provides our members with a broad selection of product offerings and enhanced lease expertise.

CoBank, ACB: We have a relationship with CoBank, ACB (CoBank), a System bank, which involves purchasing and selling participation interests in loans. As part of this relationship, our equity investment in CoBank was $79 thousand at December 31, 2015, 2014, and 2013. CoBank provides direct loan funds to associations in its chartered territory and makes loans to cooperatives and other eligible borrowers.

Farm Credit Foundations: We have a relationship with Farm Credit Foundations (Foundations) which involves purchasing human resource information systems, benefit, payroll, and workforce management services. As of December 31, 2015, 2014, and 2013, our investment in Foundations was $37 thousand. The total cost of services we purchased from Foundations was $183 thousand, $184 thousand, and $160 thousand in 2015, 2014, and 2013, respectively.

Unincorporated Business Entities (UBEs)

4 Rivers, LLP: We participate with certain other AgriBank District associations in 4 Rivers, LLP (the LLP), which functions as a negotiating and administrative arm for crop insurance. 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, 2015, 2014, and 2013.

AgDirect, LLP: Effective January 1, 2016 we began to participate in the AgDirect trade credit financing program, which includes origination and refinancing of agriculture equipment loans through independent equipment dealers. The program is facilitated by another AgriBank District association through a limited liability partnership in which we are a partial owner. Our investment in AgDirect, LLP, was $290 thousand at December 31, 2015. We had no investment at December 31, 2014 or 2013. Our investment in AgDirect was required to be made prior to participating in the program.

RBF Acquisition VIII, LLC: We received an equity interest in RBF Acquisition VIII, LLC, which was formed to facilitate the acquisition, management, and liquidation of assets acquired in 2009 from a troubled ethanol borrower. As of December 31, 2014, all assets of and subsequently our equity interest in RBF Acquisition VIII, LLC were liquidated and dissolved.

Programs

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

Equipment Financing: 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 dealer point-of-purchase financing programs.

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 participated 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 FCA Board voted to conclude the program effective December 31, 2014. The Board's action permits each System institution to hold its ARC Bond Program investments through the maturity dates for the investments, provided the institution continues to meet all approval conditions. The ARC Bond Program is part of our mission related investments. These investments help to increase rural communities' and businesses' well-being and prosperity by providing an adequate flow of capital into rural areas. We had $3.8 million, $9.2 million, and $10.5 million of volume under this program at December 31, 2015, 2014, and 2013, respectively.

FCC Services: We have a strategic support agreement with FCC Services to enable FCC Services to provide reinsurance to crop insurance companies that includes a loss/gain sharing agreement.

REGULATORY MATTERS

On May 8, 2014, the FCA Board approved a proposed rule to modify the regulatory capital requirements for System Banks and Associations. The stated objectives of the proposed rule are to:

- Modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise
- Ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System
- Make System regulatory capital requirements more transparent
- Meet the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act

The most recent comment period closed July 10, 2015. The initial comment period on the proposed rule, after extension, closed February 16, 2015.

On June 12, 2014, the FCA Board approved a proposed rule to revise the requirements governing the eligibility of investments for System Banks and Associations. The stated objectives of the proposed rule are to:

- Strengthen the safety and soundness of System Banks and Associations
- Ensure that System Banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption
- Enhance the ability of the System Banks to supply credit to agricultural and aquatic producers

- Comply with the requirements of section 939A of the Dodd-Frank Act
- Modernize the investment eligibility criteria for System Banks
- Revise the investment regulation for System Associations to improve their investment management practices so they are more resilient to risk

The public comment period ended on October 23, 2014.

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 in the Consolidated Financial Statements.

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

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

The undersigned certify we have reviewed the Association's Annual Report, which has been prepared 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

March 8, 2016

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, 2015. In making the assessment, management used the 2013 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, 2015, 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, 2015.

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 8, 2016

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 actions with respect to recommendations arising from those auditing activities. The Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

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

In this context, the Audit Committee reviewed and discussed the audited Consolidated Financial Statements for the year ended December 31, 2015, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards AU-C 260, *The Auditor's Communication with Those Charged with Governance*, and both PwC and the internal auditors directly provided reports on any significant matters to the Audit Committee.

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

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended that the Board of Directors include the audited Consolidated Financial Statements in the Annual Report for the year ended December 31, 2015.

Kathleen Hainline

Kathleen Hainline
Chairperson of the Audit Committee
1st Farm Credit Services, ACA

John S. Baylor
Stephen Cowser
Roger J. Newell
Kathy J. Reinhardt

March 8, 2016

Independent Auditor's Report

To the Board of Directors 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, 2015, 2014 and 2013, 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 as of December 31, 2015, 2014 and 2013, 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 8, 2016

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	**2015**	2014	2013
ASSETS			
Loans	**$5,244,991**	$4,787,390	$4,466,958
Allowance for loan losses	**17,998**	15,847	13,587
Net loans	**5,226,993**	4,771,543	4,453,371
Investment in AgriBank, FCB	**125,702**	121,675	133,456
Investment securities	**134,351**	171,967	218,796
Accrued interest receivable	**45,167**	41,330	37,902
Other property owned	**--**	188	15
Other assets	**43,139**	48,049	65,242
Total assets	**$5,575,352**	$5,154,752	$4,908,782
LIABILITIES			
Note payable to AgriBank, FCB	**$4,535,834**	$4,201,067	$4,036,821
Accrued interest payable	**15,683**	13,808	12,791
Patronage distribution payable	**18,000**	9,000	8,600
Other liabilities	**18,123**	16,419	17,706
Total liabilities	**4,587,640**	4,240,294	4,075,918
Contingencies and commitments (Note 11)			
MEMBERS' EQUITY			
Protected members' equity	**8**	9	9
Capital stock and participation certificates	**10,025**	9,953	9,900
Unallocated surplus	**977,679**	904,496	822,955
Total members' equity	**987,712**	914,458	832,864
Total liabilities and members' equity	**$5,575,352**	$5,154,752	$4,908,782

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

CONSOLIDATED STATEMENTS OF INCOME

1st Farm Credit Services, ACA

(in thousands)

For the year ended December 31	**2015**	2014	2013
Interest income	**$179,346**	$167,312	$157,231
Interest expense	**58,954**	53,139	47,994
Net interest income	**120,392**	114,173	109,237
Provision for loan losses	**3,341**	3,309	5,477
Net interest income after provision for loan losses	**117,051**	110,864	103,760
Other income			
Patronage income	**19,492**	23,435	24,647
Financially related services income	**12,539**	10,910	10,040
Fee income	**5,650**	5,580	8,232
Miscellaneous income, net	**666**	810	2,249
Total other income	**38,347**	40,735	45,168
Operating expenses			
Salaries and employee benefits	**40,303**	37,339	38,029
Other operating expenses	**22,270**	20,910	19,270
Total operating expenses	**62,573**	58,249	57,299
Income before income taxes	**92,825**	93,350	91,629
Provision for income taxes	**1,629**	2,794	2,477
Net income	**$91,196**	$90,556	$89,152

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 as of December 31, 2012	$12	$9,694	$742,435	$752,141
Net income	--	--	89,152	89,152
Unallocated surplus designated for patronage distributions	--	--	(8,632)	(8,632)
Capital stock and participation certificates issued	--	942	--	942
Capital stock and participation certificates retired	(3)	(736)	--	(739)
Balance as of December 31, 2013	9	9,900	822,955	832,864
Net income	--	--	90,556	90,556
Unallocated surplus designated for patronage distributions	--	--	(9,015)	(9,015)
Capital stock and participation certificates issued	--	727	--	727
Capital stock and participation certificates retired	--	(674)	--	(674)
Balance as of December 31, 2014	9	9,953	904,496	914,458
Net income	**--**	**--**	**91,196**	**91,196**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(18,013)**	**(18,013)**
Capital stock and participation certificates issued	**--**	**682**	**--**	**682**
Capital stock and participation certificates retired	**(1)**	**(610)**	**--**	**(611)**
Balance as of December 31, 2015	**$8**	**$10,025**	**$977,679**	**$987,712**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

1st Farm Credit Services, ACA

(in thousands)

For the year ended December 31	2015	2014	2013
Cash flows from operating activities			
Net Income	**$91,196**	$90,556	$89,152
Depreciation on premises and equipment	**1,805**	1,862	1,756
Gain on sale of premises and equipment	**(145)**	(82)	(564)
Depreciation on assets held for lease	**--**	--	4,108
Loss (gain) on disposal of assets held for lease	**2**	(319)	(100)
Amortization of premiums on loans and investment securities	**3,573**	3,362	4,355
Provision for loan losses	**3,341**	3,309	5,477
Stock patronage received from AgriBank, FCB	**--**	(2,830)	(5,798)
Gain on other property owned, net	**(32)**	(60)	(667)
Changes in operating assets and liabilities:			
Increase in accrued interest receivable	**(5,638)**	(4,790)	(4,785)
Decrease (increase) in other assets	**4,033**	(4,648)	658
Increase in accrued interest payable	**1,875**	1,017	1,221
Increase (decrease) in other liabilities	**1,704**	(1,287)	2,547
Net cash provided by operating activities	**101,714**	86,090	97,360
Cash flows from investing activities			
Increase in loans, net	**(459,595)**	(321,764)	(372,435)
Redemptions (purchases) of investment in AgriBank, FCB, net	**(4,027)**	14,611	2,293
Purchases of investment in other Farm Credit Institutions, net	**(290)**	--	--
Decrease in investment securities, net	**36,842**	45,320	47,319
(Purchases) sales of assets held for lease, net	**(2)**	24,843	(10,673)
Proceeds from sales of other property owned	**355**	78	697
Purchases of premises and equipment, net	**(492)**	(4,463)	(7,418)
Net cash used in investing activities	**(427,209)**	(241,375)	(340,217)
Cash flows from financing activities			
Increase in note payable to AgriBank, FCB, net	**334,767**	164,246	251,643
Patronage distributions paid	**(9,013)**	(8,615)	(8,432)
Capital stock and participation certificates retired, net	**(259)**	(346)	(354)
Net cash provided by financing activities	**325,495**	155,285	242,857
Net change in cash	**--**	--	--
Cash at beginning of year	**--**	--	--
Cash at end of year	**$ --**	**$ --**	**$ --**
Supplemental schedule of non-cash activities			
Stock financed by loan activities	**$551**	$595	$796
Stock applied against loan principal	**218**	195	236
Stock applied against interest	**3**	1	3
Interest transferred to loans	**1,797**	1,361	1,694
Loans transferred to other property owned	**135**	191	295
Patronage distributions payable to members	**18,000**	9,000	8,600
Financed sales of other property owned	**--**	--	250
Supplemental information			
Interest paid	**$57,079**	$52,122	$46,773
Taxes paid	**575**	4,547	1,318

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

Farm Credit 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 Rural America. As of January 1, 2016, the System consisted of three Farm Credit Banks (FCB), one Agricultural Credit Bank (ACB), and 74 customer-owned cooperative lending institutions (associations). AgriBank, FCB (AgriBank), a System bank, and its affiliated Associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). At January 1, 2016, 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 (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used to ensure the timely payment of principal and interest on Farm Credit Systemwide debt obligations, to ensure the retirement of protected borrower capital at par or stated value, and for other specified purposes.

At the discretion of the FCSIC, the Insurance Fund is also available to provide assistance to certain troubled System institutions and for the operating expenses of the FCSIC. Each System bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2.0% of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. This percentage of aggregate obligations can be changed by the FCSIC, at its sole discretion, to a percentage it determines to be actuarially sound. The basis for assessing premiums is debt outstanding with adjustments made for nonaccrual loans and impaired investment securities which are assessed a surcharge while guaranteed loans and investment securities are deductions from the premium base. AgriBank, in turn, assesses premiums to District associations each year based on similar factors.

Association

1st Farm Credit Services, ACA (the Association) and its subsidiaries, 1st Farm Credit Services, FLCA and 1st Farm Credit Services, PCA (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.

We offer crop hail and multi-peril crop insurance to borrowers and those eligible to borrow. We also offer real estate title services and real estate fee appraisals 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. Origination fees, net of related costs, are deferred and recognized over the life of the loan as an adjustment to net interest income. The net amount of loan fees and related origination costs are not material to the Consolidated Financial Statements taken as a whole.

Generally we place loans in nonaccrual status when principal or interest is delinquent for 90 days or more (unless the loan is well secured and in the process of collection) or circumstances indicate that full collection is not expected.

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

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a formally restructured loan for regulatory purposes. 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 collection. In limited circumstances, principal may be forgiven. Loans classified as troubled debt restructurings are considered risk loans (as defined below).

Loans that are sold as participations are transferred as entire financial assets, groups of entire financial assets, or participating interests in the loans. The transfers of such assets or participating interests are structured such that control over the transferred assets, or participating interests have been surrendered and that all of the conditions have been met to be accounted for as a sale.

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

Loans in our portfolio that are considered impaired are analyzed individually to establish a specific allowance. A loan is impaired when it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. We generally measure impairment based on the net realizable value of the collateral. Risk loans include nonaccrual loans, accruing restructured loans, and accruing loans 90 days or more past due. All risk loans are considered to be impaired loans.

We record a specific allowance to reduce the carrying amount of the risk loan by the amount the recorded investment exceeds the net realizable value of collateral. When we deem a loan to be uncollectible, we charge the loan principal and prior year(s) accrued interest against the allowance for loan 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 severity. The combination of estimated default probability and loss severity is the primary basis for recognition and measurement of loan collectability of these pools of loans. These estimated losses may be adjusted for relevant current environmental factors.

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

Investment in AgriBank: 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 "Miscellaneous income, net" in the Consolidated Statements of Income in the period of impairment. The non-credit related component is recognized in other comprehensive income. Purchased premiums and discounts are amortized or accreted using the straight-line method, which approximates the interest method, over the terms of the respective securities. Realized gains and losses are determined using specific identification method and are recognized in current operations.

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation and is included in "Other assets" in the Consolidated Statements of Condition. 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" in the Consolidated Statements of Income. Depreciation and maintenance and repair expenses are included in "Other operating expenses" in the Consolidated Statements of Income and improvements are capitalized.

Other Property Owned: Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at the fair value less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less costs to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Related income, expenses, and gains or losses from operations and carrying value adjustments are included in “Miscellaneous income, net” in the Consolidated Statements of Income.

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

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

Certain employees also participate in the AgriBank District 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.

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.

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 for those employees that do not participate in the AgriBank District Retirement Plan in the form of a fixed percentage of salary contribution in addition to the employer match.

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.

Off-Balance Sheet Credit Exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses. 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. Any reserve for unfunded lending commitments and unexercised letters of credit is based on management’s best estimate of losses inherent in these instruments, but the commitments have not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement are utilized in determining a reserve, if needed. Based on management’s assessment, any reserve is recorded in “Other liabilities” in the Consolidated Statements of Condition and a corresponding loss is recorded in “Provision for credit losses” in the Consolidated Statements of Income. However, no such reserve was necessary as of December 31, 2015, 2014, or 2013.

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

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

Level 1 — Unadjusted 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:

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

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

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued, but are not yet effective, and have determined that no such standards are expected to have a material impact to our Consolidated Financial Statements. Except as noted below, no accounting pronouncements were adopted during 2015.

In February 2016, the FASB issued guidance entitled, “Leases.” The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases. The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2019 and interim periods the subsequent year. Early adoption is permitted and modified retrospective adoption is required. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.

In January 2016, the FASB issued guidance entitled, "Recognition and Measurement of Financial Assets and Financial Liabilities." The guidance is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments address certain aspects of recognition, measurement, presentation, and disclosure of financial statements. The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2018 and interim periods with annual periods beginning after December 15, 2019. Certain disclosure changes are permitted to be immediately adopted for annual reporting periods that have not yet been made available for issuance. Nonpublic entities are no longer required to include certain fair value of financial instruments disclosures as part of these disclosure changes. We have immediately adopted this guidance and have excluded such disclosures from our Notes to Consolidated Financial Statements. Early adoption is only permitted for interim and annual reporting periods beginning after December 15, 2017 for other applicable sections of the guidance. We are currently evaluating the impact of the remaining guidance on our financial condition, results of operations, cash flows, or financial statement disclosures.

In August 2014, the FASB issued guidance, "Presentation of Financial Statements-Going Concern." The guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the Financial Statements are available to be issued, when applicable. Substantial doubt to continue as a going concern exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for all entities for interim and annual periods ending after December 15, 2016, and early application is permitted. We do not expect the adoption of this guidance to have an effect on our financial condition, results of operations, cash flows, or financial statement disclosures.

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. We are in the process of reviewing contracts to determine the effect, if any, on our financial condition or our results of operations.

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)	**2015**		2014		2013	
As of December 31	Amount	**%**	Amount	%	Amount	%
Real estate	**$2,711,006**	**51.7%**	$2,517,451	52.6%	$2,387,321	53.4%
Commercial	**2,081,360**	**39.7%**	1,951,387	40.8%	1,807,075	40.5%
Other	**452,625**	**8.6%**	318,552	6.6%	272,562	6.1%
Total	**$5,244,991**	**100.0%**	$4,787,390	100.0%	$4,466,958	100.0%

The Other category is primarily comprised of communication and energy-related loans and purchased government guaranteed loans and bonds originated under our Mission Related Investment authority.

Portfolio Concentrations

We have agricultural and geographic concentrations.

Agricultural Concentrations

As of December 31	**2015**	2014	2013
Crops	**58.8%**	61.5%	61.9%
Landlords	**10.1%**	10.6%	11.2%
Livestock	**9.4%**	8.2%	8.3%
Processing and marketing	**7.3%**	6.7%	6.4%
Other	**14.4%**	13.0%	12.2%
Total	**100.0%**	100.0%	100.0%

We are chartered to operate in certain counties in Illinois. No county comprised more than 5.0% of our total loan portfolio at December 31, 2015.

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. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock. Long-term real estate loans are secured by the first liens on the underlying real property. FCA regulations require that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property's appraised value at origination and our underwriting standards generally limit lending to no more than 60 percent at origination. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the lender in the collateral, may result in loan-to-value ratios in excess of the regulatory maximum. The District has an internally maintained database which uses market data to estimate market values of collateral for a significant portion of the real estate mortgage portfolio. 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 the FCA Regulations or General Financing Agreement (GFA) limitations.

Participations Purchased and Sold

(in thousands)	AgriBank Participations		Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations		Total Participations	
As of December 31, 2015	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate	**$ --**	**($346,324)**	**$71,598**	**($82,085)**	**$62,683**	**$ --**	**$134,281**	**($428,409)**
Commercial	**--**	**(13,907)**	**1,195,279**	**(1,244,197)**	**323,090**	**(1,775)**	**1,518,369**	**(1,259,879)**
Other	**--**	**--**	**532,747**	**(353,499)**	**--**	**--**	**532,747**	**(353,499)**
Total	**$ --**	**($360,231)**	**$1,799,624**	**($1,679,781)**	**$385,773**	**($1,775)**	**$2,185,397**	**($2,041,787)**

	AgriBank Participations		Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations		Total Participations	
As of December 31, 2014	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate	$ --	($393,372)	$50,174	($63,151)	$46,702	$ --	$96,876	($456,523)
Commercial	--	(19,349)	1,008,005	(1,104,294)	377,512	(1,441)	1,385,517	(1,125,084)
Other	--	--	380,891	(251,932)	--	--	380,891	(251,932)
Total	$ --	($412,721)	$1,439,070	($1,419,377)	$424,214	($1,441)	$1,863,284	($1,833,539)

	AgriBank Participations		Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations		Total Participations	
As of December 31, 2013	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate	$ --	($439,845)	$82,687	($119,043)	$40,790	($664)	$123,477	($559,552)
Commercial	--	(23,174)	883,407	(1,000,462)	480,228	(3,629)	1,363,635	(1,027,265)
Other	--	--	302,290	(208,885)	10,640	--	312,930	(208,885)
Total	$ --	($463,019)	$1,268,384	($1,328,390)	$531,658	($4,293)	$1,800,042	($1,795,702)

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

Credit Quality and Delinquency

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

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

We had no loans categorized as loss at December 31, 2015, 2014, or 2013.

Credit Quality of Loans

(dollars in thousands)	Acceptable		OAEM		Substandard/ Doubtful		Total	
As of December 31, 2015	Amount	%	Amount	%	Amount	%	Amount	%
Real estate	**$2,671,902**	**97.8%**	**$41,826**	**1.5%**	**$19,943**	**0.7%**	**$2,733,671**	**100.0%**
Commercial	**1,982,570**	**94.3%**	**61,299**	**2.9%**	**58,412**	**2.8%**	**2,102,281**	**100.0%**
Other	**449,936**	**99.2%**	**3,777**	**0.8%**	**--**	**--**	**453,713**	**100.0%**
Total	**$5,104,408**	**96.5%**	**$106,902**	**2.0%**	**$78,355**	**1.5%**	**$5,289,665**	**100.0%**

As of December 31, 2014	Acceptable Amount	Acceptable %	OAEM Amount	OAEM %	Substandard/ Doubtful Amount	Substandard/ Doubtful %	Total Amount	Total %
Real estate	$2,508,508	98.8%	$14,784	0.6%	$14,678	0.6%	$2,537,970	100.0%
Commercial	1,889,074	95.9%	23,434	1.2%	57,869	2.9%	1,970,377	100.0%
Other	319,719	100.0%	--	--	--	--	319,719	100.0%
Total	$4,717,301	97.7%	$38,218	0.8%	$72,547	1.5%	$4,828,066	100.0%

As of December 31, 2013	Acceptable Amount	Acceptable %	OAEM Amount	OAEM %	Substandard/ Doubtful Amount	Substandard/ Doubtful %	Total Amount	Total %
Real estate	$2,376,059	98.8%	$14,542	0.6%	$14,633	0.6%	$2,405,234	100.0%
Commercial	1,774,232	97.3%	18,827	1.0%	31,565	1.7%	1,824,624	100.0%
Other	272,940	99.9%	62	--	236	0.1%	273,238	100.0%
Total	$4,423,231	98.3%	$33,431	0.7%	$46,434	1.0%	$4,503,096	100.0%

Note: Accruing loans include accrued interest receivable.

Aging Analysis of Loans

(in thousands)

As of December 31, 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 Loans	90 Days Past Due and Accruing
Real estate	**$1,993**	**$3,661**	**$5,654**	**$2,728,017**	**$2,733,671**	**$309**
Commercial	**2,757**	**11,589**	**14,346**	**2,087,935**	**2,102,281**	**244**
Other	**3,549**	**4,989**	**8,538**	**445,175**	**453,713**	**4,989**
Total	**$8,299**	**$20,239**	**$28,538**	**$5,261,127**	**$5,289,665**	**$5,542**

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 Loans	90 Days 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

As of December 31, 2013	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total Loans	90 Days Past Due and Accruing
Real estate	$1,393	$1,956	$3,349	$2,401,885	$2,405,234	$456
Commercial	2,614	9,594	12,208	1,812,416	1,824,624	--
Other	1,316	175	1,491	271,747	273,238	136
Total	$5,323	$11,725	$17,048	$4,486,048	$4,503,096	$592

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. Interest income recognized and cash payments received on nonaccrual risk loans are applied as described in Note 2.

Risk Loan Information

(in thousands) As of December 31	**2015**	2014	2013
Nonaccrual loans:			
Current as to principal and interest	**$12,141**	$13,126	$10,756
Past due	**15,563**	11,803	11,893
Total nonaccrual loans	**27,704**	24,929	22,649
Accruing restructured loans	**1,658**	2,182	3,541
Accruing loans 90 days or more past due	**5,542**	1,595	592
Total risk loans	**$34,904**	$28,706	$26,782
Volume with specific reserves	**$9,506**	$8,926	$12,534
Volume without specific reserves	**25,398**	19,780	14,248
Total risk loans	**$34,904**	$28,706	$26,782
Total specific reserves	**$4,758**	$4,708	$4,991

For the year ended December 31	**2015**	2014	2013
Income on accrual risk loans	**$207**	$200	$91
Income on nonaccrual loans	**729**	692	641
Total income on risk loans	**$936**	$892	$732
Average recorded risk loans	**$31,382**	$28,743	$27,796

Note: Accruing loans include accrued interest receivable.

The increase in nonaccrual loans was primarily due to an increase in real estate loans going into nonaccrual status.

To mitigate credit risk, we have entered into a Standby Commitment to Purchase Agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac). In the event of default, subject to certain conditions, we have the right to sell the loans identified in the agreement to Farmer Mac at the legal obligation of the commitment. This agreement remains in place until the loan is paid in full. The guaranteed volume of loans subject to the purchase agreement was $25.7 million, $23.5 million, and $29.4 million at December 31, 2015, 2014, and 2013, respectively. Fees paid to Farmer Mac for these commitments totaled $188 thousand, $209 thousand, and $201 thousand in 2015, 2014, and 2013, respectively. These amounts are included in “Other operating expenses” in the Consolidated Statements of Income. As of December 31, 2015, no loans have been sold to Farmer Mac under this agreement.

Nonaccrual Loans by Loan Type

(in thousands) As of December 31	**2015**	2014	2013
Real estate	**$8,673**	$6,755	$6,106
Commercial	**19,031**	18,174	16,307
Other	**--**	--	236
Total	**$27,704**	$24,929	$22,649

Accruing Loans 90 Days or More Past Due by Loan Type

(in thousands) As of December 31	**2015**	2014	2013
Real estate	**$309**	$449	$456
Commercial	**244**	--	--
Other	**4,989**	1,146	136
Total	**$5,542**	$1,595	$592

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.

Additional Impaired Loan Information by Loan Type

(in thousands)

	As of December 31, 2015			For the year ended December 31, 2015	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate	**$2,705**	**$2,922**	**$583**	**$2,361**	**$ --**
Commercial	**6,801**	**7,483**	**4,175**	**7,186**	**--**
Other	**--**	**--**	**--**	**--**	**--**
Total	**$9,506**	**$10,405**	**$4,758**	**$9,547**	**$ --**
Impaired loans with no related allowance for loan losses:					
Real estate	**$7,929**	**$8,803**	**$ --**	**$6,915**	**$486**
Commercial	**12,480**	**17,104**	**--**	**13,023**	**379**
Other	**4,989**	**4,765**	**--**	**1,897**	**71**
Total	**$25,398**	**$30,672**	**$ --**	**$21,835**	**$936**
Total impaired loans:					
Real estate	**$10,634**	**$11,725**	**$583**	**$9,276**	**$486**
Commercial	**19,281**	**24,587**	**4,175**	**20,209**	**379**
Other	**4,989**	**4,765**	**--**	**1,897**	**71**
Total	**$34,904**	**$41,077**	**$4,758**	**$31,382**	**$936**

	As of December 31, 2014			For the year ended December 31, 2014	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate	$2,426	$2,582	$819	$2,485	$ --
Commercial	6,500	7,102	3,889	6,588	--
Other	--	--	--	--	--
Total	$8,926	$9,684	$4,708	$9,073	$ --
Impaired loans with no related allowance for loan losses:					
Real estate	$6,830	$8,117	$ --	$7,001	$498
Commercial	11,803	16,101	--	12,043	376
Other	1,147	1,120	--	626	18
Total	$19,780	$25,338	$ --	$19,670	$892
Total impaired loans:					
Real estate	$9,256	$10,699	$819	$9,486	$498
Commercial	18,303	23,203	3,889	18,631	376
Other	1,147	1,120	--	626	18
Total	$28,706	$35,022	$4,708	$28,743	$892

	As of December 31, 2013			For the year ended December 31, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate	$2,536	$2,615	$1,043	$2,497	$ --
Commercial	9,998	11,553	3,948	10,705	--
Other	--	--	--	--	--
Total	$12,534	$14,168	$4,991	$13,202	$ --
Impaired loans with no related allowance for loan losses:					
Real estate	$7,185	$8,298	$ --	$7,068	$595
Commercial	6,690	9,339	--	6,967	118
Other	373	367	--	559	19
Total	$14,248	$18,004	$ --	$14,594	$732
Total impaired loans:					
Real estate	$9,721	$10,913	$1,043	$9,565	$595
Commercial	16,688	20,892	3,948	17,672	118
Other	373	367	--	559	19
Total	$26,782	$32,172	$4,991	$27,796	$732

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

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

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at December 31, 2015.

Troubled Debt Restructurings

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

TDR Activity

(in thousands)	**2015**		2014		2013	
	Pre-modification	Post-modification	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate	**$89**	**$102**	$2,168	$2,168	$3,355	$3,355
Commercial	**428**	**429**	1,162	1,160	1,662	1,662
Total	**$517**	**$531**	$3,330	$3,328	$5,017	$5,017

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 included deferral of principal, extension of maturity, and interest rate reduction below market.

We had TDRs in the commercial loan category of $20 thousand that defaulted during the year ended December 31, 2015 in which the modification was within twelve months of the respective reporting period. There were no TDRs that defaulted during the years ended December 31, 2014 or 2013 in which the modification was within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of December 31	**2015**	2014	2013
Accrual status:			
Real estate	**$1,652**	$2,053	$3,160
Commercial	**6**	129	381
Total TDRs in accrual status	**$1,658**	$2,182	$3,541
Nonaccrual status:			
Real estate	**$2,734**	$2,785	$1,008
Commercial	**9,716**	9,853	10,486
Total TDRs in nonaccrual status	**$12,450**	$12,638	$11,494
Total TDRs:			
Real estate	**$4,386**	$4,838	$4,168
Commercial	**9,722**	9,982	10,867
Total TDRs	**$14,108**	$14,820	$15,035

Additional commitments to lend to borrowers whose loans have been modified in a TDR were $109 thousand at December 31, 2015.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) For the year ended December 31	**2015**	2014	2013
Balance at beginning of year	**$15,847**	$13,587	$9,365
Provision for loan losses	**3,341**	3,309	5,477
Loan recoveries	**459**	203	54
Loan charge-offs	**(1,649)**	(1,252)	(1,309)
Balance at end of year	**$17,998**	$15,847	$13,587

The increase in allowance for loan losses was related to $3.3 million provision for loan losses recorded in the year ended December 31, 2015 primarily related to changes in loss estimates, slight deterioration in credit quality and increased exposure due to historically high farmland values.

Changes in Allowance for Loan Losses and Year End Recorded Investments by Loan Type

(in thousands)	Real Estate	Commercial	Other	Total
Allowance for loan losses:				
Balance as of December 31, 2014	**$7,414**	**$8,075**	**$358**	**$15,847**
Provision for loan losses	**1,096**	**2,114**	**131**	**3,341**
Loan recoveries	**4**	**455**	**--**	**459**
Loan charge-offs	**(121)**	**(1,528)**	**--**	**(1,649)**
Balance as of December 31, 2015	**$8,393**	**$9,116**	**$489**	**$17,998**
Ending balance: individually evaluated for impairment	**$583**	**$4,175**	**$ --**	**$4,758**
Ending balance: collectively evaluated for impairment	**$7,810**	**$4,941**	**$489**	**$13,240**
Recorded investment in loans outstanding:				
Ending balance as of December 31, 2015	**$2,733,671**	**$2,102,281**	**$453,713**	**$5,289,665**
Ending balance: individually evaluated for impairment	**$10,634**	**$19,281**	**$4,989**	**$34,904**
Ending balance: collectively evaluated for impairment	**$2,723,037**	**$2,083,000**	**$448,724**	**$5,254,761**

	Real Estate	Commercial	Other	Total
Allowance for loan losses:				
Balance as of December 31, 2013	$6,024	$7,231	$332	$13,587
Provision for loan losses	1,596	1,687	26	3,309
Loan recoveries	8	195	--	203
Loan charge-offs	(214)	(1,038)	--	(1,252)
Balance as of December 31, 2014	$7,414	$8,075	$358	$15,847
Ending balance: individually evaluated for impairment	$819	$3,889	$ --	$4,708
Ending balance: collectively evaluated for impairment	$6,595	$4,186	$358	$11,139
Recorded investment in loans outstanding:				
Ending balance as of December 31, 2014	$2,537,970	$1,970,377	$319,719	$4,828,066
Ending balance: individually evaluated for impairment	$9,256	$18,303	$1,147	$28,706
Ending balance: collectively evaluated for impairment	$2,528,714	$1,952,074	$318,572	$4,799,360

	Real Estate	Commercial	Other	Total
Allowance for loan losses:				
Balance as of December 31, 2012	$1,564	$7,486	$315	$9,365
Provision for loan losses	5,088	372	17	5,477
Loan recoveries	11	43	--	54
Loan charge-offs	(639)	(670)	--	(1,309)
Balance as of December 31, 2013	$6,024	$7,231	$332	$13,587
Ending balance: individually evaluated for impairment	$1,043	$3,948	$ --	$4,991
Ending balance: collectively evaluated for impairment	$4,981	$3,283	$332	$8,596
Recorded investment in loans outstanding:				
Ending balance as of December 31, 2013	$2,405,234	$1,824,624	$273,238	$4,503,096
Ending balance: individually evaluated for impairment	$9,721	$16,688	$373	$26,782
Ending balance: collectively evaluated for impairment	$2,395,513	$1,807,936	$272,865	$4,476,314

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

NOTE 4: INVESTMENT IN AGRIBANK

We are required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on growth that exceeded a targeted rate. Prior to March 31, 2014, the required investment was equal to 2.5% plus an additional 1.0% on growth that exceeded a targeted rate.

We are 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 AgriBank Asset Pool program.

The balance of our investment in AgriBank, all required stock, was $125.7 million, $121.7 million, and $133.5 million at December 31, 2015, 2014, and 2013, respectively.

NOTE 5: INVESTMENT SECURITIES

We held investment securities of $134.4 million, $172.0 million, and $218.8 million at December 31, 2015, 2014, and 2013, respectively. Our investment securities primarily consisted of loans fully guaranteed by the Small Business Administration (SBA). 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.

Additional Investment Securities Information

(dollars in thousands) As of December 31	**2015**	2014	2013
Amortized cost	**$134,351**	$171,967	$218,796
Unrealized gains	**3,385**	4,308	5,726
Unrealized losses	**(261)**	(313)	(610)
Fair value	**$137,475**	$175,962	$223,912

Investment income is recorded in "Interest income" in the Consolidated Statements of Income and totaled $2.6 million, $2.0 million, and $3.3 million in 2015, 2014, and 2013, respectively.

NOTE 6: 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.

Note Payable Information

(dollars in thousands) As of December 31	**2015**	2014	2013
Line of credit	**$5,000,000**	$4,700,000	$4,500,000
Outstanding principal under the line of credit	**4,535,834**	4,201,067	4,036,821
Interest rate	**1.4%**	1.4%	1.3%

Our note payable matures November 30, 2016, 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, 2015, and throughout the year, we materially complied with the GFA terms and were not declared in default under any GFA covenants or provisions.

NOTE 7: 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, the 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 one thousand dollars, whichever is less. The purchase of one participation certificate is required 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 FCSIC would provide the amounts needed to retire this equity.

Regulatory Capitalization Requirements

Select Capital Ratios

As of December 31	Regulatory Minimums	**2015**	2014	2013
Permanent capital ratio	7.0%	**16.4%**	16.2%	15.2%
Total surplus ratio	7.0%	**16.2%**	16.0%	15.0%
Core surplus ratio	3.5%	**16.2%**	16.0%	15.0%

The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. The total surplus ratio is average unallocated surplus less any deductions made in the computation of permanent capital divided by average risk-adjusted assets. 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.

Regulatory capital includes any investment in AgriBank that is in excess of the required investment under an allotment agreement with AgriBank. We had no excess stock at December 31, 2015, 2014, or 2013.

Description of Equities

The following represents information regarding classes and number of shares of stock and participation certificates outstanding. All shares and participation certificates are stated at a $5.00 par value.

	Number of Shares		
As of December 31	**2015**	2014	2013
Class A common stock (protected)	**1,533**	1,855	1,855
Class C common stock (at-risk)	**1,975,429**	1,961,626	1,952,027
Participation certificates (at-risk)	**29,509**	28,869	27,769

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 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, 2015, 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 to holders of Class F preferred stock and then 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 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 $18.0 million, $9.0 million, and $8.6 million at December 31, 2015, 2014, and 2013, 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 2016.

NOTE 8: INCOME TAXES

Provision for Income Taxes

Provision for Income Taxes

(dollars in thousands) For the year ended December 31	2015	2014	2013
Current:			
Federal	**$1,287**	$2,262	$1,962
State	**342**	532	515
Total current	**$1,629**	$2,794	$2,477
Deferred:			
Federal	**($336)**	($1,508)	$191
State	**(136)**	(152)	(118)
Increase (decrease) in valuation allowance	**472**	1,660	(73)
Total deferred	**--**	--	--
Provision for income taxes	**$1,629**	$2,794	$2,477
Effective tax rate	**1.8%**	3.0%	2.7%

Reconciliation of Taxes at Federal Statutory Rate to Provision for Income Taxes

(in thousands) For the year ended December 31	2015	2014	2013
Federal tax at statutory rates	**$31,561**	$31,739	$32,009
State tax, net	**150**	201	380
Patronage distributions	**(3,043)**	(3,060)	(2,846)
Effect of non-taxable entity	**(27,524)**	(27,587)	(27,104)
Increase (decrease) in valuation allowance	**472**	1,660	(73)
Other	**13**	(159)	111
Provision for income taxes	**$1,629**	$2,794	$2,477

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

(in thousands) As of December 31	2015	2014	2013
Allowance for loan losses	**$2,842**	$2,665	$2,520
Postretirement benefit accrual	**215**	213	212
Accrued incentive	**393**	366	419
Leasing related, net	**--**	--	(1,524)
Accrued patronage income not received	**(364)**	(602)	(759)
AgriBank 2002 allocated stock	**(562)**	(586)	(586)
Accrued pension asset	**--**	(41)	(14)
Depreciation	**--**	--	(1)
Other liabilities	**(158)**	(121)	(33)
Total deferred tax assets	**2,366**	1,894	234
Valuation allowance	**(2,366)**	(1,894)	(234)
Deferred tax assets, net	**$ --**	$ --	$ --
Gross deferred tax assets	**$3,450**	$3,244	$3,151
Gross deferred tax liabilities	**($1,084)**	($1,350)	($2,917)

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 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. Our total permanent investment in AgriBank is $16.4 million. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $873.4 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 United States taxing authorities. We record accruals for items that we believe may be challenged by these taxing authorities. However, we had no uncertain income tax positions at December 31, 2015. In addition, we believe we are no longer subject to income tax examinations for years prior to 2012.

NOTE 9: EMPLOYEE BENEFIT PLANS

Pension and Post-Employment Benefit Plans

Complete financial information for the pension and post-employment benefit plans may be found in the Combined AgriBank and affiliated Associations 2015 Annual Report (District financial statements).

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

Pension Plan: Certain employees participate in the AgriBank District Retirement Plan, a District-wide multiple-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 certain eligible District employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if we choose to stop participating in the plan, we may be required to pay an amount based on the underfunded status of the plan. Because of the nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee transfers to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

AgriBank District Retirement Plan Information

(in thousands)

As of December 31	**2015**	2014	2013
Unfunded liability	**$453,825**	$423,881	$255,187
Projected benefit obligation	**1,255,259**	1,234,960	1,014,649
Fair value of plan assets	**801,434**	811,079	759,462
Accumulated benefit obligation	**1,064,133**	1,051,801	864,202

For the year ended December 31	**2015**	2014	2013
Total plan expense	**$63,800**	$45,827	$63,270
Our allocated share of plan expenses	**4,344**	3,140	4,100
Contributions by participating employers	**62,722**	52,032	59,046
Our allocated share of contributions	**4,278**	3,448	3,852

The unfunded liability 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 accumulated benefit obligation is the actuarial present value of the benefits attributed to employee service rendered before the measurement date and based on current employee service and compensation. The funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. We recognize our proportional share of expense and contribute a proportional share of funding. Our allocated share of plan expenses is included in "Salaries and employee benefits" in the Consolidated Statements of Income.

The plan expense for participating employers in 2015 increased to levels more consistent with 2013 primarily due to changes in discount rate and mortality assumptions. Benefits paid to participants in the District were $56.2 million in 2015. 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 2016 is $57.9 million. Our allocated share of these pension contributions is expected to be $4.0 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.

Nonqualified Retirement Plan: We also participate in the District-wide nonqualified 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.

Pension Restoration Plan Information

(in thousands) As of December 31	**2015**	2014	2013
Unfunded liability	**$31,650**	$27,695	$25,263
Projected benefit obligation	**31,650**	27,695	25,263
Accumulated benefit obligation	**26,323**	22,959	19,799
For the year ended December 31	**2015**	2014	2013
Total plan expense	**$3,776**	$3,652	$3,577
Our allocated share of plan expenses	**236**	194	176
Our cash contributions	**15**	15	15

The nonqualified plan is funded as the benefits are paid; therefore, there are no assets in the plan and the unfunded liability is equal to the projected benefit obligation. The amount of the pension benefits funding status is subject to many variables including interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their participants in the plan. Our allocated share of plan expenses is included in “Salaries and employee benefits” in the Consolidated Statements of Income. 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 are equal to the benefits paid. There were no benefits paid under the Pension Restoration Plan to our senior officers who were actively employed during the year.

Retiree Medical Plans: District employers also provide certain health insurance benefits to eligible retired employees according to the terms of the benefit plans. The anticipated costs of these benefits are accrued during the period of the employee’s active status.

Retiree Medical Plan Information

(in thousands) For the year ended December 31	**2015**	2014	2013
Postretirement benefit expense	**$161**	$105	$130
Our cash contributions	**87**	92	94

Postretirement benefit costs are included in “Salaries and employee benefits” in the Consolidated Statements of Income. Our cash contributions are equal to the benefits paid.

Defined Contribution Plans

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

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

Employer contribution expenses for the defined contribution plan, included in “Salaries and employee benefits” in the Consolidated Statements of Income, were $1.6 million in 2015 and 2014, and $1.4 million in 2013. These expenses were equal to our cash contributions for each year.

NOTE 10: 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 may be subject to special approval requirements contained in the FCA Regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with other persons. In our opinion, none of these loans outstanding at December 31, 2015 involved more than a normal risk of collectability.

Related Party Loans Information

(in thousands)	**2015**	2014	2013
As of December 31:			
Total related party loans	**$27,549**	$26,161	$26,195
For the year ended December 31:			
Advances to related parties	**$11,122**	$10,923	$13,708
Repayments by related parties	**11,772**	11,007	14,256

The related parties can be different each year end primarily due to changes in the composition of the Board of Directors and the mix of organizations with which such persons may be associated. Advances and repayments on loans and leases in the preceding chart are related to those considered related parties at year end.

As discussed in Note 6**,** we borrow from AgriBank, in the form of a line of credit, to fund our loan portfolio.

We purchase various services from AgriBank including certain financial and retail systems, financial reporting services, tax reporting services, technology services, insurance services, and internal audit services. The total cost of services we purchased from AgriBank was $1.1 million in each of 2015, 2014, and 2013.

We also purchase human resource information systems, benefit, payroll, and workforce management services from Farm Credit Foundations (Foundations). As of December 31, 2015, 2014, and 2013, our investment in Foundations was $37 thousand. The total cost of services purchased from Foundations was $183 thousand, $184 thousand, and $160 thousand in 2015, 2014, and 2013, respectively.

NOTE 11: CONTINGENCIES AND COMMITMENTS

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

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

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk that may be recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2015, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $1.5 billion. Additionally, we had $9.4 million of issued standby letters of credit as of December 31, 2015. We also had $766 thousand of other commitments related to our strategic support agreement with FCC Services to provide reinsurance to crop insurance companies as of December 31, 2015.

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. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on management's credit evaluation of the borrower.

NOTE 12: 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 input levels that may be used to measure fair value. Refer to Note 2 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 December 31, 2015, 2014, or 2013.

Non-Recurring Basis

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)

As of December 31, 2015	Fair Value Measurement Using				Total (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	Gains
Impaired loans	**$ --**	**$340**	**$4,645**	**$4,985**	**($1,699)**
Other property owned	**--**	**--**	**--**	**--**	**32**

As of December 31, 2014	Fair Value Measurement Using				Total (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	Gains
Impaired loans	$ --	$746	$3,683	$4,429	($969)
Other property owned	--	--	196	196	60

As of December 31, 2013	Fair Value Measurement Using				Total (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	Gains
Impaired loans	$ --	$154	$7,765	$7,919	($2,369)
Other property owned	--	--	16	16	667

Valuation Techniques

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 or assets acquired in lieu of foreclosure 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 13: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 8, 2016, 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 2015 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 incorporated herein by reference from Note 1 to the accompanying Consolidated Financial Statements.

The description of significant business developments, if any, is incorporated herein by reference from the “Management's Discussion and Analysis" section of this Annual Report.

Description of Property

Property Information

Location	Description	Usage
Aledo, IL	Owned	Branch
Bourbonnais, IL	Leased	Branch
Edwards, IL	Owned	Branch
Freeport, IL	Owned	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 11 to the accompanying Consolidated Financial Statements. We were not subject to any enforcement actions as of December 31, 2015.

Description of Capital Structure

Information regarding our capital structure is discussed in Note 7 to the accompanying Consolidated Financial Statements.

Description of Liabilities

Information regarding liabilities is discussed in Notes 6, 7, 8, 9 and 11 to the accompanying Consolidated Financial Statements.

Selected Financial Data

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

Management’s Discussion and Analysis

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

Board of Directors

Board of Directors as of December 31, 2015, including business experience during the last five years

Name	Term Expires	Principal Occupation and Other Affiliations
Jeffrey Austman Chairperson Service Began: 2009	2012-2016	**Principal Occupation:** Corn and soybean farmer Secretary: Austman, Inc., property management **Other Affiliations:** Board Member: Gibson Area Hospital & Health Services Foundation Board Member: Prairie Central Board of Education
Roger Schrodt Vice Chairperson Service Began: 2000	2015-2018	**Principal Occupation:** Corn and soybean farmer
Kevin Aves Service Began: 1992	2013-2017	**Principal Occupation:** Corn, soybean, and wheat farmer **Other Affiliations:** Treasurer: Kirkland Community Fire District
John S. Baylor Service Began: 1994	2012-2016	**Principal Occupation:** Corn, soybean, and beef cow farmer **Other Affiliations:** Director: AgriBank District Farm Credit Council Board
Clinton V. Brown Service Began: 2010	2015-2018	**Principal Occupation:** Corn and soybean farmer Owner: Highland Properties, property management
Stephen Cowser Service Began: 2004	2013-2016	**Principal Occupation:** President: Cowser, Inc., agriculture production Partner: Cowser Field & Feedlot, agriculture production Partner: Cowser Land LLC, land ownership company **Other Affiliations:** Supervisor: Milo Township Treasurer: Multi Township Assessing District #13 Treasurer: Mound Cemetery Association
Dr. Robert Easter Appointed Outside Director Service Began: 2015	2015-2019	**Principal Occupation:** Partner: Swine Education & Technical Consultancy, swine production consulting President Emeritus: University of Illinois **Other Affiliations:** Director: Illinois Agricultural Leader Foundation, development of future agricultural leaders Director: Charles Valentine Riley Foundation, promote understanding of agriculture Director: Aptimmune, production of swine vaccines Director: Agrible, Inc., agriculture data analytic services Director: Soar, National advocacy for agriculture research Advisory Board Trustee: Alliance University
Kathleen Hainline Appointed Outside Director Service Began: 2010	2013-2018	**Principal Occupation:** Consultant: agriculture risk management
David A. Keller Service Began: 1987	2014-2017	**Principal Occupation:** Landlord
Roger J. Newell Service Began: 1995	2015-2019	**Principal Occupation:** Corn, soybean, and alfalfa farmer Beef cow/calf herd and purebred swine operation **Other Affiliations:** Trustee: Knox County South Assessment District Board Supervisor: Elba Township
David H. Peters Service Began: 2010	2014-2017	**Principal Occupation:** Wheat, soybean, and corn farmer **Other Affiliations:** Director: Manteno Farmers Elevator, grain warehousing & merchandising Treasurer: Kankakee County Soil and Water Conservation District Trustee: Manteno Township Fire Protection District

Michael R. Pratt Service Began: 2002	2014-2018	**Principal Occupation:** Corn, soybean, and seed corn farmer
Kathy J. Reinhardt Service Began: 2015	2015-2018	**Principal Occupation:** Owner: Reinhardt Farms, grain farming operation Certified Public Accountant **Other Affiliations:** Director & Secretary: Mercer County Farm Bureau Director & Treasurer: Mercer County Farm Bureau Foundation
Stephanie Wise Appointed Director Service Began: 2015	2015-2018	**Principal Occupation:** Corn, Soybean, popcorn farming operation Owner: Gripp Farm Nutrients, LLC, agribusiness/fertilizer Executive Vice President: First Midwest Bank (prior to April 2013)

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 $750 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. Directors who participate in meetings, training, task forces, special projects or other association or Farm Credit System events via telephone, video or other digital media will receive payment of $150 for each such meeting, training or event participation. Directors are eligible for an annual stipend that is variable, based upon actual business results, with a maximum amount of $4,500. In 2015, directors received an additional stipend payment of $1,500 based on the achievement of specific association business goals. The Board chairperson received an additional $2,000 annual stipend and the Board vice chairperson received an additional $1,000 annual stipend. Also, each committee chairperson received an additional $1,000 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 paid to each director who served during 2015 follows:

	Number of Days Served		Compensation Paid for		
Name	Board Meetings	Other Official Activities	Service on a Board Committee	Name of Committee	Total Compensation Paid in 2015
Austman, Jeffrey	16.0	27.1	$ --		$34,656
Aves, Kevin	16.0	13.0	--		25,528
Baldwin, Brian	--	--	--		4,500
Baylor, John S.	16.0	27.5	--		32,449
Brown, Clinton V.	16.0	8.1	--		22,224
Cowser, Stephen	16.0	8.9	--		23,570
Easter, Robert Dr.	8.0	1.0	--		7,578
Fischer, Larry	6.0	13.0	--		15,522
Hainline, Kathleen	16.0	16.5	1,000	Audit	27,270
Keller, David A.	16.0	12.0	1,375	Governance/Compensation	27,505
McGaughey, Rodney	--	--	--		4,500
Newell, Roger J.	16.0	7.9	375	Business Risk	22,945
Peters, David H.	16.0	15.5	1,000	Business Risk	27,554
Pratt, Michael R.	16.0	7.3	375	Audit	22,925
Reinhardt, Kathy J.	16.0	13.2	--		21,160
Schmitt, John	4.0	1.0	--		4,355
Schrodt, Roger	16.0	23.3	--		31,826
Wise, Stephanie	14.0	13.0	--		19,098
					$375,165

Senior Officers

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

Gary J. Ash, President and Chief Executive Officer (May 2006)
Gregory A. Carter, Chief Credit Officer (January 2014)
Shannon Ganschow, Sr. Vice President, Commercial Markets (January 2014)
Jim Garvin, Chief Financial Officer (October 1999)
Matt Ginder, Executive Vice President, Marketplace Delivery (January 2010)
Terry L. Hinds, Chief Lending Officer, Diversified Markets (May 2006)
Ron Homann, Chief Risk Officer (August 2006)

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

In addition to serving as senior officers, Mr. Ash serves on the board for the Heartland Community College Foundation. Mr. Ginder is an appointed trustee on the Village Board of Goodfield, IL.

Information related to compensation paid to the 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 10 to the accompanying Consolidated Financial Statements.

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
www.1stfarmcredit.com

The total directors' travel, subsistence, and other related expenses were $211 thousand, $120 thousand, and $149 thousand in 2015, 2014, and 2013, 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, 2016 or at any time during 2015.

Member Privacy

The FCA 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 2015 were $86 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.

Young, Beginning and Small Farmer and Agribusiness Program

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

YOUNG, BEGINNING AND SMALL FARMERS AND AGRIBUSINESS

1st Farm Credit Services, ACA

(Unaudited)

1st Farm Credit Services maintains a Young, Beginning, and Small (YBS) Farmer program and policy to support its 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 normally generate less than $250,000 in annual sales from agricultural production as of the date the loan was originally made.

YBS Farmer Demographics

The association has used the 2012 USDA Ag census as its source of demographic data in our market for Young, Beginning, and Small farmers. The association has 32,859 farmers in its 42 county territory. 6.7% or 2,192 are young farmers, 18.6% or 6,103 are beginning farmers, and 74.0% or 24,312 are small farmers. This data is as of 2012 whereas our portfolio data is current. The USDA data includes farmers who do not borrow money. The 2012 Ag census data is based on the number of farmers where the 1st Farm Credit Services portfolio data is based on number of loans in each category.

Mission Statement

To achieve our vision, 1st Farm Credit Services must effectively serve the Young, Beginning, and Small 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. 1st Farm Credit Services will also support local Young, Beginning, and Small farmer groups in the communities with various outreach programs and initiatives on an ongoing basis.

1st Farm Credit Services 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 FSA and 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

The Association will strive to maintain a portfolio mix of young, beginning farmers which matches that in the marketplace based on recent USDA Ag census data. As of 2012, 6.7% of all farmers were young and 18.6% of all farmers were beginning in our market territory. The small farmer segment in our territory is comprised of 24,312 farmers based on the 2012 USDA Ag census. 53% of these operations have Gross Farm Income of less than $10,000 and 62% of small farmers in Illinois do not borrow money. These two factors were considered when setting our Small farmer goals.

Based on this information, the Association's quantitative targets is to maintain the following portfolio goals during the business plan period:

	% of Total Number of Loans		% of Total Number of New Loans		% of Total $ of New Loans	
	Goal	2015 results	Goal	2015 results	Goal	2015 results
Young Farmers	8.0%	15.5%	8.0%	13.9%	5.0%	12.6%
Beginning Farmers	15.0%	17.1%	15.0%	15.0%	5.0%	12.8%
Small Farmers	40.0%	34.7%	40.0%	23.0%	20.0%	9.9%

Qualitative Goals for Our YBS Program

The following related services were offered directly or indirectly through others to Young, Beginning, and Small Farmers during 2015:

- Crop Insurance, both Hail and MPCI
- Farm Product Marketing Assistance through other local providers
- Farm Records and Tax Prep Services through other local providers (FCS subsidizes part of first year's cost)
- Financial Planning and Management Services through other local providers

- Fee Real Estate Appraisal Services
- Equipment and Facility Leasing

1st Farm Credit Services made use of Federal and State Loan Guarantee Programs in providing loans and leases to Young, Beginning, and Small Farmers.

- 1st Farm Credit Services maintains a Preferred Lender Program designation with FSA
- 1st Farm Credit Services offered and supported the use of the State of Illinois, Illinois Farm Development Authority Loan Restructuring and Guarantee Programs

Outreach Programs

The Association has developed an annual marketing and promotion plan for the Young, Beginning, and Small Farmer market segment. This program includes various promotions and programs that will both build awareness and provide financial assistance to local programs and groups which assist young, beginning, and small farmers. Additionally, the association continues periodic contacts with state and federal guarantee agencies to improve our working relationship and better understand their programs.

1st Farm Credit Services will annually maintain the following Outreach Programs for YBS Farmers:

- Annual scholarship program for high school, community college, and college students pursuing an Ag degree.
- 1st Farm Credit Services in late 2010 funded a $1,000,000 Donor Advised Fund through IAA Foundation to support Ag Education, Ag Youth, and Ag Leadership in Illinois. The association added another $250,000 to this fund in late 2012. In 2015, the recipients were Illinois 4-H, Illinois FFA, Illinois Agriculture in the Classroom, Illinois Agriculture Leadership Foundation, University of Illinois College of ACES, Illinois State University Department of Agriculture, Western Illinois University School of Agriculture, Northern Illinois University School for Local Food Planning and Technical Assistance Program, AgrAbility, Annie's Project, Women Changing the Face of Agriculture Conference, Cook County Farm Bureau for Urban Entrepreneur high school students in the Chicago metropolitan area, Chicago High School For Agricultural Sciences, John Wood Community College, Good Food Accelerator – for local food production education, and Illinois Harvest Dinner – for consumer education of production agriculture.
- Annual sponsorship of Risk Management Seminars and Brock Seminars with paid invitations made to interested YBS clients.
- Support state and local FFA and 4-H Programs. 1st Farm Credit Services has a 4-H and FFA Community Improvement Grant Program where clubs and chapters can apply for one of 30 $250 grants available each calendar year.
- Awarded FFA Blue Jackets to 16 FFA members through the Big Dreams in Blue Jackets program.
- Pilot an YBS Educational program in one of our branch offices with the involvement of FBFM, FSA, ASCS, and Advanced Trading.
- Membership in and support of local Young Farmer Groups/Clubs in our territory.
- Participate in and support the Cultivating Master Farmers program, to offer education and networking to young farmers.
- Publish our "Country Spirit" magazine quarterly which offers various articles which provide valuable information to YBS Farmers.
- Maintain ongoing contact with other farm groups to participate in initiatives which will benefit YBS Farmers.

Safety and Soundness of Program

The Association's Young, Beginning, and Small 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 and should the Association credit quality fall below minimum guidelines, the program calls for the board to review the program for changes or possible suspension. At this time the association's credit quality is well above minimum guidelines outlined in the program.

FUNDS HELD PROGRAM

1st Farm Credit Services, ACA

(Unaudited)

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.

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